NLV Financial Corporation and Subsidiaries

Quarterly Performance Review and Consolidated Financial Statements

Third Quarter 2019

GENERAL DISCUSSION OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

About the Company

NLV Financial Corporation ("NLVF") through its subsidiaries (collectively, the "Company", "we", "our") offers life insurance policies, annuity contracts, and investment products and services. The Company's primary insurance subsidiaries are National Life Insurance Company ("NLIC"), a Vermont-domiciled life insurer, and Life Insurance Company of the Southwest ("LSW"), a Texas-domiciled life insurer. Together with their affiliates, NLIC and LSW operate as a unified organization under the trade name of National Life Group.

National Life Group's leading life insurance product lines include indexed universal life, whole life, term life, and universal life. We offer a wide array of options and riders in connection with these policies to provide additional features such as accelerated benefits, waiver of premium, accidental death benefits, paid up additions, supplemental term insurance and lifetime income.

National Life Group's leading annuity product lines are indexed annuities and fixed interest rate annuities. We offer a guaranteed lifetime income rider on our indexed annuity products, which allows the contract holder the option to elect a guaranteed annual income that is fixed and will continue for the remaining life of the contract holder, even if the annuity's account value reaches zero. National Life Group also offers variable annuities, but does not offer, and has never offered, guaranteed minimum withdrawal, accumulation or income benefits on our variable annuities. A return of premium guaranteed minimum death benefit is the only guarantee currently offered on our variable annuity products.

For indexed life and annuity products, indexed interest, if any, is credited based on the change in an equity index over a specified period, subject to a cap rate, a participation rate and a floor of zero percent. Indexed products also offer the contract holder the option of selecting a guaranteed fixed interest rate instead of indexed interest.

Distribution

National Life Group provides a broad range of life insurance and annuity products to a national client base, primarily through an extensive network of independent agents and a career agency distribution channel. We focus on serving Middle America in our target market of customers with household income of between $75,000 and $150,000, offering products with benefits that help Middle America customers meet needs during their lifetime, including lifetime income in retirement and accelerated death benefits if the insured becomes terminally, chronically or critically ill. In our individual annuity business, we focus on the 403(b) K-12 educator markets. National Life Group also provides financial solutions in the form of estate, business succession and retirement planning, and deferred compensation and other key executive benefit planning to small business owners, professionals, and other middle to upper income individuals. We market and distribute our products throughout the United States through two principal channels: Career and Affiliated Independent:

- ***Career:*** The Career channel consists of producing and general agents who specialize in selling products to the middle and emerging affluent markets, professionals, business owners and other individuals for financial and business planning purposes.

- ***Affiliated Independent:*** The Affiliated Independent channel consists of agents who primarily offer life insurance and annuity products to the middle and emerging affluent markets, for purposes of providing for the financial consequences of specific life events, such as death, retirement, and chronic or long-term illness. While the agents have access to all products, certain agents sell life insurance and annuity products with an emphasis on the 403(b) qualified tax deferred retirement savings market for individuals employed by public schools.

Organization

National Life Insurance Company was established in Vermont in 1848. In 1999, NLIC reorganized from a mutual to a stock insurance company as part of a reorganization into a mutual insurance holding company structure in order, among other things, to compete more effectively, have a more flexible and cost-effective capital structure, and be part of an enterprise which is better positioned to make strategic acquisitions. Concurrent with the reorganization into a mutual insurance holding company structure, NLIC created a closed block for the benefit of holders of certain of NLIC's individual participating life insurance and annuity policies ("the Closed Block"). The Closed Block is designed to give reasonable assurance to owners of policies in the Closed Block that assets will be available to provide for payment of policy benefits, including the continuation of dividends.

National Life Holding Company, a Vermont mutual insurance holding company, owns 100% of the outstanding common stock of NLVF, an intermediate stock insurance holding company [incorporated under the laws of the state of Delaware]. NLVF directly owns 100% of the outstanding common stock of NLIC, Sentinel Asset Management, Inc. ("Sentinel Investments"), Equity Services, Inc. ("ESI"), Catamount Reinsurance Company ("Catamount"), and certain other subsidiaries, and indirectly owns 100% of the outstanding common stock of Life Insurance Company of the Southwest, and Longhorn Reinsurance Company ("Longhorn") which are both wholly owned by NLIC. NLVF indirectly owns National Life Distribution, LLC ("NLD"), whose sole member is LSW.

Non-GAAP Measures

The discussion herein, unless otherwise noted, is prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). In addition to net income, we use pre-tax operating income and core earnings, which are both pre-tax, non-GAAP financial measures, to evaluate our financial performance. Pre-tax operating income excludes income taxes and capital gains (losses). It also excludes the portion of amortization of deferred policy acquisition costs ("DAC") and deferred sales inducements, and policyholder dividend obligations, that are related to net gains (losses).

Core earnings equal pre-tax operating income after excluding volatility caused by the periodic fair value measurement of certain liabilities for indexed life and annuity products, and the related impact to DAC and deferred sales inducements. Significant short-term income volatility may result from the measurement of these indexed product liabilities under GAAP, because they are sensitive to movements in equity market indexes and future interest rate assumptions. We exclude such volatility from core earnings.

Core earnings is a useful measure for the Company to analyze our results and trends because it excludes such short-term volatility and is more consistent with the economics and long-term performance of our indexed products. On a non-GAAP core earnings basis, we also exclude from revenues any investment income (losses) from derivative instruments that hedge indexed product liabilities; instead, those hedging results are presented within interest credited to policyholder account liabilities. We believe the combined presentation and discussion of pre-tax operating income, core earnings, and net income provides information that will enhance readers' understanding of our underlying results, operating trends and profitability.

A reconciliation of total revenues on a GAAP basis to total revenues on a core earnings basis is presented below:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands)			
Total revenues	**$ 619,635**	$ 657,572	**$ 2,017,585**	$ 1,691,710
Net losses	**3,910**	3,057	**7,772**	4,570
Net investment income from derivatives that hedge equity indexed products, which is included in interest credited to policyholder liabilities on a core earnings basis	**(24,181)**	(138,143)	**(327,319)**	(174,789)
Total revenues on a core earnings basis	**$ 599,364**	$ 522,486	**$ 1,698,038**	$ 1,521,491

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands)			
Net income	**$ 75,572**	$ 53,445	**$ 169,094**	$ 151,566
Net losses	**3,910**	3,057	**7,772**	4,570
Amortization of DAC and sales inducements, and policyholder dividend obligations, related to net gains and losses	**274**	(87)	**792**	328
Income tax expense	**20,220**	14,877	**46,081**	37,892
Pre-tax operating income	**100,976**	71,292	**223,739**	194,356
Non-core loss (income), primarily volatility resulting from the measurement of indexed product liabilities	**1,246**	(7,997)	**(8,885)**	(28,354)
Core earnings	**$ 102,222**	$ 63,295	**$ 214,854**	$ 166,002

QUARTERLY FINANCIAL PERFORMANCE REVIEW

This quarterly financial performance review provides an overview of the Company's results of operations for the three and nine months ended September 30, 2019 and 2018, and, where applicable, factors that may affect the Company's future financial performance. This review should be read in conjunction with the Consolidated Financial Statements and Notes to Consolidated Financial Statements as of and for the years ended December 31, 2018 and 2017, which have been audited by PricewaterhouseCoopers LLP.

The Company delivered strong sales results and growth in core earnings during the first nine months of 2019 while continuing to maintain a strong balance sheet and capital position. As of September 30, 2019, sales of life and annuity products exceeded the same period in the prior year by 26% in total. Life sales increased 26% over the prior year, led by very strong growth in sales of indexed universal life. Sales of term and whole life, while still a small component of total sales, were also up significantly following the launch of updated product offerings in 2018 and 2019. This sales growth was driven by an increase in the number of producing agents in our career and affiliated independent agencies and by customer demand for indexed products and living benefits.

The Company's universal life, indexed universal life, and annuity products generate revenues through investment income and policy and contract charges that are earned during the life of the contracts. On a GAAP basis, investment income includes changes in the fair value of derivative instruments that economically hedge our indexed life and annuity products, primarily options and futures. Whole and term life insurance products generate primarily premium revenues. The increase in the Company's total revenues on a GAAP basis was driven by investment income from gains on derivative instruments of $327 million for the nine months ended September 30, 2019, compared to $175 million in the same period of 2018. The gains in the 2019 period were primarily due to an increase in the value of derivatives resulting from a recovery in equity markets after a sharp decline late in 2018. On a core earnings basis, which excludes from revenue such derivative gains (losses) as well as net gains (losses), the Company's total revenues grew 15% and 12% or $77 million and $177 million for the three and nine months ended September 30, 2019, respectively. This included an increase in net investment income of 10% and an increase in policy and contract charges of 17%, for the nine months ended September 30, 2019, compared to the same period in 2018, due to growth in the Company's volume of business.

Net income increased $23 million to $76 million for the three months ended September 30, 2019 compared to the same period in 2018. For the nine months ended September 30, 2019 compared to the same period in 2018, net income increased $17 million to $169 million. The impact of the update of actuarial assumptions, which are reviewed annually during the third quarter, was a net negative adjustment to net income of $12 million in the third quarter of 2019, compared to a net positive adjustment of $11 million in the third quarter of 2018. After excluding the impact of assumption updates in both periods, net income for the nine-month period increased approximately $35 million compared to the same period in 2018.

Core earnings of $102 million and $215 million for the three and nine months ended September 30, 2019, respectively, were up from $63 million and $166 million for the same periods in 2018. Core earnings for the nine months ended September 30, 2019 included strong growth primarily in the indexed universal life business, as well as higher partnership income. These earnings were partially offset by a decrease in life surrender gains, from a few large cases that benefitted 2018 results, and by an increase in operating expenses to support our growing level of sales and policies in force. The impact of actuarial assumption updates was a net positive adjustment to core earnings of less than $1 million in the third quarter of 2019, compared to a net positive adjustment of $5 million in the third quarter of 2018. After excluding the impact of assumption updates in both periods, core earnings for the nine-month period increased approximately $53 million compared to the same period in 2018.

Each of the components of core earnings and the factors that contributed to the changes for the three and nine months ended September 30, 2019, and 2018 are described in detail below.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
	(in thousands)			
Revenues:				
Insurance premiums	**$ 53,536**	$ 47,427	**$ 150,198**	$ 136,954
Policy and contract charges	**190,906**	163,764	**555,020**	473,769
Mutual fund commissions, fees and other income	**20,370**	20,016	**58,073**	59,942
Net investment income	**334,552**	291,279	**934,747**	850,826
Total revenues, on a core earnings basis	**599,364**	522,486	**1,698,038**	1,521,491
Benefits and expenses:				
Increase (decrease) in policy liabilities	**5,778**	(4,736)	**(33,735)**	(91,766)
Policy benefits	**101,240**	111,338	**359,547**	401,462
Policyholders' dividends and dividend obligations	**10,456**	9,472	**35,806**	31,267
Interest credited to policyholder account liabilities	**183,504**	165,368	**534,622**	469,639
Operating expenses	**82,284**	77,529	**261,374**	240,786
Interest expense	**16,284**	14,063	**46,828**	34,422
Policy acquisition expenses	**97,596**	86,157	**278,742**	269,679
Total benefits and expenses, on a core earnings basis	**497,142**	459,191	**1,483,184**	1,355,489
Core earnings	**$ 102,222**	$ 63,295	**$ 214,854**	$ 166,002

Insurance Premiums

Insurance premiums include considerations on traditional whole, term life insurance and disability income contracts. Insurance premiums do not include deposits received for investment-type products such as fixed interest annuities, index annuities and universal life policies, which comprise the majority of our new sales. Annuity products earn a net spread between net investment income on assets that support the policies and expenses for interest credited to policyholders. Revenue from universal life products is primarily reflected in policy and contract charges.

Insurance premiums increased to $54 million and $150 million for the three and nine months ended September 30, 2019, respectively, from $47 million and $137 million for the same periods in 2018. These increases were driven by higher term life and whole life product sales, partially offset by a decrease due to the expected run-off of the Closed Block.

Policy and Contract Charges

Policy and contract charges include fees charged on indexed universal life products, variable annuities, premium loads, cost of insurance charges, surrender charges and rider charges. Policy and contract charges increased $27 million, or 16%, to $191 million for the three months ended September 30, 2019 from $164 million for the same period in 2018. For the nine months ended September 30, 2019 these charges increased $81 million, or 17%, to $555 million from $474 million for the same period in 2018. These increases were driven by growth in overall account value due primarily to continued strong sales of indexed universal life products.

Mutual Fund Commissions, Fees and Other Income

Mutual fund commissions consist of dealer concessions earned by the Company's affiliated broker-dealer, Equity Services, Inc. Other income includes revenues from reinsurance, corporate owned life insurance and miscellaneous fee income. Revenues from mutual fund commissions, fees and other income were $20 million for both of the three months ended September 30, 2019 and 2018. For the nine months ended September 30, 2019, revenues from mutual fund commissions, fees and other income decreased to $58 million from $60 million for the same period in 2018, primarily due to a decrease in mutual fund commission income.

Net Investment Income

Net investment income represents interest income on our portfolio of bonds, mortgage loans, contract loans and short-term investments, as well as amortization of premium or accretion of discount on bonds, dividends from preferred and common stock, partnership income, and income (losses) from derivative instruments. On a non-GAAP core earnings basis, we exclude from net investment income any income (losses) from derivative instruments that hedge indexed product liabilities; instead, those hedging results are presented within interest credited to policyholder account liabilities. Net investment income on a core earnings basis increased $44 million, or 15%, to $335 million for the three months ended September 30, 2019 from $291 million for the same period in 2018. For the nine months ended September 30, 2019, net investment income on a core earnings basis increased $84 million, or 10%, to $935 million from $851 million for the same period in 2018. These increases were primarily driven by higher partnership income in the current year periods and an increase in the bond and mortgage loan portfolios due to the overall growth of in-force business.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands)			
Net investment income				
Debt securities interest	**$ 249,591**	$ 224,076	**$ 722,072**	$ 667,808
Equity securities dividends	**1,064**	915	**3,005**	2,492
Mortgage loan interest	**43,291**	40,921	**125,758**	115,426
Policy loan interest	**10,984**	11,180	**32,779**	31,304
Real estate income	**909**	1,193	**2,352**	7,135
Derivative gains	**346**	1,900	**2,022**	1,172
Partnership income	**36,323**	18,133	**67,793**	47,603
Other investment income	**725**	2,194	**4,850**	3,825
Gross investment income	**343,233**	300,512	**960,631**	876,765
Less: Investment expenses	**(8,681)**	(9,233)	**(25,884)**	(25,939)
Net investment income on a core earnings basis	**$ 334,552**	$ 291,279	**$ 934,747**	$ 850,826

Increase (Decrease) in Policy Liabilities

The increase (decrease) in policy liabilities reflects the impact of changes in the product liability reserves for whole and term life insurance, disability income insurance and in additional reserves held on certain annuities. The change in policy reserves was a net increase of $6 million and a net decrease of $34 million for the three and nine months ended September 30, 2019, respectively, compared to a $5 million and $92 million net decrease for the same periods in 2018. The larger net decreases in 2018 were primarily related to reserves released by the surrender of certain large whole life policies within the Closed Block, largely offset by the favorable change in policy benefits described below.

Policy Benefits

Policy benefits include death benefits for life insurance policies, policy surrenders for whole life policies and disability income benefits. In addition, policy benefits include a small amount of miscellaneous benefits such as payments on life-contingent immediate annuities and premium waiver benefits due to disability. Policy benefits decreased $10 million to $101 million for the three months ended September 30, 2019 from $111 million for the same period in 2018. For the nine months ended September 30, 2019, policy benefits decreased $41 million to $360 million from $401 million for the same period in 2018. The year-to-date decrease was primarily due to the surrender of certain large whole life policies within the Closed Block in the first quarter of 2018.

Policyholders' Dividends and Dividend Obligations

Policyholders' dividends consist of the pro rata amount of dividends earned that will be paid or credited at the next policy anniversary and policyholder dividend obligations ("PDO") primarily arising from the Closed Block. Dividends are based on a scale that is designed to reflect the relative contribution of each group of policies to the Company's overall operating results. The dividend scales are approved annually by the Company's Board of Directors. For the non-GAAP measure of core earnings, policyholders' dividends and dividend obligations exclude amounts related to current period net gains (losses). Policyholders' dividends and dividend obligations included in core earnings increased $1 million and $5 million for the three and nine months ended September 30, 2019, respectively, from the same periods in 2018. These increases were primarily related to an increase in the PDO liability partially offset by lower dividends paid.

Interest Credited to Policyholder Account Liabilities

Interest credited to policyholder account liabilities represents amounts credited to universal life insurance, fixed deferred annuities and indexed products, as well as the change in reserves related to guaranteed lifetime income riders ("GLIR") and the amortization of sales inducements. For the non-GAAP presentation of core earnings, interest credited also includes income (losses) on options that economically hedge our indexed products. Core interest credited increased $19 million to $184 million for the three months ended September 30, 2019 from $165 million for the same period in 2018. For the nine months ended September 30, 2019, core interest credited increased $65 million to $535 million from $470 million for the same period in 2018.

These increases reflected a smaller impact from actuarial assumption updates in 2019, as well as growth in account value within our indexed product lines. The actuarial assumption adjustments in the 2019 period had a minimal impact on core interest credited, while actuarial assumption updates in the 2018 period included a reduction of core interest credited expense of approximately $4 million, primarily an increase in GLIR reserves related to a refinement in lapse rate assumptions, based on experience.

Operating Expenses

Operating expenses consist primarily of administrative, maintenance and operational expenses related to servicing the Company's business. Operating expenses were $82 million for the three months ended September 30, 2019 compared to $78 million for the same period in 2018. For the nine months ended September 30, 2019, operating expenses were $261 million compared to $241 million for the same period in

2018. These increases were primarily to support growth in the business and increased depreciation and software maintenance costs.

Interest Expense

Interest expense consists of interest paid on the Company's surplus notes and senior notes. Interest expense totaled $16 million and $47 million for the three and nine months ended September 30, 2019, respectively, compared to $14 million and $34 million for the same periods in 2018. These increases in interest expense were due to $350 million of 5.25% surplus notes due 2068 that were issued by NLIC in July 2018, as well as an additional $128 million of the 2068 5.25% surplus notes issued in April 2019.

Policy Acquisition Expenses

Policy acquisition expenses include commissions and other costs related to the acquisition of new or renewal life and annuity business, as well as amortization of previously deferred acquisition costs ("DAC"). Commissions and other costs that are directly related to the successful acquisition of new or renewal insurance contracts are eligible to be deferred under U.S. GAAP. DAC for participating life insurance, universal life insurance, and annuities is amortized and recognized in income in relation to future estimated gross profits. DAC for non-participating term and whole life insurance and participating limited-payment and single-payment life insurance is amortized and recognized in relation to premium income. Policy acquisition expenses are reported net of amounts deferred in the current year and include the amortization of DAC.

For the non-GAAP presentation of core earnings, policy acquisition expenses exclude amortization of DAC related to net gains (losses) on assets that support policy reserves, and amortization of DAC related to non-core earnings.

Policy acquisition expenses for the life and annuity businesses included in core earnings were $98 million for the three months ended September 30, 2019 compared to $86 million for the same period in 2018. For the nine months ended September 30, 2019, policy acquisition expenses included in core earnings were $279 million up from $270 million for the same period in 2018. These increases were primarily attributable to the impact of actuarial assumption updates.

The actuarial assumption updates included in core amortization expense in 2019 netted to approximately $2 million, due to changes to spread assumptions partially offset by favorable mortality. The actuarial assumption adjustments in the 2018 period included an increase in core amortization expense of approximately $8 million, mainly due to updated mortality rates. As a result, the period over period change in the impact of actuarial assumption updates was a $6 million increase in amortization expense for the three and nine-month periods in 2019 compared to the prior year periods.

Net Gains (Losses)

The Company recorded net losses of $4 million and $8 million for the three and nine months ended September 30, 2019, respectively, compared to net losses of $3 million and $5 million for the same periods in 2018. The non-GAAP measure of pre-tax operating income excludes net gains (losses) and is also adjusted to exclude amortization of DAC and sales inducements, and policyholder dividend obligations, related to net gains (losses) (see "Non-GAAP Measures," above).

In accordance with ASU 2016-01, *Financial Instruments—Overall (subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, effective for fiscal years beginning after December 15, 2018, equity investments are measured at fair value with changes in fair value recognized in net income. This reflects a change in reporting for equity securities and certain partnerships where the changes in fair value were previously recognized through accumulated other comprehensive income ("AOCI").

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
	(in thousands)			
Net gains (losses) on:				
Debt securities	**$ 8,276**	$ (465)	**$ 20,499**	$ 2,451
Equity securities	**(125)**	19	**1,272**	44
Mortgage loans	**5**	(361)	**(739)**	(588)
Partnerships	**(5,211)**	(1,388)	**(15,787)**	(5,726)
Other invested assets	**(2,369)**	(22)	**(4,391)**	89
Embedded derivative	**3,248**	—	**(102)**	—
Real estate	**(4,262)**	(840)	**(4,364)**	(840)
Debt retirement	**—**	—	**(688)**	—
Impairment of capitalized software	**(3,472)**	—	**(3,472)**	—
Net losses	**$ (3,910)**	$ (3,057)	**$ (7,772)**	$ (4,570)

Federal Income Taxes

Federal income tax expense for the three months ended September 30, 2019 was $21 million, which represented an effective tax rate of 22%, compared to income tax expense of $15 million for the same period in 2018 with an effective tax rate of 22%. For the nine months ended September 30, 2019, the federal income tax expense was $46 million, which represented an effective tax rate of 21%, compared to income tax expense of $38 million for the same period in 2018 with an effective tax rate of 20%. Income tax expense for the three months ended September 30, 2019 and 2018 included income tax benefits of less than $1 million that were related to net gains and losses. For the nine months ended September 30, 2019 and 2018 income tax expense included income tax benefits of $1 million that were related to gains and losses.

Non-Core Earnings

Non-core earnings primarily include short-term income volatility that results from the measurement under GAAP of certain indexed product liabilities, and the related impact to DAC and deferred sales inducements, which are sensitive to movement in equity market indexes and future interest rate assumptions. Non-core earnings were $9 million for the nine months ended September 30, 2019 compared to $28 million for the same period in 2018. The positive non-core earnings year-to-date in 2019 reflected positive movement in the equity markets, which rebounded in the first quarter of 2019 after the volatility and decline in the fourth quarter of 2018, partially offset by a $13 million negative impact to non-core earnings from actuarial assumption updates. The positive non-core earnings for the 2018 periods were due primarily to an increase in projected future market interest rates, as well as a $6 million positive impact from actuarial assumption updates.

SUMMARY OF FINANCIAL POSITION

Balance Sheet Information

The Company's investment objective is to keep its promises to policyholders by earning competitive net investment income within prudent and strategic asset allocation, asset liability management, and risk management frameworks. This includes portfolio and issuer diversification and careful consideration of various scenarios including interest rate, credit, and liquidity risks through market cycles. The Company's investment portfolio consists primarily of available-for-sale debt and equity securities, agency residential mortgage-backed securities, directly underwritten commercial real estate mortgages, and contract loans.

As of September 30, 2019, total assets were $34.8 billion, primarily attributable to investments that support life insurance policy and annuity contracts with more than 910,000 customers. The increase in cash and investments in the first nine months of 2019 included a $769 million increase in the fair value of derivative assets, primarily equity index options used to hedge our indexed product liabilities, and a $1.9 billion increase in unrealized gains on available-for-sale debt and equity securities. After excluding the change in net unrealized gains, the Company's investments in available-for-sale debt and equity securities grew $1.5 billion to $21.8 billion as of September 30, 2019 from December 31, 2018, driven primarily by strong sales in 2019. The remainder of the portfolio consists primarily of commercial mortgage loans, other invested assets, cash, trading debt and equity securities, policy loans, and other short-term investments.

Total liabilities as of September 30, 2019 were $31.1 billion, compared to $27.8 billion as of December 31, 2018. The year to date increase of $3.3 billion was primarily due to an increase in policyholder account liabilities consistent with our continued strong sales growth in 2019, an increase in other liabilities primarily related to the timing of cash settlements on investment purchases, an increase in the market value of derivative liabilities, and an increase in debt resulting from the April 2019 issuance of an additional $128 million of 5.25% surplus notes due 2068.

The following table provides a summary of the Company's consolidated balance sheet data:

	As of September 30, 2019	As of December 31, 2018
	(in thousands)	
Assets:		
Cash and investments	**$ 31,034,772**	$ 26,395,180
Other general account assets	**2,882,162**	3,271,985
Separate account assets	**856,307**	769,763
Total assets	**$ 34,773,241**	$ 30,436,928
Liabilities and Stockholder's Equity:		
Total liabilities	**31,055,265**	27,775,918
Stockholder's Equity:		
Retained earnings	**2,956,834**	2,741,935
Accumulated other comprehensive income (loss)	**761,142**	(80,925)
Total stockholder's equity	**3,717,976**	2,661,010
Total liabilities and stockholder's equity	**$ 34,773,241**	$ 30,436,928

Cash Flow Information

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

	For the Nine Months Ended September 30, 2019	2018
	(in thousands)	
Net cash used by operating activities	**$ (47,039)**	$ (187,232)
Net cash used in investing activities	**(1,415,990)**	(1,072,617)
Net cash provided by financing activities	**1,732,839**	1,243,361
Net increase (decrease) in cash	**$ 269,810**	$ (16,488)

Net cash used by operations was $47 million for the nine months ended September 30, 2019, compared to $187 million for the same period in the 2018. Cash used by operating activities in 2019 were primarily driven by growth related acquisition costs and the change in the fair value of derivatives. Cash used by operating activities in 2018 were driven by sales growth related acquisition costs, payment of income taxes, and a $16 million pension contribution.

Net cash used in investing activities was $1.4 billion for the nine months ended September 30, 2019, compared to $1.1 billion for the same period in 2018. The increase in net investing activity primarily represented the investment of positive net cash provided by financing activities.

Net cash provided by financing activities was $1.7 billion for the nine months ended September 30, 2019, compared to $1.2 billion for the same period in 2018. Net issuances of FHLB funding agreements (net of repayments) were $345 million in 2019, compared to net repayments (net of issuances) of $19 million for the same period in 2018. Our Institutional Markets FHLB activity is managed opportunistically, so the volume of funding agreements issued depends on pricing and the availability of desirable assets to support these liabilities. The increase in net cash provided by financing activities also reflected a $309 million increase in policyholder deposits, net of withdrawals, related primarily to increased sales of indexed universal life products, as well as $125 million proceeds from the issuance of 5.25% surplus notes in April 2019.

	As of September 30, 2019	As of December 31, 2018	Change
Other Selected Data		*(in millions)*	
Life insurance in force (before reinsurance ceded)	**$ 165,091**	$ 142,317	$ 22,774
Total assets under management (excluding unrealized gains and losses)	**$ 29,245**	$ 26,501	$ 2,744

	For the Nine Months Ended 2019	2018	Change
Weighted New Annualized Premium (WNAP) Sales		*(in millions)*	
Life	**$ 263**	$ 209	$ 54
Annuity	**213**	169	44
Total Life and Annuity WNAP	**$ 476**	$ 378	$ 98

The increase in Life WNAP reflected continued growth in sales of indexed universal life, primarily driven by an increase in the number of producing agents in our career and independent agencies, and customer demand for indexed products and living benefits. The increase in Annuity WNAP reflected strong sales of single premium deferred annuities and WNAP from flow (flexible premium) annuities.

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 any that are relatively illiquid;
- Differing interpretations in the methodologies, estimations and assumptions for the valuation of fixed maturity, equity and trading securities;
- Subjectivity in determining the amount of allowances and impairments taken on certain Company investments;
- Defaults on commercial mortgages held by the Company and volatilities in performance;
- Exposure to structured finance securities;
- Exposure to alternative investments;
- Exposure to mortgage-backed securities;
- Impairments of other institutions;
- Changes in interest rates and exposure to credit spreads;
- Effectiveness of the Company's hedging strategies and availability of hedging instruments;
- Impact of economic conditions on customers and vendors;
- Downgrades or potential downgrades in the Company's ratings;
- Changes in accounting rules;
- Adverse regulatory and legislative developments;
- Litigation and regulatory investigations;
- Changes in tax laws and the interpretation thereof;
- Inability to pay guaranteed policy benefits;
- Effectiveness of the Company's risk management policies and procedures;
- Lack of available, affordable or adequate reinsurance;
- Failure of counterparties to perform under reinsurance agreements, hedging instruments, or other contracts with the Company;
- Significant competition in the Company's businesses;

- Sensitivity of the amount of statutory capital the Company must hold to factors outside of its control;

- Adequacy of the Company's reserves for future policy benefits and claims;

- Deviations from assumptions regarding future mortality, morbidity, and interest rates used in calculating reserve amounts and pricing the Company's products;

- Ability to attract and retain independent agents, career agents, and key personnel;

- Ability to raise additional capital;

- Costs related to future pension obligations;

- Impact of international tension between the United States and other nations, terrorist attacks or ongoing military and other actions;

- Pandemics or other catastrophic events; and

- A computer system failure or security breach.

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

Our goals over the next several years include continued responsible growth across all of our product lines, as well as improving the efficiency and effectiveness of the overall organization. The Company will continue to deliver new and innovative products and riders, and partner with distributors who share our mission, values, and purpose. We will also continue to invest in our technology infrastructure to improve services for all our key stakeholders.

We will continue to effectively manage our investment portfolio to maximize risk-adjusted returns and to maintain targeted duration matching of our product obligations and related investments.

Basis of Presentation and Principles of Consolidation

The following consolidated financial statements of NLVF have been prepared in conformity with U.S. GAAP. These financial statements should be read in conjunction with and are qualified in their entirety by reference to the Company's consolidated financial statements as of and for the years ended December 31, 2018 and 2017, which have been audited by PricewaterhouseCoopers LLP, including the accompanying notes which are an integral part of the audited financial statements. The preparation of financial statements in conformity with U.S. GAAP requires the Company to make estimates and assumptions that affect the reported amounts and related disclosures. Actual results could differ, possibly materially, from those estimates.

The consolidated financial statements of the Company include the accounts of NLVF and its direct and indirect subsidiaries. Intercompany transactions and balances have been eliminated in consolidation.

Certain reclassifications have been made to conform prior periods to the current year's presentation.

NLV Financial Corporation and Subsidiaries
Consolidated Balance Sheets
As of September 30, 2019 and December 31, 2018

(in thousands)	As of September 30, 2019	As of December 31, 2018
Assets:		
Cash and investments:		
Available-for-sale debt securities	**$ 23,539,205**	$ 20,122,717
Available-for-sale equity securities	**30,045**	30,978
Trading debt securities	**111,368**	19,082
Trading equity securities	**29,159**	24,382
Mortgage loans	**3,714,198**	3,674,383
Policy loans	**949,698**	921,516
Real estate investments	**11,685**	16,210
Derivative assets	**999,960**	231,174
Other invested assets	**1,104,408**	932,402
Short term investments	**117,650**	264,750
Cash and restricted cash	**427,396**	157,586
Total cash and investments	**31,034,772**	26,395,180
Deferred policy acquisition costs	**1,710,187**	2,093,111
Accrued investment income	**255,782**	232,368
Premiums and fees receivable	**9,470**	22,639
Amounts recoverable from reinsurers	**104,862**	132,164
Property and equipment, net	**170,476**	165,934
Corporate owned life insurance	**503,596**	493,679
Federal income tax recoverable	**14,785**	31,306
Other assets	**113,004**	100,784
Separate account assets	**856,307**	769,763
Total assets	**$ 34,773,241**	$ 30,436,928
Liabilities:		
Policy liabilities:		
Policy benefit liabilities	**$ 4,116,295**	$ 4,159,561
Policyholder account liabilities	**23,047,893**	21,115,895
Policyholders’ deposits	**102,238**	90,082
Policy claims payable	**66,077**	95,698
Policyholders’ dividends and dividend obligations	**268,990**	62,342
Total policy liabilities	**27,601,493**	25,523,578
Amounts payable to reinsurers	**28,361**	38,734
Derivative liabilities	**567,536**	102,391
Other liabilities and accrued expenses	**621,092**	309,911
Pension and other post-retirement benefit obligations	**146,901**	149,422
Deferred income taxes	**319,030**	91,253
Debt	**914,545**	790,866
Separate account liabilities	**856,307**	769,763
Total liabilities	**$ 31,055,265**	$ 27,775,918
Stockholder’s equity:		
Class A common stock, 2,000 shares authorized, no shares issued and outstanding	**$ —**	$ —
Class B common stock, par value of $0.01, 1,001 shares authorized, 100 shares issued and outstanding	**—**	—
Preferred stock, 500 shares authorized, no shares issued and outstanding	**—**	—
Retained earnings	**2,956,834**	2,741,935
Accumulated other comprehensive income (loss)	**761,142**	(80,925)
Total stockholder’s equity	**$ 3,717,976**	$ 2,661,010
Total liabilities and stockholder’s equity	**$ 34,773,241**	$ 30,436,928

NLV Financial Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income
For the Three and Nine Months Ended September 30, 2019 and 2018

(in thousands)	For the Three Months Ended September 30, 2019	For the Three Months Ended September 30, 2018	For the Nine Months Ended September 30, 2019	For the Nine Months Ended September 30, 2018
Revenues:				
Insurance premiums	**$ 53,536**	$ 47,427	**$ 150,198**	$ 136,954
Policy and contract charges	**190,906**	163,764	**555,020**	473,769
Mutual fund commissions and fee income	**14,107**	12,495	**39,088**	37,972
Net investment income	**354,471**	429,421	**1,262,066**	1,025,615
Net realized capital losses	**(3,910)**	(3,057)	**(7,772)**	(4,570)
Other income	**10,525**	7,522	**18,985**	21,970
Total revenues	**619,635**	657,572	**2,017,585**	1,691,710
Benefits and expenses:				
Increase (decrease) in policy liabilities	**5,778**	(4,736)	**(33,735)**	(91,766)
Policy benefits	**101,240**	111,338	**359,547**	401,462
Policyholders' dividends and dividend obligations	**10,456**	9,473	**36,302**	31,303
Interest credited to policyholder account liabilities	**181,068**	298,455	**780,407**	606,587
Operating expenses	**82,284**	77,529	**261,374**	240,786
Interest expense	**16,284**	14,063	**46,828**	34,422
Policy acquisition expenses	**125,733**	83,128	**351,687**	279,458
Total benefits and expenses	**522,843**	589,250	**1,802,410**	1,502,252
Income before income taxes	**96,792**	68,322	**215,175**	189,458
Income tax expense	**21,220**	14,877	**46,081**	37,892
Net income	**$ 75,572**	$ 53,445	**$ 169,094**	$ 151,566

NLV Financial Corporation and Subsidiaries
Consolidated Statements of Changes in Stockholder's Equity
For the Nine Months Ended September 30, 2019 and 2018

(in thousands)	Class A Common Stock	Class B Common Stock	Preferred Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
January 1, 2018	$ —	$ —	$ —	$ 2,591,881	$ 388,403	$ 2,980,284
Net income	—	—	—	151,566	—	151,566
Change in unrealized losses on available-for-sale securities, net	—	—	—	—	(419,390)	(419,390)
Change in cash flow hedge on debt issuance, net					31	31
Change in additional minimum pension liability, net					6,492	6,492
Total comprehensive loss						(261,301)
September 30, 2018	$ —	$ —	$ —	$ 2,743,447	$ (24,464)	$ 2,718,983
January 1, 2019	**$ —**	**$ —**	**$ —**	**$ 2,741,935**	**$ (80,925)**	**$ 2,661,010**
Net income	—	—	—	**169,094**	**—**	**169,094**
Effect of implementation of *ASU 2016-01*, net	—	—	—	**45,805**	**(45,805)**	**—**
Change in unrealized gains on available-for-sale securities, net	—	—	—	**—**	**879,007**	**879,007**
Change in cash flow hedge on debt issuance, net					**31**	**31**
Change in additional minimum pension liability, net					**8,834**	**8,834**
Total comprehensive income						**1,056,966**
September 30, 2019	**$ —**	**$ —**	**$ —**	**$ 2,956,834**	**$ 761,142**	**$ 3,717,976**

NLV Financial Corporation and Subsidiaries
Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2019 and 2018

	For the Nine Months Ended September 30,	
(in thousands)	**2019**	**2018**
Cash flows from operating activities:		
Net income	**$ 169,094**	$ 151,566
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for deferred income taxes	**3,936**	10,678
Interest credited to policyholder account liabilities	**780,407**	606,587
Amortization of deferred policy acquisition costs	**285,533**	199,279
Policy and contract charges	**(555,020)**	(473,769)
Net realized capital losses	**4,387**	4,570
Change in fair value of derivatives	**(326,971)**	(174,326)
Change in corporate owned life insurance policies	**(9,917)**	(10,388)
Depreciation	**23,347**	22,229
Other	**(10,289)**	1,259
Changes in assets and liabilities:		
Accrued investment income	**(23,414)**	(19,713)
Deferred policy acquisition costs	**(444,951)**	(359,155)
Policy liabilities	**66,772**	(14,232)
Other assets and liabilities	**(9,953)**	(131,817)
Net cash used by operating activities	**(47,039)**	(187,232)
Cash flows from investing activities:		
Proceeds from sales, maturities and repayments of investments	**2,337,355**	2,552,454
Cost of investments acquired	**(4,028,892)**	(3,060,425)
Property and equipment additions	**(23,179)**	(36,224)
Change in policy loans	**(28,182)**	(26,985)
Change in short term investments	**147,100**	(470,170)
Change in short term broker collateral	**219,475**	(43,721)
Other	**(39,667)**	12,454
Net cash used in investing activities	**(1,415,990)**	(1,072,617)
Cash flows from financing activities:		
Policyholders' deposits	**2,330,690**	1,908,444
Policyholders' withdrawals	**(1,073,543)**	(959,974)
Advances from Federal Home Loan Banks	**357,212**	152,682
Repayments to Federal Home Loan Banks	**(12,131)**	(172,165)
Proceeds from debt issuance	**124,527**	345,068
Debt retirement	**(1,921)**	—
Change in other deposits	**8,005**	(30,694)
Net cash provided by financing activities	**1,732,839**	1,243,361
Net increase (decrease) in cash	**269,810**	(16,488)
Cash and restricted cash:		
Beginning of year	**157,586**	284,070
End of year	**$ 427,396**	$ 267,582