

**NLV Financial Corporation  
and Subsidiaries**  
**Quarterly Performance Review and Financial Statements**  
**Third 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.

On October 27, 2017, NLVF executed the sale of the mutual fund business of Sentinel Investments to Touchstone Investments, a subsidiary of Western & Southern Financial Group.

### 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 three principal channels: Career, Affiliated Independent and Institutional Markets.

- **Career:** The Career channel consists of approximately 2,978 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 33,165 agents. While the agents have access to all products, approximately 7,600 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.
- **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 certain brokers in order to increase Institutional Markets product offerings.

# NLV FINANCIAL CORPORATION AND SUBSIDIARIES

## Quarterly Financial Performance Review (continued)

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### Overview

This Quarterly Financial Performance Review provides an overview of NLVF's results of operations for the three and nine month periods ended September 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 third quarter of 2017 decreased \$7.6 million, or 11%, to \$59.1 million compared to \$66.7 million in the third quarter of 2016. Excluding the impact of actuarial assumption changes recorded in the third quarter of each year, core earnings for the third quarter increased \$11.2 million compared to the same period in 2016. Year-to-date core earnings as of September 30, 2017 increased \$32.6 million, or 22%, to \$178.8 million, compared to \$146.2 million for the same period in 2016. Excluding the impact of the actuarial assumption changes, the increase in year-to-date core earnings was \$51.4 million compared to the same period in 2016. These increases were primarily due to higher policy and contract charges driven by growth in indexed universal life account value, and lower interest credited expense primarily driven by the indexed universal life product line. The 2017 year-to-date period also included a favorable adjustment to deferred acquisition costs related to a refinement in the composition of assets used to support our indexed universal life reserves. These increases were partially offset by higher operating expenses.

The impact of actuarial assumption updates reduced core earnings by \$1.1 million in the third quarter of 2017, compared to a positive adjustment of \$17.7 million in the third quarter of 2016. The adjustments in the 2017 period primarily reflected updated assumptions for life premium persistency and mortality, which were largely offset by refinements in modeling and spread assumptions for indexed annuity products. The assumption updates in the 2016 period primarily reflected an extension of the DAC amortization period for annuities, partially offset by additions to reserves for guaranteed living benefit features, related to updated utilization and lapse assumptions.

Each of the components of core earnings and the factors contributing to the changes for the three and nine month periods are described in detail below.

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

<i>(In Thousands)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
<b>Revenues:</b>				
Insurance premiums	\$ 48,046	\$ 47,351	\$ 144,022	\$ 140,922
Policy and contract charges	142,325	128,922	412,754	372,500
Net investment income	270,422	262,891	799,461	771,531
Change in value of trading equity securities	608	555	1,817	834
Mutual fund commissions and fee income	23,304	22,874	70,691	68,561
Other income	6,100	5,988	18,722	20,481
<b>Total revenues</b>	<b>490,805</b>	<b>468,581</b>	<b>1,447,467</b>	<b>1,374,829</b>
<b>Benefits and Expenses:</b>				
Policy reserves	(9,460)	(9,218)	(34,623)	(33,676)
Policy benefits	125,695	129,922	351,949	357,621
Policyholders' dividends and dividend obligations	15,439	7,818	48,595	40,701
Interest credited	123,613	190,267	401,067	455,849
Operating expenses	72,842	73,140	229,811	222,467
Interest expense	9,781	9,813	29,612	29,158
Policy acquisition expenses and amortization of present value of future profits, net	93,775	142	242,240	156,516
<b>Total benefits and expenses</b>	<b>431,685</b>	<b>401,884</b>	<b>1,268,651</b>	<b>1,228,636</b>
<b>Core Earnings</b>	<b>\$ 59,120</b>	<b>\$ 66,697</b>	<b>\$ 178,816</b>	<b>\$ 146,193</b>

*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 \$48.0 million and \$144.0 million for the three and nine months ended September 30, 2017, respectively, from \$47.4 million and \$140.9 million for the same periods in 2016. 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 \$13.4 million, or 10%, to \$142.3 million for the three months ended September 30, 2017 from \$128.9 million for the same period in 2016. For the nine months ended September 30, 2017, these charges increased \$40.3 million, or 11%, to \$412.8 million from \$372.5 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. For the non-GAAP measure of Core Earnings, net investment income excludes the options that economically hedge our indexed products, which are included as a component of interest credited in the presentation of Core Earnings. Net investment income increased \$7.5 million, or 3%, to \$270.4 million for the three months ended September 30, 2017 from \$262.9 million for the same period in 2016. For the nine months ended September 30, 2017, net investment income increased \$28.0 million, or 4%, \$799.5 million from \$771.5 million for the same period in 2016. The increase for both periods was primarily driven by an increase in the size of the bond and mortgage portfolio, due to the overall growth of our in-force business. The nine month period also reflected an increase in partnership income compared to the same period in 2016.

The table below provides a breakdown of the components of net investment income, excluding income on options that economically hedge our indexed products:

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

<i>(In Thousands)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
<b>Gross investment income</b>				
Bonds	\$ 217,048	\$ 211,380	\$ 645,349	\$ 628,679
Preferred stocks	241	132	830	525
Common stocks	651	459	1,452	1,280
Mortgage loans	35,617	34,987	107,494	104,689
Policy loans	10,454	10,369	31,162	30,223
Real estate	1,654	1,612	5,382	6,006
Partnerships	11,966	11,977	31,063	24,208
Derivatives	(1,313)	(2,092)	(4,521)	(6,855)
Other invested assets	687	878	1,081	1,223
<b>Total gross investment income</b>	<b>277,005</b>	<b>269,702</b>	<b>819,292</b>	<b>789,978</b>
Investment expenses	(6,583)	(6,811)	(19,831)	(18,447)
<b>Net investment income</b>	<b>\$ 270,422</b>	<b>\$ 262,891</b>	<b>\$ 799,461</b>	<b>\$ 771,531</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 to \$23.3 million for the three months ended September 30, 2017 from \$22.9 million for the same period in 2016. For the nine months ended September 30, 2017, revenues from mutual fund commissions, fees, and other income increased to \$70.7 million from \$68.6 million for the same period 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 decreased \$0.2 million and \$0.9 million for the three and nine months ended September 30, 2017, respectively, from the same periods in 2016. The decrease was attributable to higher releases of reserves related to surrender and benefit payments.

*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 September 30, 2017, policy benefits decreased \$4.2 million, or 3%, to \$125.7 million from \$129.9 million for the same period in 2016. For the nine months ended September 30, 2017, policy benefits decreased \$5.7 million, or 2%, to \$351.9 million from \$357.6 million for the same period in 2016. The decrease was driven by more favorable mortality experience 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 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 and dividend obligations increased \$7.9 million for the nine months ended September 30, 2017 from the same period in 2016. This increase reflects higher earnings in the Closed Block compared to the same period in the prior year.

## NLV FINANCIAL CORPORATION AND SUBSIDIARIES

### Quarterly Financial Performance Review (continued)

*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 living benefits. For the non-GAAP measure of Core Earnings, interest credited also includes income on options that economically hedge our indexed products. For the three months ended September 30, 2017, interest credited decreased \$66.7 million to \$123.6 million from \$190.3 million for the same period in 2016. For the nine months ended September 30, 2017, interest credited decreased \$54.7 million to \$401.1 million from \$455.8 million for the same period in 2016. The decrease was due to assumption changes in the prior year for our indexed annuity products, which increased reserves for guaranteed living benefits due to updated utilization and lapse assumptions.

*Operating expenses* decreased \$0.3 million, or less than one percent, to \$72.8 million for the three months ended September 30, 2017, from \$73.1 million for the same period in 2016. For the nine months ended September 30, 2017, operating expenses increased \$7.3 million, or 3.3%, to \$229.8 million from \$222.5 million for the same period in 2016. The increase on a year-to-date basis 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 increased to \$93.8 million for the three months ended September 30, 2017, from \$0.1 million for the same period in 2016. Policy acquisition expenses increased to \$242.2 million for the nine months ended September 30, 2017 from \$156.5 million for the same period in 2016. The increase was driven by favorable assumption changes in the prior year related to extending the amortization period on indexed annuity products.

Net Income Reconciliation	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
(In Thousands)	2017	2016	2017	2016
Net Income	\$ 35,153	\$ 38,533	\$ 126,102	\$ 127,932
Net realized (gains) losses, net of offsets	1,696	5,539	(1,931)	4,279
Income tax on operations	14,588	17,967	47,583	52,057
<b>Pre-Tax Operating Income</b>	<b>51,437</b>	<b>62,039</b>	<b>171,754</b>	<b>184,268</b>
Net effect of non-core items	7,683	4,658	7,062	(38,075)
<b>Core Earnings</b>	<b>\$ 59,120</b>	<b>\$ 66,697</b>	<b>\$ 178,816</b>	<b>\$ 146,193</b>

*Net realized gains and net OTTI losses on investments, net of offsets* increased, with a loss of \$1.7 million for the three months ended September 30, 2017, compared to a loss of \$5.5 million for the same period in 2016. For the nine months ended September 30, 2017, the net realized gain was \$1.9 million compared to a loss of \$4.3 million for the same period of 2016. The increase was primarily due to bond impairments recorded in the prior year.

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

<i>(In Thousands)</i>	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
<b>Bonds and other debt securities</b>				
Gross gains	\$ 2,243	\$ 3,803	\$ 13,494	\$ 12,830
Gross losses	(2,884)	(12,722)	(4,932)	(15,589)
Other than temporary declines	-	(4,570)	-	(7,314)
<b>Mortgage Loans</b>				
Gross losses	-	(2,193)	(31)	(2,200)
Other than temporary declines	(762)	-	(1,496)	-
<b>Real Estate</b>				
Gross gains	-	-	122	2,933
Gross losses	(1,893)	(36)	(2,493)	(181)
Other than temporary declines	-	-	-	(1,000)
<b>Partnerships</b>				
Gross losses	-	2,460	(118)	(147)
<b>Other</b>				
Gross gains	874	4	900	120
Gross losses	(313)	(39)	(1,472)	(325)
<b>Net realized investment (losses) gains</b>	<b>(2,735)</b>	<b>(13,293)</b>	<b>3,974</b>	<b>(10,873)</b>
Mortgage Loan Loss	18	(199)	365	(264)
DAC Amortization	(124)	1,844	(568)	1,460
Interest Credited	(190)	1,550	(943)	1,442
Income Taxes	917	2,981	(1,457)	2,303
Policyholder dividend obligation	418	1,578	560	1,653
<b>Net realized (losses) gains, net of offsets</b>	<b>\$ (1,696)</b>	<b>\$ (5,539)</b>	<b>\$ 1,931</b>	<b>\$ (4,279)</b>

*Income tax on operations* for the three months ended September 30, 2017 decreased \$3.4 million from the same period in 2016. For the nine months ended September 30, 2017, income tax on operations decreased \$4.5 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 \$3.0 million to a loss of \$7.7 million for the three months ended September 30, 2017 compared to a loss of \$4.7 million for the same period in 2016. The year-to-date net effect was a decrease of \$45.0 million to a loss of \$7.1 million for the nine months ended September 30, 2017, compared to a gain of \$38.1 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 in anticipation of the sale of Sentinel Investment's mutual fund business.

# NLV FINANCIAL CORPORATION AND SUBSIDIARIES

## Quarterly Financial Performance Review (continued)

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### 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, 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;

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

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- 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 September 30, 2017 and December 31, 2016 and the results of operations for the three and nine month periods ended September 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 September 30,	As of December 31, 2016
<b>Assets:</b>		
Cash and investments:		
Available-for-sale debt securities	\$ 19,757,845	\$ 18,200,523
Available-for-sale equity securities	36,580	60,142
Trading equity securities	19,763	14,764
Mortgage loans	3,279,667	3,205,842
Policy loans	858,588	838,541
Real estate investments	24,715	31,354
Derivatives	830,042	824,214
Other invested assets	856,119	817,814
Short term investments	141,180	202,424
Cash and restricted cash	315,764	244,500
Total cash and investments	26,120,263	24,440,118
Deferred policy acquisition costs	1,514,735	1,512,211
Accrued investment income	228,606	208,048
Premiums and fees receivable	9,334	19,449
Amounts recoverable from reinsurers	129,772	147,489
Present value of future profits of insurance acquired	4,517	6,642
Property and equipment, net	186,405	186,268
Other assets	133,920	132,290
Corporate owned life insurance	279,706	273,706
Separate account assets	795,091	733,099
<b>Total assets</b>	<b>\$ 29,402,349</b>	<b>\$ 27,659,320</b>
<b>Liabilities:</b>		
Policy liabilities:		
Policy benefit liabilities	\$ 4,397,176	\$ 4,408,994
Policyholder account liabilities	18,946,291	17,679,354
Policyholders' deposits	101,910	89,115
Policy claims payable	72,221	100,487
Policyholders' dividends	191,877	145,147
Total policy liabilities	23,709,475	22,423,097
Amounts payable to reinsurers	23,010	25,891
Derivatives	443,123	489,398
Other liabilities and accrued expenses	656,890	543,880
Pension and other post-retirement benefit obligations	189,095	202,152
Deferred income taxes	321,535	231,439
Federal income tax payable	12,908	18,201
Debt	452,576	453,610
Separate account liabilities	795,091	733,099
<b>Total liabilities</b>	<b>26,603,703</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	2,525,578	2,399,476
Accumulated other comprehensive income	273,068	139,077
<b>Total stockholder's equity</b>	<b>2,798,646</b>	<b>2,538,553</b>
<b>Total liabilities and stockholder's equity</b>	<b>\$ 29,402,349</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 September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
<b>Revenues:</b>				
Insurance premiums	\$ 48,046	\$ 47,351	\$ 144,022	\$ 140,922
Policy and contract charges	142,325	128,922	412,754	372,500
Net investment income	348,641	342,436	1,028,616	831,559
Net realized investment (losses) gains	(2,717)	(13,492)	4,340	(11,137)
Change in value of trading equity securities	608	555	1,817	834
Mutual fund commissions and fee income	23,304	22,874	70,691	68,561
Other income	6,100	5,988	18,722	20,481
<b>Total revenues</b>	<b>566,307</b>	<b>534,634</b>	<b>1,680,962</b>	<b>1,423,720</b>
<b>Benefits and Expenses:</b>				
Policy reserves	(9,460)	(9,218)	(34,623)	(33,676)
Policy benefits	125,695	129,922	351,949	357,621
Policyholders' dividends and dividend obligations	15,021	6,240	48,035	39,048
Interest credited to policyholder account liabilities	196,914	275,087	591,104	456,564
Operating expenses	79,828	73,140	247,573	222,471
Interest expense	9,781	9,813	29,612	29,158
Policy acquisition expenses and amortization of present value of future profits, net	99,702	(3,867)	272,169	174,849
<b>Total benefits and expenses</b>	<b>517,481</b>	<b>481,117</b>	<b>1,505,819</b>	<b>1,246,035</b>
<b>Income before income taxes</b>	<b>48,826</b>	<b>53,517</b>	<b>175,143</b>	<b>177,685</b>
Income tax expense	13,673	14,984	49,041	49,753
<b>Net Income</b>	<b>\$ 35,153</b>	<b>\$ 38,533</b>	<b>\$ 126,102</b>	<b>\$ 127,932</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	-	-	-	127,932	-	127,932
Change in unrealized gains on available- for-sale securities, net	-	-	-	-	302,969	302,969
Change in cash flow hedge on debt issuance, net	-	-	-	-	25	25
Change in additional minimum pension liability, net	-	-	-	-	4,959	4,959
Total comprehensive income						435,885
<b>September 30, 2016</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,371,340</b>	<b>\$ 334,528</b>	<b>\$2,705,868</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	-	-	-	126,102	-	126,102
Change in unrealized gains on available- for-sale securities, net	-	-	-	-	127,767	127,767
Change in cash flow hedge on debt issuance, net	-	-	-	-	25	25
Change in additional minimum pension liability, net	-	-	-	-	6,199	6,199
Total comprehensive income						260,093
<b>September 30, 2017</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$2,525,578</b>	<b>\$273,068</b>	<b>\$2,798,646</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 Nine Months Ended September 30,

(In Thousands)

	2017	2016
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 126,102	\$ 127,932
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for deferred income taxes	17,947	13,238
Interest credited to policyholder account liabilities	591,104	456,564
Amortization of deferred policy acquisition costs	193,260	104,310
Policy and contract charges	(412,754)	(372,500)
Net realized (gains) losses	(4,340)	11,137
Net option gains	(229,325)	(61,269)
Change on corporate owned life insurance policies	(6,000)	(6,890)
Amortization of present value of future profits of insurance acquired	2,125	2,363
Depreciation	25,019	20,592
Other	(378)	(655)
Changes in assets and liabilities:		
Accrued investment income	(20,558)	(12,844)
Deferred policy acquisition costs	(301,615)	(275,218)
Policy liabilities	25,716	68,609
Other assets and liabilities	104,872	42,335
<b>Net cash provided by operating activities</b>	<b>111,175</b>	<b>117,704</b>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from sales, maturities and repayments of investments	2,411,456	2,022,929
Cost of investments acquired	(3,582,172)	(3,347,989)
Change in policy loans	(20,047)	(5,935)
Change in short term investments	61,244	22,111
Change in short term broker collateral	96,263	28,480
Other	(15,648)	(58,443)
<b>Net cash used by investing activities</b>	<b>(1,048,904)</b>	<b>(1,338,847)</b>
<b>Cash Flows from Financing Activities:</b>		
Policyholders' deposits	1,685,671	1,519,212
Policyholders' withdrawals	(854,691)	(817,071)
Proceeds from FHLB	211,778	564,167
Repayments to FHLB	(44,950)	-
Debt retirement	(1,995)	-
Change in other deposits	13,180	(2,347)
<b>Net cash provided by financing activities</b>	<b>1,008,993</b>	<b>1,263,961</b>
<b>Net Increase in Cash</b>	<b>71,264</b>	<b>42,818</b>
<b>Cash and Restricted Cash:</b>		
Beginning of year	244,500	141,168
End of period	\$ 315,764	\$ 183,986

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