

NLV Financial Corporation and Subsidiaries

**Quarterly Performance Review and
Consolidated Financial Statements**

Third Quarter 2022

GENERAL DISCUSSION OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

About the Company

NLV Financial Corporation (“NLVF”) through its subsidiaries (collectively, the “Company”, “we”, “our”) offer a broad range of life insurance and annuity products through its insurance operations, which include National Life Insurance Company (“NLIC”), a Vermont-domiciled life insurer, and Life Insurance Company of the Southwest (“LSW”), a Texas-domiciled life insurer. Together with their affiliates, NLIC and LSW operate as a unified organization under the trade name of National Life Group.

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

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

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

Distribution

National Life Group provides a broad range of life insurance and annuity products to a national client base, primarily through an extensive network of independent agents and affiliated agents. We focus on serving Middle America in our target market of customers with household income of between \$75,000 and \$150,000, offering products with benefits that help Middle America customers meet needs during their lifetime, including lifetime income in retirement and accelerated death benefits if the insured becomes terminally, chronically or critically ill. In our individual annuity business, we focus on the 403(b) K-12 educator and 457 markets. National Life Group also offers products to meet financial and business planning needs including estate, business succession and retirement planning, and deferred compensation and other key executive benefit planning for small business owners, professionals, and other middle to upper income individuals. We market and distribute our products throughout the United States through two principal channels: Affiliated Partner and Independent:

- **Affiliated Partner** is an evolution of the traditional “career” channel, and includes producing and general agents who specialize in selling products to the middle and emerging affluent markets, professionals, business owners and other individuals for financial and business planning purposes.
- **Independent** consists of agents who primarily offer life insurance and annuity products to the middle and emerging affluent markets, for purposes of providing for the financial consequences of specific life events, such as death, retirement, and chronic or long-term illness. While the agents have access to all products, certain agents sell life insurance and annuity products with an emphasis on the 403(b) qualified tax deferred retirement savings market for individuals employed by public schools.

Organization

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

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

Non-GAAP Measures

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

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

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2022	2021	2022	2021
	<i>(in thousands)</i>		<i>(in thousands)</i>	
Total revenues	\$ 581,227	\$ 724,141	\$ 1,512,933	\$ 2,400,120
Net investment losses (gains)	50,808	(40,715)	22,041	(169,185)
Net investment losses (gains) from derivatives that hedge equity indexed products, which is included in interest credited to policyholder liabilities on a core earnings basis	116,253	6,420	621,493	(198,601)
Total revenues on a core earnings basis	<u>\$ 748,288</u>	<u>\$ 689,846</u>	<u>\$ 2,156,467</u>	<u>\$ 2,032,334</u>

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,	
	2022	2021	2022	2021
	<i>(in thousands)</i>		<i>(in thousands)</i>	
Net income	\$ 48,571	\$ 30,049	\$ 72,532	\$ 312,153
Net investment losses (gains)	50,808	(40,715)	22,041	(169,185)
Amortization of DAC and sales inducements, and policyholder dividend obligations, and other adjustments related to net investment gains and losses	(4,120)	(1,460)	(18,679)	10,079
Income tax expense	12,912	7,977	19,281	82,966
Pre-tax operating income (loss)	108,171	(4,149)	95,175	236,013
Non-core losses (earnings), primarily volatility resulting from the measurement of indexed product liabilities	(4,814)	61,096	209,395	50,417
Core earnings	<u>\$ 103,357</u>	<u>\$ 56,947</u>	<u>\$ 304,570</u>	<u>\$ 286,430</u>

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, 2022 and 2021 and financial position as of September 30, 2022 and December 31, 2021, 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, 2021 and 2020, which have been audited by PricewaterhouseCoopers LLP.

The Company's universal life, indexed universal life, and annuity products generate revenues through investment income and policy and contract charges that are earned during the life of the contracts. On a GAAP basis, revenues from net investment income include changes in the fair value of derivative instruments that economically hedge our indexed life and annuity products, primarily options and futures. Whole and term life insurance products generate primarily premium revenues. The decrease in the Company's total revenues on a GAAP basis included market value losses on derivative instruments of \$621 million for the nine months ended September 30, 2022, compared to derivative gains of \$199 million for the same period in 2021. The derivative losses in the first nine months of 2022 were due to a decrease in the value of derivatives reflective of the equity market volatility during the period. On a core earnings basis, which excludes from revenue such derivative gains (losses) as well as net investment gains (losses), the Company's total revenues for the first nine months of 2022 were up 6% over the same period in 2021. This increase was driven by strong growth in the life insurance business, including increases in premium revenues of 18% and policy and contract charges of 12% as well as an increase in commissions, fees, and other income of 21%.

For the three months ended September 30, 2022, net income was \$49 million, compared to net income of \$30 million for the same period in 2021. For the nine months ended September 30, 2022, net income was \$73 million compared to \$312 million for the same period in 2021. The nine months ended September 30, 2022 included negative non-core earnings of \$209 million, which primarily reflected the equity market volatility and increased interest rates during the period, compared to negative non-core earnings of \$50 million in the 2021 period. Net investment losses were \$22 million for the nine months ended September 30, 2022, compared to net investment gains of \$169 million for the same period in 2021. The gains in the 2021 period were primarily comprised of fair value changes of partnerships.

The impact of the update of actuarial assumptions, which are reviewed annually during the third quarter, was a net positive adjustment to net income of \$23 million in the third quarter of 2022, compared to a net negative adjustment to net income of \$90 million in the third quarter of 2021.

Core earnings were \$103 million and \$305 million for the three and nine months ended September 30, 2022, compared to \$57 million and \$286 million for the same periods in 2021. Higher revenues in the first nine months of 2022 from insurance premiums and growth in policy and contract charges, were partially offset by higher policy acquisition expenses driven by increased sales of indexed universal life and annuity products and effects of modestly higher estimated future mortality.

The impact of the update of actuarial assumptions was a net positive adjustment to core earnings of \$22 million in the third quarter of 2022, compared to a net negative adjustment to core earnings of \$64 million in the third quarter of 2021.

Each of the components of core earnings and the factors that contributed to the changes for the three and nine months ended September 30, 2022 and 2021 are described in detail below.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2022	2021	2022	2021
	<i>(in thousands)</i>		<i>(in thousands)</i>	
Revenues:				
Insurance premiums	\$ 89,733	\$ 72,969	\$ 248,624	\$ 211,355
Policy and contract charges	274,284	242,633	794,116	712,090
Commissions, fees and other income	27,986	23,431	84,696	70,109
Net investment income	356,285	350,813	1,029,031	1,038,780
Total revenues, on a core earnings basis	748,288	689,846	2,156,467	2,032,334
Benefits and expenses:				
Increase in policy liabilities	26,645	12,661	65,150	6,129
Policy benefits	147,486	150,677	447,636	472,565
Policyholders' dividends and dividend obligations	3,011	7,756	3,851	18,830
Interest credited to policyholder account liabilities	187,043	185,737	583,558	561,268
Operating expenses	97,494	79,364	269,753	254,652
Interest expense	16,793	16,375	50,290	49,267
Policy acquisition expenses	166,459	180,329	431,659	383,193
Total benefits and expenses, on a core earnings basis	644,931	623,899	1,851,897	1,745,904
Core earnings	\$ 103,357	\$ 56,947	\$ 304,570	\$ 286,430

Insurance Premiums

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

Insurance premiums increased to \$90 million and \$249 million for the three and nine months ended September 30, 2022, respectively, from \$73 million and \$211 million for the same periods in 2021. These increases were driven by higher term life product sales.

Policy and Contract Charges

Policy and contract charges include fees charged on indexed universal life products, variable annuities, premium loads, cost of insurance charges, surrender charges and rider charges. Policy and contract charges increased \$31 million, or 13%, to \$274 million for the three months ended September 30, 2022 from \$243 million for the same period in 2021. For the nine months ended September 30, 2022, these charges increased \$82 million, or 12%, to \$794 million from \$712 million for the same period in 2021. These increases were driven by growth in overall account value, primarily on our indexed universal life products.

Commissions, Fees and Other Income

Commissions consist of dealer concessions earned by the Company's affiliated broker-dealer, Equity Services, Inc. Other income include revenues from reinsurance, change in cash surrender value of corporate owned life insurance ("COLI") and miscellaneous fee income. Revenues from commissions, fees and other income increased to \$28 million and \$85 million for the three and nine months ended September 30, 2022, respectively, from \$23 million and \$70 million for the same periods in 2021, primarily due to increased fee income on certain indexed annuity products.

Net Investment Income

Net investment income represents interest income on our portfolio of bonds, mortgage loans, contract loans and short-term investments, as well as amortization of premium or accretion of discount on bonds, dividends from preferred and common stock, partnership income, and income (losses) from derivative instruments. On a non-GAAP core earnings basis, we exclude from net investment income any income (losses) from derivative instruments that economically hedge our indexed product liabilities; instead, those hedging results are presented within interest credited to policyholder account liabilities. Net investment income on a core earnings basis was \$356 million and \$1.0 billion for the three and nine months ended September 30, 2022, respectively, compared to \$351 million and \$1.0 billion for the same periods in 2021. These increases were primarily due to higher income from debt securities and mortgages, partially offset by lower partnership income in the current year period.

The table below provides a breakdown of the components of net investment income on a core earnings basis, which excludes income on options that economically hedge our indexed products:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2022	2021	2022	2021
	<i>(in thousands)</i>		<i>(in thousands)</i>	
Net investment income				
Debt securities	\$ 275,184	\$ 248,600	\$ 791,775	\$ 755,871
Equity securities	(2,402)	(307)	(14,669)	6,328
Mortgage loans	51,136	44,148	150,085	128,336
Policy loans	11,042	10,803	32,000	32,126
Real estate	930	884	2,554	2,578
Derivatives	(574)	(1,608)	(3,676)	(3,828)
Partnerships	28,333	55,619	93,691	139,543
Other investment income	1,480	447	3,086	174
Gross investment income	365,129	358,586	1,054,846	1,061,128
Less: Investment expenses	(8,844)	(7,773)	(25,815)	(22,348)
Net investment income on a core earnings basis	\$ 356,285	\$ 350,813	\$ 1,029,031	\$ 1,038,780

Increase (Decrease) in Policy Liabilities

The increase (decrease) in policy liabilities reflects changes in the product liability reserves for whole and term life insurance, disability income insurance and changes in additional reserves held on certain annuities. The change in policy liabilities was a net increase of \$27 million and \$65 million for the three and nine months ended September 30, 2022, respectively, compared to a net increase of \$13 million and \$6 million for the same periods in 2021. The increase in policy liabilities was related to the more favorable mortality experience, and continued growth of our indexed product lines.

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 \$4 million and \$25 million to \$147 million and \$448 million for the three and nine months ended September 30, 2022, respectively, from \$151 million and \$473 million for the same periods in 2021. These decreases were primarily due to favorable mortality experience in the first nine months of 2022 as the impact of COVID-19 on mortality continued to decline.

Policyholders' Dividends and Dividend Obligations

Policyholders' dividends consist of the pro rata amount of dividends earned that will be paid or credited at the next policy anniversary and policyholder dividend obligations ("PDO") primarily arising from the Closed Block. Dividends are based on a scale that is designed to reflect the relative contribution of each group of policies to the Company's overall operating results. The dividend scales are approved annually by the Company's Board of Directors. For the non-GAAP measure of core earnings, policyholders' dividends and dividend obligations exclude amounts related to current year net investment gains (losses). Policyholders' dividends and dividend obligations included in core earnings decreased \$5 million and \$15 million for the three and nine months ended September 30, 2022, respectively, from the same periods in 2021. These decreases were primarily related to lower Closed Block earnings.

Interest Credited to Policyholder Account Liabilities

Interest credited to policyholder account liabilities represents amounts credited to universal life insurance, fixed deferred annuities and indexed products, as well as the change in reserves related to guaranteed lifetime income riders ("GLIR") and the amortization of sales inducements. For the non-GAAP presentation of core earnings, interest credited also includes income on options that economically hedge our indexed products. Core interest credited increased \$1 million to \$187 million for the three months ended September 30, 2022 from \$186 million for the same period in 2021. For the nine months ended September 30, 2022, core interest credited increased \$23 million to \$584 million from \$561 million for the same period in 2021.

The actuarial assumption updates included in core interest credited in 2022 included a \$30 million net positive impact on core earnings, reflecting updates and refinements for GLIR modeling, compared to a \$5 million net positive impact on 2021 core earnings, reflecting updates for actual experience of GLIR utilization and a change in GLIR roll-up rates, partially offset by lower GLIR option budgets and mortality experience.

Operating Expenses

Operating expenses consist primarily of administrative, maintenance and operational expenses related to servicing the Company's business. Operating expenses were \$97 million and \$270 million for the three and nine months ended September 30, 2022, respectively, compared to \$79 million and \$255 million for the same periods in 2021. Certain defined contribution deferred compensation liabilities reported in operating expenses were favorably impacted by increased interest rates in the first nine months of 2022. This change is largely offset by changes in the fair value of certain equity investments, which are reported within net investment income.

Interest Expense

Interest expense consists of interest paid on the Company's surplus notes and senior notes. Interest expense totaled \$17 million and \$50 million for the three and nine months ended September 30, 2022, respectively.

Policy Acquisition Expenses

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

For the non-GAAP presentation of core earnings, policy acquisition expenses exclude amortization of DAC related to net investment gains (losses) on assets that support policy reserves, and amortization of DAC related to non-core earnings. Policy acquisition expenses for the life and annuity businesses included in core earnings were \$166 million for the three months ended September 30, 2022, down from \$180 million for the same period in 2021. For the nine months ended September 30, 2022, policy acquisition expenses included in core earnings were \$432 million, up from \$383 million for the same period in 2021. The increase in the nine-month period reflected higher amortization expense from an increased volume of indexed universal life and annuity products.

The actuarial assumption updates included in core amortization expense included a \$10 million net negative impact to core earnings in 2022, compared to a \$72 million net negative impact on core earnings in 2021, due to reserving for settlements related to accelerated benefits and elevated mortality.

Net Investment Gains (Losses)

The Company recorded net investment losses of \$51 million and \$22 million for the three and nine months ended September 30, 2022, respectively, compared to net investment gains of \$41 million and \$169 million for the same periods in 2021. The 2021 periods included higher earnings primarily from fair value increases in partnership investments. Changes in the fair value of partnerships not accounted for using the equity method (based on the Company's level of ownership and influence) are recorded within net investment gains (losses). The non-GAAP measure of pre-tax operating income excludes net investment gains (losses) and is also adjusted to exclude amortization of DAC and sales inducements, and policyholder dividend obligations, that are related to net investment gains (losses) (see "Non-GAAP Measures," above).

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

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2022	2021	2022	2021
	<i>(in thousands)</i>		<i>(in thousands)</i>	
Net investment (losses) gains on:				
Debt securities	\$ (7,163)	\$ 946	\$ (12,804)	\$ 17,437
Equity securities	(3,876)	(814)	(22,724)	5,244
Mortgage loans	672	(281)	458	(771)
Partnerships	(40,746)	41,207	12,283	147,896
Other invested assets	305	(343)	746	(621)
Net investment (losses) gains	\$ (50,808)	\$ 40,715	\$ (22,041)	\$ 169,185

Federal Income Taxes

Federal income tax expense was \$13 million for the three months ended September 30, 2022 compared to income tax expense of \$8 million for the same period in 2021. For the nine months ended September 30, 2022, the federal income tax expense was \$19 million compared to \$83 million for the same period in 2021. The Company's effective tax rate was 21% in the 2022 and 2021 periods.

Non-Core Earnings

Non-core earnings primarily include short-term income volatility that results from the fair value measurement under GAAP of certain indexed product liabilities, which are sensitive to movement in equity market indexes and future interest rate assumptions, and the related impact to DAC and deferred sales inducements. Non-core earnings reduced pre-tax operating earnings by \$5 million and \$209 million for the three and nine months ended September 30, 2022, respectively. For the three and nine months ended September 30, 2021, non-core earnings reduced pre-tax operating earnings by \$61 million and \$50 million, respectively. The losses (negative non-core earnings) in the first nine months of 2022 reflected the equity market volatility and increased interest rates during the period.

SUMMARY OF FINANCIAL POSITION

Balance Sheet Information

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

As of September 30, 2022, total assets were \$37.3 billion, primarily attributable to investments that support life insurance policy and annuity contracts with more than 1.2 million customers. Cash and investments decreased \$7.1 billion from December 31, 2021, which included a \$6.3 billion decrease in unrealized gains (losses) on available-for-sale debt securities, and a \$1.8 billion decrease in derivative assets, primarily equity index options used to hedge our indexed product liabilities. After excluding derivative assets and net unrealized gains and losses, total cash and invested assets as of September 30, 2022 were \$33.9 billion compared to \$32.9 billion as of December 31, 2021, including an increase in available-for-sale debt securities of \$1.1 billion, driven by cash flows from our growing life and annuity business. The remainder of the portfolio consists primarily of partnerships and other invested assets, cash, trading debt securities, equity securities, policy loans, and other short-term investments.

Total liabilities as of September 30, 2022 were \$35.7 billion, compared to \$37.4 billion as of December 31, 2021. The decrease of \$1.7 billion as of September 30, 2022, was primarily due to a decrease in derivative liabilities, partially offset by increased policyholder account liabilities.

We evaluate our capital adequacy based on internally-defined risk tolerances, regulatory requirements, rating agency and creditor expectations and business needs. We regularly evaluate the impact on our capital of potential macroeconomic, financial and insurance stresses. We believe that our capital resources are sufficient to satisfy future requirements and meet our obligations to policyholders, creditors and debt-holders, including those arising from reasonably foreseeable contingencies or events.

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

	As of September 30, 2022	As of December 31, 2021
	<i>(in thousands)</i>	
Assets:		
Cash and investments	\$ 30,356,412	\$ 37,482,486
Other general account assets	6,217,200	3,453,532
Separate account assets	740,633	1,006,373
Total assets	<u>\$ 37,314,245</u>	<u>\$ 41,942,391</u>
Liabilities and Stockholder's Equity:		
Total liabilities	<u>35,666,278</u>	<u>37,372,710</u>
Stockholder's Equity:		
Retained earnings	3,669,573	3,597,041
Accumulated other comprehensive (loss) income	(2,021,606)	972,640
Total stockholder's equity	<u>1,647,967</u>	<u>4,569,681</u>
Total liabilities and stockholder's equity	<u>\$ 37,314,245</u>	<u>\$ 41,942,391</u>

Cash Flow and Liquidity Information

Cash and restricted cash was \$130 million at September 30, 2022, compared to \$640 million at December 31, 2021. In addition to liquidity sourced from cash flows including premiums, deposits, investment income and maturities, the Company has access to secured asset-based borrowing capacity through membership in the Federal Home Loan Banks of Boston and Dallas. The Company evaluates liquidity risk quarterly by projecting cash flows under a stress scenario to ensure that there is sufficient liquidity to meet operating demands and objectives over a 36-month period, without consideration of mitigating actions such as the liquidation of investment holdings and changes in our investment strategy and product offerings.

In October 2021, NLVF entered into a facility agreement with a Delaware trust that gives the Company the right over a 30-year period to issue at any time up to \$750 million of 4.161% Senior Notes due August 15, 2051 to the Delaware trust in exchange for a corresponding amount of U.S. Treasury securities held by the Delaware trust, therefore providing an alternative source of liquidity. This agreement provides an alternative source of liquid assets that the Company can access at its discretion.

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,	
	2022	2021
	<i>(in thousands)</i>	
Net cash used in operating activities	\$ (103,632)	\$ (16,525)
Net cash used in investing activities	(2,053,066)	(1,480,927)
Net cash provided by financing activities	<u>1,645,956</u>	<u>1,438,204</u>
Net decrease in cash and restricted cash	<u>\$ (510,742)</u>	<u>\$ (59,248)</u>

Net cash used in operating activities was \$104 million in the first nine months of 2022, compared to net cash used of \$17 million for the same period in 2021. The increase in cash used in operating activities during the first nine months of 2022 compared to the same period in 2021 was primarily due to changes in other assets and liabilities.

Net cash used in investing activities was \$2.1 billion in the first nine months of 2022, compared to \$1.5 billion for the same period in 2021. The increase in cash used in investing activities in the 2022 period was primarily due to changes in short term investments and short term broker collateral.

Net cash provided by financing activities was \$1.6 billion in the first nine months of 2022, compared to \$1.4 billion for the same period in 2021. The increase in net cash provided by financing activities was primarily due to an increase in policyholder deposits, net of withdrawals, and an increase in net issuances of Federal Home Loan Bank ("FHLB") funding agreements. Policyholder deposits, net of withdrawals, increased \$193 million primarily due to higher sales of indexed universal life products. FHLB net issuances (net of repayments) were \$52 million in the first nine months of 2022, compared to \$24 million for the same period in 2021. 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.

Other Selected Data

	As of September 30, 2022	As of December 31, 2021	Change
	<i>(in billions)</i>		
Life insurance in force (before reinsurance ceded)	\$ 280.2	\$ 251.9	\$ 28.3
Total cash and invested assets (excluding unrealized gains and losses and derivatives)	\$ 33.9	\$ 32.9	\$ 1.0
	For the Nine Months Ended		
	September 30, 2022	September 30, 2021	Change
	<i>(in millions)</i>		
<u>Weighted New Annualized Premium ("WNAP") Sales</u>			
Life	\$ 329	\$ 314	\$ 15
Annuity	195	188	7
Total Life and Annuity WNAP	<u>\$ 524</u>	<u>\$ 502</u>	<u>\$ 22</u>

PROSPECTIVE INFORMATION

Forward-looking statements contained herein are not guarantees of future performance and involve risks and uncertainties. Actual results may differ materially from those in the forward-looking statements as a result of various factors. The following uncertainties, among others, may have such an effect:

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

- Sensitivity of the amount of statutory capital the Company must hold to factors outside of its control;
- Adequacy of the Company's reserves for future policy benefits and claims;
- Deviations from assumptions regarding future mortality, morbidity, and interest rates used in calculating reserve amounts and pricing the Company's products;
- Ability to attract and retain producing agents and key personnel;
- Ability to raise additional capital;
- Costs related to future pension obligations;
- Impact of international tension between the United States and other nations, terrorist attacks or ongoing military and other actions;
- Pandemics or other catastrophic events; and
- A computer system failure or security breach.

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

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

We will continue to manage our investment portfolio with the objective of competitive net investment income within prudent strategic asset allocation, asset liability management, and risk management frameworks.

Basis of Presentation and Principles of Consolidation

The following consolidated financial statements of NLVF have been prepared in conformity with GAAP. These financial statements should be read in conjunction with and are qualified in their entirety by reference to the Company's consolidated financial statements as of and for the years ended December 31, 2021 and 2020, which have been audited by PricewaterhouseCoopers LLP, including the accompanying notes which are an integral part of the audited financial statements. The preparation of financial statements in conformity with GAAP requires the Company to make estimates and assumptions that affect the reported amounts and related disclosures. Actual results could differ, possibly materially, from those estimates.

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

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

NLV Financial Corporation and Subsidiaries
Consolidated Balance Sheets
As of September 30, 2022 and December 31, 2021

(in thousands)

Assets:

Cash and investments:

	As of September 30, 2022	As of December 31, 2021
Available-for-sale debt securities	\$ 21,958,103	\$ 27,136,714
Equity securities	94,419	80,074
Trading debt securities	159,822	183,344
Mortgage loans	5,154,523	4,956,163
Policy loans	1,030,752	967,491
Real estate investments	8,103	7,515
Derivative assets	352,955	2,108,105
Other invested assets	1,372,621	1,367,533
Short term investments	95,459	35,150
Cash and restricted cash	129,655	640,397
Total cash and investments	30,356,412	37,482,486
Deferred policy acquisition costs	4,320,715	2,143,365
Accrued investment income	305,961	263,787
Premiums and fees receivable	8,775	17,802
Amounts recoverable from reinsurers	164,856	168,450
Property and equipment, net	157,761	164,152
Corporate owned life insurance	571,750	550,656
Deferred tax asset	461,151	—
Federal income tax recoverable	44,344	—
Other assets	181,887	145,320
Separate account assets	740,633	1,006,373
Total assets	\$ 37,314,245	\$ 41,942,391

Liabilities:

Policy liabilities:

Policy benefit liabilities	\$ 3,828,507	\$ 4,201,865
Policyholder account liabilities	29,104,146	27,793,608
Policyholders' deposits	89,606	93,680
Policy claims payable	178,958	196,733
Policyholders' dividends and dividend obligations	14,655	272,472
Total policy liabilities	33,215,872	32,558,358
Amounts payable to reinsurers	15,314	36,308
Derivative liabilities	218,603	1,467,702
Other liabilities and accrued expenses	381,487	841,492
Pension and other post-retirement benefit obligations	178,173	204,234
Deferred income taxes	—	336,078
Federal income tax payable	—	6,388
Debt	916,196	915,777
Separate account liabilities	740,633	1,006,373
Total liabilities	\$ 35,666,278	\$ 37,372,710

Stockholder's equity:

Class A common stock, 2,000 shares authorized, no shares issued and outstanding	\$ —	\$ —
Class B common stock, par value of \$0.01, 1,001 shares authorized, 100 shares issued and outstanding	—	—
Preferred stock, 500 shares authorized, no shares issued and outstanding	—	—
Retained earnings	3,669,573	3,597,041
Accumulated other comprehensive (loss) income	(2,021,606)	972,640
Total stockholder's equity	\$ 1,647,967	\$ 4,569,681
Total liabilities and stockholder's equity	\$ 37,314,245	\$ 41,942,391

NLV Financial Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income
For the Three and Nine Months Ended September 30, 2022 and 2021

<i>(in thousands)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenues:				
Insurance premiums	\$ 89,733	\$ 72,969	\$ 248,624	\$ 211,355
Policy and contract charges	274,284	242,633	794,116	712,090
Commissions and fee income	15,843	17,510	50,302	50,623
Net investment income	240,032	344,393	407,538	1,237,381
Net investment (losses) gains	(50,808)	40,715	(22,041)	169,185
Other income	12,143	5,921	34,394	19,486
Total revenues	581,227	724,141	1,512,933	2,400,120
Benefits and expenses:				
Increase in policy liabilities	26,645	12,661	65,150	6,129
Policy benefits	147,486	150,677	447,636	472,565
Policyholders' dividends and dividend obligations	2,278	8,470	2,867	20,003
Interest credited to policyholder account liabilities	88,908	255,923	277,128	824,805
Operating expenses	97,494	79,364	269,753	254,652
Interest expense	16,793	16,375	50,290	49,267
Policy acquisition expenses	140,140	162,645	308,296	377,580
Total benefits and expenses	519,744	686,115	1,421,120	2,005,001
Income before income taxes	61,483	38,026	91,813	395,119
Income tax expense	12,912	7,977	19,281	82,966
Net income	\$ 48,571	\$ 30,049	\$ 72,532	\$ 312,153

NLV Financial Corporation and Subsidiaries
Consolidated Statements of Changes in Stockholder's Equity
For the Nine Months Ended September 30, 2022 and 2021

	Class A Common Stock	Class B Common Stock	Preferred Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
<i>(in thousands)</i>						
January 1, 2021	\$ —	\$ —	\$ —	\$ 3,204,917	\$ 1,223,417	\$ 4,428,334
Net income	—	—	—	312,153	—	312,153
Change in unrealized losses on available-for-sale securities, net	—	—	—	—	(249,564)	(249,564)
Change in cash flow hedge on debt issuance, net	—	—	—	—	31	31
Change in additional minimum pension liability, net	—	—	—	—	6,227	6,227
Total comprehensive income	—	—	—	—	68,847	68,847
September 30, 2021	\$ —	\$ —	\$ —	\$ 3,517,070	\$ 980,111	\$ 4,497,181
January 1, 2022	\$ —	\$ —	\$ —	\$ 3,597,041	\$ 972,640	\$ 4,569,681
Net income	—	—	—	72,532	—	72,532
Change in unrealized losses on available-for-sale securities, net	—	—	—	—	(2,999,656)	(2,999,656)
Change in cash flow hedge on debt issuance, net	—	—	—	—	31	31
Change in additional minimum pension liability, net	—	—	—	—	5,379	5,379
Total comprehensive loss	—	—	—	—	(2,921,714)	(2,921,714)
September 30, 2022	\$ —	\$ —	\$ —	\$ 3,669,573	\$ (2,021,606)	\$ 1,647,967

NLV Financial Corporation and Subsidiaries
Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2022 and 2021

<i>(in thousands)</i>	For the Nine Months Ended September 30,	
	2022	2021
Cash flows from operating activities:		
Net income	\$ 72,532	\$ 312,153
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for deferred income taxes	(1,290)	52,937
Interest credited to policyholder account liabilities	277,128	824,805
Amortization of deferred policy acquisition costs	164,117	246,644
Policy and contract charges	(794,116)	(712,090)
Net investment gains	22,041	(169,185)
Change in fair value of derivatives	636,004	(203,296)
Change in corporate owned life insurance policies	(21,094)	(22,223)
Depreciation	25,173	27,170
Other	2,197	(28,342)
Changes in assets and liabilities:	—	
Accrued investment income	(42,174)	(23,717)
Deferred policy acquisition costs	(511,177)	(480,475)
Policy liabilities	213,522	160,214
Other assets and liabilities	(146,495)	(1,120)
Net cash used in operating activities	<u>(103,632)</u>	<u>(16,525)</u>
Cash flows from investing activities:		
Proceeds from sales, maturities and repayments of investments	1,980,358	3,394,990
Cost of investments acquired	(3,524,850)	(4,979,792)
Property and equipment additions	(18,077)	(20,301)
Change in policy loans	(63,262)	1,549
Change in short term investments	(60,310)	156,201
Change in short term broker collateral	(424,893)	(54,836)
Other	57,968	21,262
Net cash used in investing activities	<u>(2,053,066)</u>	<u>(1,480,927)</u>
Cash flows from financing activities:		
Policyholders' deposits	2,883,685	2,673,823
Policyholders' withdrawals	(1,294,708)	(1,278,018)
Advances from Federal Home Loan Banks	519,278	873,444
Repayments to Federal Home Loan Banks	(467,141)	(849,503)
Change in other deposits	4,842	18,458
Net cash provided by financing activities	<u>1,645,956</u>	<u>1,438,204</u>
Net decrease in cash	(510,742)	(59,248)
Cash and restricted cash:		
Beginning of year	640,397	648,476
End of year	<u>\$ 129,655</u>	<u>\$ 589,228</u>