

# **NLV Financial Corporation and Subsidiaries**

**Quarterly Performance Review and Financial Statements  
First Quarter 2017**

# NLV FINANCIAL CORPORATION AND SUBSIDIARIES

## Index

---

### Consolidated Financial Statements (Unaudited)

Quarterly Financial Performance Review .....	1
Basis of Presentation: Consolidated Financial Statements .....	8
Consolidated Balance Sheets .....	9
Consolidated Statements of Operations .....	10
Consolidated Statements of Changes in Stockholder's Equity .....	11
Consolidated Statements of Cash Flows .....	12

# NLV FINANCIAL CORPORATION AND SUBSIDIARIES

## Quarterly Financial Performance Review

---

### 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.

### 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 2,800 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 27,700 agents. While the agents have access to all products, approximately 6,900 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 with the 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 may expand to include banks, corporations, consultants and some brokers in order to increase Institutional Markets product offerings.

# NLV FINANCIAL CORPORATION AND SUBSIDIARIES

## Quarterly Financial Performance Review (continued)

### Overview

This Quarterly Financial Performance Review provides an overview of NLVF's results of operations for the three month periods ended March 31, 2017 and 2016 and, where appropriate, factors that may affect NLVF'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, 2016 and 2015. The discussion below, unless otherwise noted, is 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 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. A reconciliation of core earnings, pre-tax operating income and net income is presented on page 4.

### Quarterly Financial Performance Review

Core earnings for the first quarter of 2017 were \$46.0 million compared to \$28.5 million in the first quarter of 2016. Each of the components of core earnings and the factors contributing to the overall increase of \$17.5 million from prior year-to-date are described in detail below.

<i>(In Thousands)</i>	<b>For the Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Revenues:</b>		
Insurance premiums	\$ 47,163	\$ 46,949
Policy and contract charges	132,996	121,406
Net investment income	258,191	251,834
Change in value of trading equity securities	707	51
Mutual fund commissions and fee income	23,615	23,062
Other income	6,442	9,448
<b>Total revenues</b>	<b>469,114</b>	<b>452,750</b>
<b>Benefits and Expenses:</b>		
Policy reserves	(19,767)	(13,421)
Policy benefits	124,228	110,010
Policyholders' dividends and dividend obligations	16,091	17,256
Interest credited	133,474	140,021
Operating expenses	79,437	80,465
Interest expense	10,040	9,582
Policy acquisition expenses and amortization of present value of future profits, net	79,565	80,305
<b>Total benefits and expenses</b>	<b>423,068</b>	<b>424,218</b>
<b>Core Earnings</b>	<b>\$ 46,046</b>	<b>\$ 28,532</b>

## NLV FINANCIAL CORPORATION AND SUBSIDIARIES

### Quarterly Financial Performance Review (continued)

**Insurance premiums** include considerations on traditional whole life, term life and disability income contracts. Revenue from universal life policies, which comprise the majority of new sales, is reflected in policy and contract charges. Premium income increased slightly to \$47.2 million for the first quarter 2017 as compared to \$46.9 million for the first quarter 2016, which is in line 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** includes fees charged on indexed universal life products, variable annuities, premium loads, cost of insurance charges and surrender charges. Policy and contract charges increased \$11.6 million, or 9.5%, to \$133.0 million for the three months ended March 31, 2017 compared to \$121.4 million for the three months ended March 31, 2016. The increase is driven by an increase in overall policies inforce compared to prior year-to-date due to continued strong sales of indexed universal life (“IUL”) products.

**Net investment income** represents 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 partnership income. Net investment income excludes the options that economically hedge our indexed products which are included as a component of interest credited in the core presentation. Net investment income increased \$6.4 million, or 2.5%, to \$258.2 million for the three months ended March 31, 2017 compared to \$251.8 million for the three months ended March 31, 2016. The increase is primarily driven by an increase in partnership income and an increase in bond and mortgage income driven by the overall growth of our inforce business.

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

<i>(In Thousands)</i>	<b>For the Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Gross investment income</b>		
Bonds	\$ 210,391	\$ 208,788
Preferred stocks	348	111
Common stocks	417	365
Mortgage loans	35,170	33,175
Policy loans	10,427	10,634
Real estate	1,819	2,496
Partnerships	7,348	3,379
Derivatives	(1,690)	(2,465)
Other invested assets	606	73
<b>Total gross investment income</b>	<b>264,836</b>	<b>256,556</b>
Investment expenses	(6,645)	(4,722)
<b>Net investment income</b>	<b>\$ 258,191</b>	<b>\$ 251,834</b>

**Mutual fund commissions and fee income** 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 investment advisors, Sentinel Administrative Services, Inc. and Sentinel Asset Management, Inc. Revenues from mutual fund commissions, fees and other income increased slightly to \$23.6 million for the three months ended March 31, 2017 as compared to \$23.1 million for the three months ended March 31, 2016. The increase in revenue corresponds with a slight increase in assets under management.

## NLV FINANCIAL CORPORATION AND SUBSIDIARIES

### Quarterly Financial Performance Review (continued)

---

**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 \$6.3 million for the three months ended March 31, 2017. The favorable change is primarily due to policies that are no longer on the books through surrender or mortality experience.

**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 \$14.2 million or 12.9% to \$124.2 million from \$110.0 million for the three months ended March 31, 2017 and 2016, respectively. The increase is primarily the result of unfavorable mortality on IUL business, as well as an increase in surrender benefits in the Closed Block.

**Policyholders' dividends and dividend obligations** 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 seeks 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 Board of Directors. Policyholders' dividends decreased \$1.2 million for the three months ended March 31, 2017. This decrease is related to lowering the dividend scale in Q4 of 2016.

**Interest credited** to policyholder account liabilities consists of the costs associated with the amount credited to universal life insurance, fixed deferred annuities and indexed products. Interest credited decreased \$6.5 million to \$133.4 million from \$140.0 million for the three months ended March 31, 2017 and 2016, respectively. The decrease is related to improved investment margins which reduced reserves on our indexed annuity products.

**Operating expenses** decreased \$1.1 million, or 1.0%, to \$79.4 million compared to \$80.5 million for the three months ended March 31, 2017 and 2016, respectively.

**Policy acquisition expenses and amortization of present value of future profits, net** 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 \$0.7 million, or 0.9%, to \$79.6 million for the three months ended March 31, 2017 as compared with \$80.3 million for the three months ended March 31, 2016.

Net Income Reconciliation	For the Three Months Ended	
	March 31,	
(In Thousands)	2017	2016
<b>Net Income</b>	\$ 41,173	\$ 40,470
Net realized (gains) losses, net of offsets	(1,436)	(1,304)
Income tax on operations	15,272	15,043
<b>Pre-Tax Operating Income</b>	<b>55,009</b>	54,209
Net effect of derivatives, embedded derivatives, and other market effects	(8,963)	(25,677)
<b>Core Earnings</b>	<b>\$ 46,046</b>	\$ 28,532

**NLV FINANCIAL CORPORATION AND SUBSIDIARIES**  
**Quarterly Financial Performance Review (continued)**

*Net realized gains and net OTTI losses on investments, net of offsets* increased slightly from prior year with a gain of \$1.4 million for the three months ended March 31, 2017 compared to a gain of \$1.3 million for the three months ended March 31, 2016. Below shows a breakdown of the components of net realized gains and losses:

	<b>For the Three Months Ended</b>	
	<b>March 31,</b>	
<i>(In Thousands)</i>	<b>2017</b>	<b>2016</b>
<b>Bonds and other debt securities</b>		
Gross gains	\$ 4,072	\$ 1,052
Gross losses	(700)	(767)
<b>Common stocks</b>		
Gross gains	6	116
Gross losses	-	(218)
<b>Preferred stocks</b>		
Gross gains	-	146
<b>Mortgage Loans</b>		
Gross losses	-	(7)
Other than temporary declines	(734)	-
<b>Real Estate</b>		
Gross gains	122	2,347
Gross losses	-	(145)
<b>Partnerships</b>		
Gross losses	(118)	-
<b>Other</b>		
Gross losses	(317)	(109)
<b>Net realized investment gains (losses)</b>	<b>2,331</b>	<b>2,415</b>
Mortgage Loan Loss	107	(23)
DAC Amortization	(84)	(325)
Interest Credited	(145)	(59)
Income Taxes	(773)	(704)
<b>Net realized gains (losses), net of offsets</b>	<b>\$ 1,436</b>	<b>\$ 1,304</b>

*Income tax on operations* for the three months ended March 31, 2017 increased \$0.2 million. The variance is consistent with the increase in pre-tax operating income.

*Net effect of derivatives, embedded derivatives, and other market effects* increased \$16.7 million to \$(9.0) million for the three months ended March 31, 2017 compared to \$(25.7) million for the three months ended March 31, 2016. 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 500.

## NLV FINANCIAL CORPORATION AND SUBSIDIARIES

### Quarterly Financial Performance Review (continued)

---

#### 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;

**NLV FINANCIAL CORPORATION AND SUBSIDIARIES**  
**Quarterly Financial Performance Review (continued)**

---

- 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 include continuing responsible growth across all of our product lines and expanding our institutional business, 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 to maximize risk-adjusted returns and to maintain duration matching of our product obligations and its related investments.

## **NLV FINANCIAL CORPORATION AND SUBSIDIARIES**

### **Basis of Presentation: Consolidated Financial Statements**

---

#### **Basis of Presentation**

The following unaudited NLVF condensed consolidated financial information represents the financial position as of March 31, 2017 and December 31, 2016 and the results of operations for the three month periods ended March 31, 2017 and 2016, respectively. The unaudited NLVF consolidated financial information has been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The unaudited NLVF condensed consolidated financial information should be read in conjunction with the audited NLVF Consolidated Financial Statements as of and for the years ended December 31, 2016 and 2015. In the Quarterly Financial Performance Review, certain non-GAAP measures are used to provide a clearer understanding of how management views and manages our operations.

The preparation of financial information requires management to make estimates and assumptions that impact the reported amounts of assets, liabilities, revenues, and benefits and expenses during the reporting periods. The most significant estimates include those used in determining estimated gross profits used in the valuation and amortization of assets and liabilities associated with variable annuity and universal life-type contracts; policy liabilities; valuation of investments and derivative instruments; embedded derivatives; evaluation of other-than-temporary impairments on available-for-sale securities; valuations related to benefit plans; and litigation and regulatory contingencies. Certain of these estimates are particularly sensitive to market conditions, and deterioration and/or volatility in the debt or equity markets could have a material impact on the consolidated financial statements. Future events including, but not limited to, changes in the levels of mortality, morbidity, interest rates, persistency, asset valuations and defaults, could cause actual results to differ from the estimates used in the financial statements. Although management believes the amounts presented represent its best estimates, actual results could differ from those estimates.

The results of past accounting periods are not necessarily indicative of the results to be expected in future periods.

**NLV FINANCIAL CORPORATION AND SUBSIDIARIES**  
**Consolidated Balance Sheets (Unaudited)**

<i>(In Thousands)</i>	As of March 31, 2017	As of December 31, 2016
<b>Assets:</b>		
Cash and investments:		
Available-for-sale debt securities	\$ 18,764,301	\$ 18,165,166
Available-for-sale equity securities	60,577	60,142
Trading equity securities	17,171	14,764
Mortgage loans	3,188,390	3,205,842
Policy loans	837,489	838,541
Real estate investments	31,075	31,354
Derivatives	862,247	824,214
Other invested assets	909,922	853,171
Short term investments	44,885	202,425
Cash and restricted cash	223,845	244,500
Total cash and investments	24,939,902	24,440,119
Deferred policy acquisition costs	1,529,231	1,512,211
Accrued investment income	221,441	208,048
Premiums and fees receivable	8,461	19,449
Amounts recoverable from reinsurers	135,371	147,489
Present value of future profits of insurance acquired	5,916	6,642
Property and equipment, net	186,733	186,268
Other assets	128,936	132,289
Corporate owned life insurance	275,248	273,706
Separate account assets	754,631	733,099
<b>Total assets</b>	<b>\$ 28,185,870</b>	<b>\$ 27,659,320</b>
<b>Liabilities:</b>		
Policy liabilities:		
Policy benefit liabilities	\$ 4,397,973	\$ 4,408,994
Policyholder account liabilities	18,047,542	17,679,354
Policyholders' deposits	99,099	89,115
Policy claims payable	82,776	100,487
Policyholders' dividends	155,004	145,147
Total policy liabilities	22,782,394	22,423,097
Amounts payable to reinsurers	24,539	25,891
Derivatives	488,343	489,399
Other liabilities and accrued expenses	600,136	543,877
Pension and other post-retirement benefit obligations	202,636	202,153
Deferred income taxes	253,565	231,439
Federal income tax payable	19,664	18,201
Debt	453,672	453,610
Separate account liabilities	754,631	733,100
<b>Total liabilities</b>	<b>25,579,580</b>	<b>25,120,767</b>
<b>Stockholder's Equity:</b>		
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	2,440,649	2,399,476
Accumulated other comprehensive income	165,641	139,077
<b>Total stockholder's equity</b>	<b>2,606,290</b>	<b>2,538,553</b>
<b>Total liabilities and stockholder's equity</b>	<b>\$ 28,185,870</b>	<b>\$ 27,659,320</b>

*The accompanying management's discussion of results of operations contains unaudited information.*

**NLV FINANCIAL CORPORATION AND SUBSIDIARIES**  
**Consolidated Statements of Operations (Unaudited)**

<i>(In Thousands)</i>	For the Three Months Ended	
	March 31,	
	2017	2016
<b>Revenues:</b>		
Insurance premiums	\$ 47,163	\$ 46,949
Policy and contract charges	132,996	121,406
Net investment income	351,983	221,212
Net realized investment gains (losses)	2,438	2,396
Change in value of trading equity securities	707	51
Mutual fund commissions and fee income	23,615	23,062
Other income	6,442	9,448
<b>Total revenues</b>	<b>565,344</b>	<b>424,524</b>
<b>Benefits and Expenses:</b>		
Policy reserves	(19,767)	(13,421)
Policy benefits	124,228	110,010
Policyholders' dividends and dividend obligations	16,091	17,256
Interest credited to policyholder account liabilities	210,236	72,180
Operating expenses	79,436	80,555
Interest expense	10,040	9,581
Policy acquisition expenses and amortization of present value of future profits, net	87,861	92,146
<b>Total benefits and expenses</b>	<b>508,125</b>	<b>368,307</b>
<b>Income before income taxes</b>	<b>57,219</b>	<b>56,217</b>
Income tax expense	16,046	15,747
<b>Net Income</b>	<b>\$ 41,173</b>	<b>\$ 40,470</b>

*The accompanying management's discussion of results of operations contains unaudited information.*

**NLV FINANCIAL CORPORATION AND SUBSIDIARIES**  
**Consolidated Statements of Changes in Stockholder's Equity (Unaudited)**

<i>(In Thousands)</i>	Class A Common Stock	Class B Common Stock	Preferred Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
January 1, 2016	\$ -	\$ -	\$ -	\$ 2,243,408	\$ 26,575	\$2,269,983
Comprehensive income:						
Net income	-	-	-	40,470	-	40,470
Change in unrealized gains on available- for-sale securities, net	-	-	-	-	122,506	122,506
Change in cash flow hedge on debt issuance, net	-	-	-	-	8	8
Change in additional minimum pension liability, net	-	-	-	-	1,650	1,650
Total comprehensive income					164,634	164,634
<b>March 31, 2016</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,283,878</b>	<b>\$150,739</b>	<b>\$2,434,617</b>

<i>(In Thousands)</i>	Class A Common Stock	Class B Common Stock	Preferred Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
January 1, 2017	\$ -	\$ -	\$ -	\$2,399,476	\$ 139,077	\$2,538,553
Comprehensive income:						
Net income	-	-	-	41,173	-	41,173
Change in unrealized gains on available- for-sale securities, net	-	-	-	-	23,738	23,738
Change in cash flow hedge on debt issuance, net	-	-	-	-	8	8
Change in additional minimum pension liability, net	-	-	-	-	2,818	2,818
Total comprehensive income					67,737	67,737
<b>March 31, 2017</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$2,440,649</b>	<b>\$165,641</b>	<b>\$2,606,290</b>

*The accompanying management's discussion of results of operations contains unaudited information.*

## NLV FINANCIAL CORPORATION AND SUBSIDIARIES

### Consolidated Statements of Cash Flows (Unaudited)

For the Three Months Ended March 31,

(In Thousands)

	2017	2016
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 41,173	\$ 40,470
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for deferred income taxes	7,822	11,211
Interest credited to policyholder account liabilities	210,236	72,180
Amortization of deferred policy acquisition costs	64,080	65,448
Policy and contract charges	(132,996)	(121,407)
Net realized (gains) losses	(2,438)	(2,396)
Net option (gains) losses	(94,553)	30,835
Change on corporate owned life insurance policies	(1,543)	(2,096)
Amortization of present value of future profits of insurance acquired	726	809
Depreciation	7,500	5,089
Other	3,876	4,403
Changes in assets and liabilities:		
Accrued investment income	(13,393)	(8,745)
Deferred policy acquisition costs	(97,049)	(83,157)
Policy liabilities	(17,115)	374
Other assets and liabilities	61,243	28,457
<b>Net cash provided (used) by operating activities</b>	<b>37,570</b>	<b>41,475</b>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from sales, maturities and repayments of investments	775,534	459,346
Cost of investments acquired	(1,294,124)	(1,094,459)
Change in policy loans	1,051	(4,998)
Change in short term investments	157,539	89,279
Change in short term broker collateral	33,490	(8,740)
Other	(7,918)	(41,891)
<b>Net cash (used) provided by investing activities</b>	<b>(334,427)</b>	<b>(601,463)</b>
<b>Cash Flows from Financing Activities:</b>		
Policyholders' deposits	558,452	494,173
Policyholders' withdrawals	(258,132)	(251,038)
Proceeds from FHLB	-	286,251
Repayments to FHLB	(35,732)	-
Change in other deposits	11,614	10,188
<b>Net cash provided (used) by financing activities</b>	<b>276,203</b>	<b>539,574</b>
<b>Net Decrease in Cash</b>	<b>(20,655)</b>	<b>(20,414)</b>
<b>Cash and Restricted Cash:</b>		
Beginning of year	244,500	141,168
End of period	\$ 223,845	\$ 120,754

The accompanying management's discussion of results of operations contains unaudited information.