

# **NLV Financial Corporation and Subsidiaries**

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

# NLV FINANCIAL CORPORATION AND SUBSIDIARIES

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# NLV FINANCIAL CORPORATION AND SUBSIDIARIES

## Quarterly Financial Performance Review

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### 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 both 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 2,850 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 30,550 agents. While the agents have access to all products, approximately 7,200 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 and six month periods ended June 30, 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. As 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, core earnings, and net income provides information that will enhance readers' understanding of our underlying results, operating trends and profitability. A non-GAAP reconciliation of core earnings, pre-tax operating income and net income is presented on page 5.

### Quarterly Financial Performance Review

Core earnings for the second quarter of 2017 increased \$22.7 million, or 44.5%, to \$73.7 million compared to \$51.0 million in the second quarter of 2016. Year-to-date core earnings as of June 30, 2017 increased \$40.2 million, or 50.6%, to \$119.7 million, compared to \$79.5 million for the same period in 2016. The increases were primarily due to higher policy and contract charges driven by growth in indexed universal life account value, and a favorable adjustment to deferred acquisition costs, partially offset by higher operating expenses. Each of the components of core earnings and the factors contributing to the changes for the three and six month periods are described in detail below.

<i>(In Thousands)</i>	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
<b>Revenues:</b>				
Insurance premiums	\$ 48,813	\$ 46,622	\$ 95,976	\$ 93,571
Policy and contract charges	137,433	122,172	270,429	243,578
Net investment income	270,848	256,806	529,039	508,640
Change in value of trading equity securities	502	228	1,209	279
Mutual fund commissions and fee income	23,772	22,625	47,387	45,687
Other income	6,180	5,045	12,622	14,493
<b>Total revenues</b>	<b>487,548</b>	<b>453,498</b>	<b>956,662</b>	<b>906,248</b>
<b>Benefits and Expenses:</b>				
Policy reserves	(5,396)	(11,037)	(25,163)	(24,458)
Policy benefits	102,026	117,689	226,254	227,699
Policyholders' dividends and dividend obligations	17,065	15,627	33,156	32,883
Interest credited	143,980	125,561	277,454	265,582
Operating expenses	77,532	68,866	156,969	149,332
Interest expense	9,791	9,763	19,831	19,345
Policy acquisition expenses and amortization of present value of future profits, net	68,900	76,069	148,465	156,374
<b>Total benefits and expenses</b>	<b>413,898</b>	<b>402,538</b>	<b>836,966</b>	<b>826,757</b>
<b>Core Earnings</b>	<b>\$ 73,650</b>	<b>\$ 50,960</b>	<b>\$ 119,696</b>	<b>\$ 79,491</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 to \$48.8 million and \$96.0 million for the three and six months ended June 30, 2017, respectively, as compared to \$46.6 million and \$93.6 million for the three and six months ended June 30, 2016, respectively. The increase was driven by sales of whole life and term life products, partially offset by lower renewal premiums due to the expected run-off of the Closed Block.

**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 \$15.2 million, or 12.5%, to \$137.4 million for the three months ended June 30, 2017 compared to \$122.2 million for the same period in 2016. For the six months ended June 30, 2017, these charges increased \$26.8 million, or 11.0%, to \$270.4 million from \$243.6 million for the same period in 2016. The increase was driven by an increase in overall account value due to continued strong sales of indexed universal life products.

**Net investment income** represents income earned on our investment portfolio including interest income on bonds, mortgage loans, contract loans and short term investments, as well as 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 \$14.0 million, or 5.5%, to \$270.8 million for the three months ended June 30, 2017 compared to \$256.8 million for the same period in 2016. For the six months ended June 30, 2017, net investment income increased \$20.4 million, or 4.0%, to \$529.0 million from \$508.6 million for the same period in 2016. The increase for both periods was primarily driven by an increase in partnership income and an increase in the size of the bond and mortgage portfolio, due to the overall growth of our in-force business.

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

<i>(In Thousands)</i>	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
<b>Gross investment income</b>				
Bonds	\$ 217,910	\$ 208,511	\$ 428,301	\$ 417,299
Preferred stocks	241	282	589	393
Common stocks	384	456	801	821
Mortgage loans	36,707	36,527	71,877	69,702
Policy loans	10,281	9,220	20,708	19,854
Real estate	1,909	1,898	3,728	4,394
Partnerships	11,749	8,852	19,097	12,231
Derivatives	(1,518)	(2,298)	(3,208)	(4,763)
Other invested assets	(212)	272	394	345
<b>Total gross investment income</b>	<b>277,451</b>	<b>263,720</b>	<b>542,287</b>	<b>520,276</b>
Investment expenses	(6,603)	(6,914)	(13,248)	(11,636)
<b>Net investment income</b>	<b>\$ 270,848</b>	<b>\$ 256,806</b>	<b>\$ 529,039</b>	<b>\$ 508,640</b>

## NLV FINANCIAL CORPORATION AND SUBSIDIARIES

### Quarterly Financial Performance Review (continued)

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**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 to \$23.8 million for the three months ended June 30, 2017 from \$22.6 million for the same period in 2016. For the six month period, revenues from mutual fund commissions, fees, and other income increased to \$47.4 million in 2017 from \$45.7 million in 2016.

**Policy reserves** reflect the impact of changes in the product liability reserves for life insurance, disability income insurance and additional reserves held on certain annuities. The change in policy reserves increased \$5.6 million for the three months ended June 30, 2017 compared to the same period in 2016, and decreased \$0.7 million for the six months ended June 30, 2017 compared to the same period in 2016. The increase for the three month period was consistent with the corresponding decrease in policy benefits noted below.

**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. For the three months ended June 30, 2017, policy benefits decreased \$15.7 million, or 13.3%, to \$102.0 million from \$117.7 million in the same period of 2016. For the six months ended June 30, 2017, policy benefits decreased \$1.4 million, or 0.6%, to \$226.3 million from \$227.7 million in the same period of 2016. The decrease was driven by more favorable mortality experience across most product lines.

**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 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 Board of Directors. Policyholders' dividends increased \$0.3 million for the six months ended June 30, 2017 over the same period in 2016. This increase reflects higher earnings in the Closed Block compared to prior year.

**Interest credited** to policyholder account liabilities represents amounts credited to universal life insurance, fixed deferred annuities and indexed products. For the three month period, interest credited increased \$18.4 million to \$144.0 million at June 30, 2017, compared to \$125.6 million at June 30, 2016. For the six month period, interest credited increased \$11.9 million to \$277.5 million at June 30, 2017, compared to \$265.6 million at June 30, 2016. The increase was driven by growth in the account value within the indexed product lines.

**Operating expenses** increased \$8.7 million, or 12.6%, to \$77.5 million for the three months ended June 30, 2017, from \$68.9 million for the same period in 2016. For the six month period, operating expenses increased \$7.6 million, or 5.1% to \$157.0 million at June 30, 2017 compared to \$149.3 million at June 30, 2016. The increase was attributable to an increase in premium taxes, due to continued sales growth, as well as increased technology spend.

**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 \$7.2 million, or 9.4%, to \$68.9 million for the three months ended June 30, 2017, from \$76.1 million for the same period in 2016. Policy acquisition expenses decreased \$7.9 million, or 5.1%, to \$148.5 million for the six months ended June 30, 2017 from \$156.4 million for the same period in 2016. The decrease was attributable to a refinement in the composition of assets used to support our indexed universal life products, which resulted in a favorable adjustment to deferred acquisition costs.

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

Net Income Reconciliation	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
<i>(In Thousands)</i>	2017	2016	2017	2016
<b>Net Income</b>	\$ 49,776	\$ 48,929	\$ 90,949	\$ 89,399
Net realized (gains) losses, net of offsets	(2,191)	44	(3,627)	(1,260)
Income tax on operations	17,722	19,048	32,994	34,090
<b>Pre-Tax Operating Income</b>	<b>65,307</b>	68,021	<b>120,316</b>	122,229
Net effect of non-core items	8,343	(17,061)	(620)	(42,738)
<b>Core Earnings</b>	<b>\$ 73,650</b>	\$ 50,960	<b>\$ 119,696</b>	\$ 79,491

*Net realized gains and net OTTI losses on investments, net of offsets* increased with a gain of \$2.2 million for the three months ended June 30, 2017, compared to a loss of \$0.05 million for the same period in 2016. For the six months ended June 30, 2017, the net realized gain was \$3.6 million compared to a gain of \$1.3 million at June 30, 2016. The increase is primarily due to impairments realized in the prior year that did not reoccur in 2017.

<i>(In Thousands)</i>	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
<b>Bonds and other debt securities</b>				
Gross gains	\$ 7,179	\$ 7,975	\$ 11,251	\$ 9,027
Gross losses	(1,348)	(2,100)	(2,048)	(2,867)
Other than temporary declines	-	(2,744)	-	(2,744)
<b>Mortgage loans</b>				
Gross losses	(31)	-	(31)	(7)
Other than temporary declines	-	-	(734)	-
<b>Real estate</b>				
Gross gains	-	586	122	2,933
Gross losses	(600)	-	(600)	(145)
Other than temporary declines	-	(1,000)	-	(1,000)
<b>Partnerships</b>				
Gross losses	-	(2,607)	(118)	(2,607)
Other than temporary declines	-	-	-	-
<b>Other</b>				
Gross gains	20	(146)	26	116
Gross losses	(842)	41	(1,159)	(286)
<b>Net realized investment gains</b>	<b>4,378</b>	5	<b>6,709</b>	2,420
Mortgage loan loss	240	(42)	347	(65)
DAC amortization	(360)	(59)	(444)	(384)
Interest credited	(608)	(49)	(753)	(108)
Income taxes	(1,601)	26	(2,374)	(678)
Policyholder dividend obligation	142	75	142	75
<b>Net realized gains (losses), net of offsets</b>	<b>\$ 2,191</b>	\$ (44)	<b>\$ 3,627</b>	\$ 1,260

## NLV FINANCIAL CORPORATION AND SUBSIDIARIES

### Quarterly Financial Performance Review (continued)

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*Income tax on operations* for the three months ended June 30, 2017 decreased \$1.3 million from the same period in 2016. For the six months ended June 30, 2017, income tax on operations decreased \$1.1 million from the same period in 2016. The variance for both periods was consistent with the respective changes in pre-tax operating income.

*Net effect of non-core items* decreased \$25.4 million to a loss of \$8.3 million for the three months ended June 30, 2017 compared to a gain of \$17.1 million for the same period in 2016. The year-to-date net effect was a decrease of \$42.1 million to a gain of \$0.6 million for the six months ended June 30, 2017, compared to a gain of \$42.7 million for the same period in 2016. These decreases were primarily due to the change in market interest rates that influence the fair values of the embedded derivatives and related options, changes in our portfolio earned rates, and the overall movement of the S&P 500. The 2017 amounts also included expenses incurred related to the anticipated sale of Sentinel's mutual fund business.

### 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;

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

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- 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, lapse rates, and interest rates used in calculating reserve amounts and pricing the Company's products;
- Ability to attract and retain career agents, independent agents and key personnel;
- Ability to raise additional capital;
- Costs related to future pension obligations;
- Impact of international tension between the United States and other nations, terrorist attacks and ongoing military and other actions;
- Pandemics or other catastrophic events; and
- A computer system failure or security breach.

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

Our goals over the next several years 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 targeted duration matching of our product obligations and related investments.

## **NLV FINANCIAL CORPORATION AND SUBSIDIARIES**

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

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#### **Basis of Presentation**

The following unaudited NLVF condensed consolidated financial information represents the financial position as of June 30, 2017 and December 31, 2016 and the results of operations for the three month periods ended June 30, 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 June 30, 2017	As of December 31, 2016
<b>Assets:</b>		
Cash and investments:		
Available-for-sale debt securities	\$ 19,281,765	\$ 18,165,166
Available-for-sale equity securities	61,364	60,142
Trading equity securities	16,562	14,764
Mortgage loans	3,163,689	3,205,842
Policy loans	842,074	838,541
Real estate investments	32,072	31,354
Derivatives	784,629	824,214
Other invested assets	839,390	853,171
Short term investments	268,078	202,424
Cash and restricted cash	339,996	244,500
Total cash and investments	25,629,619	24,440,118
Deferred policy acquisition costs	1,495,746	1,512,211
Accrued investment income	215,559	208,048
Premiums and fees receivable	8,181	19,449
Amounts recoverable from reinsurers	134,611	147,489
Present value of future profits of insurance acquired	5,207	6,642
Property and equipment, net	188,458	186,268
Other assets	130,458	132,290
Corporate owned life insurance	277,483	273,706
Separate account assets	804,174	733,099
<b>Total assets</b>	<b>\$ 28,889,496</b>	<b>\$ 27,659,320</b>
<b>Liabilities:</b>		
Policy liabilities:		
Policy benefit liabilities	\$ 4,396,740	\$ 4,408,994
Policyholder account liabilities	18,511,725	17,679,354
Policyholders' deposits	102,696	89,115
Policy claims payable	74,816	100,487
Policyholders' dividends	189,239	145,147
Total policy liabilities	23,275,216	22,423,097
Amounts payable to reinsurers	21,006	25,891
Derivatives	408,744	489,398
Other liabilities and accrued expenses	660,998	543,880
Pension and other post-retirement benefit obligations	203,251	202,152
Deferred income taxes	306,858	231,439
Federal income tax payable	15,544	18,201
Debt	452,514	453,610
Separate account liabilities	804,174	733,099
<b>Total liabilities</b>	<b>26,148,305</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	2,490,425	2,399,476
Accumulated other comprehensive income	250,766	139,077
<b>Total stockholder's equity</b>	<b>2,741,191</b>	<b>2,538,553</b>
<b>Total liabilities and stockholder's equity</b>	<b>\$ 28,889,496</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		For the Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
<b>Revenues:</b>				
Insurance premiums	\$ 48,813	\$ 46,622	\$ 95,976	\$ 93,571
Policy and contract charges	137,433	122,172	270,429	243,578
Net investment income	327,992	267,911	679,975	489,123
Net realized investment gains (losses)	4,619	(41)	7,057	2,355
Change in value of trading equity securities	502	228	1,209	279
Mutual fund commissions and fee income	23,772	22,625	47,387	45,687
Other income	6,180	5,045	12,622	14,493
<b>Total revenues</b>	<b>549,311</b>	<b>464,562</b>	<b>1,114,655</b>	<b>889,086</b>
<b>Benefits and Expenses:</b>				
Policy reserves	(5,396)	(11,037)	(25,163)	(24,458)
Policy benefits	102,026	117,689	226,254	227,699
Policyholders' dividends and dividend obligations	16,923	15,552	33,014	32,808
Interest credited to policyholder account liabilities	183,954	109,297	394,190	181,477
Operating expenses	88,309	68,776	167,745	149,331
Interest expense	9,791	9,764	19,831	19,345
Policy acquisition expenses and amortization of present value of future profits, net	84,606	86,570	172,467	178,716
<b>Total benefits and expenses</b>	<b>480,213</b>	<b>396,611</b>	<b>988,338</b>	<b>764,918</b>
<b>Income before income taxes</b>	<b>69,098</b>	<b>67,951</b>	<b>126,317</b>	<b>124,168</b>
Income tax expense	19,322	19,022	35,368	34,769
<b>Net Income</b>	<b>\$ 49,776</b>	<b>\$ 48,929</b>	<b>\$ 90,949</b>	<b>\$ 89,399</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	-	-	-	89,399	-	89,399
Change in unrealized gains on available-						
for-sale securities, net	-	-	-	-	270,283	270,283
Change in cash flow hedge on debt issuance, net	-	-	-	-	17	17
Change in additional minimum pension liability, net	-	-	-	-	3,301	3,301
Total comprehensive income					3,301	363,000
<b>June 30, 2016</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,332,807</b>	<b>\$ 300,176</b>	<b>\$ 2,632,983</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	-	-	-	90,949	-	90,949
Change in unrealized gains on available-						
for-sale securities, net	-	-	-	-	107,136	107,136
Change in cash flow hedge on debt issuance, net	-	-	-	-	18	18
Change in additional minimum pension liability, net	-	-	-	-	4,535	4,535
Total comprehensive income					4,535	202,638
<b>June 30, 2017</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,490,425</b>	<b>\$ 250,766</b>	<b>\$ 2,741,191</b>

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

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

<b>For the Six Months Ended June 30,</b> <i>(In Thousands)</i>	<b>2017</b>	<b>2016</b>
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 90,949	\$ 89,399
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for deferred income taxes	15,278	18,646
Interest credited to policyholder account liabilities	394,190	181,477
Amortization of deferred policy acquisition costs	124,506	137,506
Policy and contract charges	(270,429)	(243,578)
Net realized (gains) losses	(7,057)	(2,355)
Net option (gains) losses	(151,381)	19,105
Change on corporate owned life insurance policies	(3,777)	(4,509)
Amortization of present value of future profits of insurance acquired	1,435	1,597
Depreciation	15,792	12,463
Other	2,670	1,115
Changes in assets and liabilities:		
Accrued investment income	(7,511)	(3,341)
Deferred policy acquisition costs	(197,851)	(177,086)
Policy liabilities	(8,187)	27,536
Other assets and liabilities	99,052	17,468
<b>Net cash provided by operating activities</b>	<b>97,679</b>	<b>75,443</b>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from sales, maturities and repayments of investments	1,701,636	1,304,829
Cost of investments acquired	(2,394,127)	(2,277,319)
Change in policy loans	(3,533)	(4,099)
Change in short term investments	(65,654)	59,221
Change in short term broker collateral	58,770	4,530
Other	(18,863)	(55,888)
<b>Net cash used by investing activities</b>	<b>(721,771)</b>	<b>(968,727)</b>
<b>Cash Flows from Financing Activities:</b>		
Policyholders' deposits	1,137,858	1,015,030
Policyholders' withdrawals	(550,578)	(510,988)
Advances from FHLB	111,600	411,272
Repayments to FHLB	(39,482)	-
Debt retirement	(1,995)	-
Change in other deposits	62,185	49,512
<b>Net cash provided by financing activities</b>	<b>719,588</b>	<b>964,826</b>
<b>Net Increase in Cash</b>	<b>95,496</b>	<b>71,543</b>
<b>Cash and Restricted Cash:</b>		
Beginning of year	244,500	141,168
End of period	\$ 339,996	\$ 212,711

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