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 principal insurance product lines include whole life, term life, universal life, indexed universal life, variable universal life, fixed annuities, indexed annuities, and variable annuities. The Company also offers mutual funds and investment brokerage services.

In 1999, National Life Insurance Company ("NLIC") reorganized from a mutual to a stock insurance company as part of a reorganization into a mutual insurance holding company structure in order, among other things, to compete more effectively, have a more flexible and cost-effective capital structure, and be part of an enterprise which is better positioned to make strategic acquisitions. Concurrent with the reorganization into a mutual insurance holding company structure, NLIC created a Closed Block of life insurance and annuity policies to provide reasonable assurance to owners of policies in the Closed Block that assets will be available to provide for the continuation of dividend payments following the reorganization. National Life Holding Company, a Vermont mutual insurance holding company, owns 100% of the outstanding common stock of NLVF, an intermediate stock insurance holding company incorporated under the laws of the state of Delaware. NLVF directly owns 100% of the outstanding common stock of NLIC, Sentinel Asset Management, Inc. ("Sentinel Investments"), Equity Services, Inc. ("ESI"), and certain other subsidiaries, and indirectly owns 100% of the outstanding common stock of Life Insurance Company of the Southwest ("LSW"), which is wholly owned by NLIC.

As of December 31, 2014, the Company had $31.4 billion of assets under management and served in excess of 796,000 customers. Of these totals, about $20.8 billion was attributable to life insurance policy and annuity contract values under management with more than 680,000 policy and contract holders. Approximately $7.1 billion was attributable to mutual fund and other client-managed assets representing approximately 116,000 customers. The remainder is attributable to the corporate segment, including fair value for the investment portfolio, the disability income business, and Company-sponsored pension plans.

Distribution

Our target market is small business owners, professionals and middle to upper income individuals, including a strong presence in the 403(b) qualified tax deferred retirement savings market, with a particular emphasis on the K-12 teacher segment of the market. Our middle market strategy includes individuals, small business owners, and the multicultural market and leverages our Living Benefit riders. The Company markets and distributes its products throughout the United States through three principal channels: Career, Affiliated Independent, and Sentinel Investments.

- ***Career:*** The Career channel consists of approximately 2,200 agents and general agents who specialize in selling products to the middle and emerging affluent markets, professionals, business owners and other affluent individuals for financial and business planning purposes.

- ***Affiliated Independent:*** The Affiliated Independent channel consists of approximately 16,700 agents. While the agents have access to all products, approximately 5,800 of the agents primarily sell life insurance and annuity products with an emphasis on the 403(b) qualified tax deferred retirement savings market for individuals employed by public schools. All other agents primarily offer life insurance, annuity, and mutual fund products to the middle and emerging affluent markets, for purposes of providing for the financial consequences of specific life events, such as death, retirement, college funding, and chronic or long term illness.

- ***Sentinel Investments:*** Sentinel Investments consists of wholesale mutual fund distribution through wire-houses and independent financial advisors; mutual fund and sub-advisory investment management services provided to institutional, investment-only retirement, registered investment advisory, and bank trust channels; and investment advisory services provided to the Company's other subsidiaries.

Overview of Financial Results

The following discussion provides an overview of the consolidated financial position and results of operations of the Company for the years ended December 31, 2014 and 2013, and, where applicable, factors that may affect the Company's future financial performance. This discussion and analysis is based on, should be read in conjunction with, and is qualified in its entirety by reference to, the Company's consolidated financial statements as of December 31, 2014 and 2013 and for each of the years in the three-year period ended December 31, 2014, which have been audited by PricewaterhouseCoopers LLP. This discussion provides a general overview of, and is not intended to provide a detailed analysis of, the operations, financial results or financial condition of the Company. The Company's consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Our fixed indexed life and annuity products may experience significant period to period income statement volatility due to changes in external market-related factors that are not aligned with the long-term results of these products. In addition to net income, we use core earnings and pre-tax operating income, both non-GAAP financial measures, to evaluate our financial performance. Pre-tax operating income equals net income before taxes and net realized investment gains (losses) on investments. Core earnings equal pre-tax operating income before changes in the fair value of derivatives and embedded derivatives. Because these items fluctuate from period to period in a manner unrelated to core operations, we believe measures excluding their impact are useful in analyzing operating trends. We believe the combined presentation and discussion of pre-tax operating income and core earnings, together with net income, provides information that will enhance readers' understanding of our underlying results, operating trends and profitability.

In 2014, the Company adopted *ASU 2014-01: Accounting for Investments in Qualified Affordable Housing Projects*. Under this guidance, companies who qualify to elect proportional amortization can recognize the amortization of their investments as a component of income tax expense. The Company's investments in affordable housing projects are included in other invested assets and are amortized using the proportional method within income tax expense in accordance with the adopted guidance. The associated tax credits are also included as a component of income tax expense. As a result of the adoption of this guidance, the Company recognized a $2.7 million opening balance adjustment to retained earnings in 2012. The impact to all other years presented was minimal. All prior year amounts reflected in this discussion have been adjusted to reflect the retrospective application required by the accounting standard.

RESULTS OF OPERATIONS

The following tables present the Company's summary consolidated financial and other data for the years ended December 31, 2014, and 2013. The selected consolidated financial data has been derived from the Company's consolidated financial statements.

Core earnings increased $16.0 million, or 9.0%, to $193.8 million in 2014 from $177.8 million in 2013. Net income increased $1.9 million to $144.3 million in 2014 from $142.4 million in 2013. The increase in both core earnings and net income was driven by continued growth of the indexed products due to strong sales and increased investment income due to growth of the asset base and additional bond prepayments. These increases in income are partially offset by an increase in operating expenses due to investments in people and technology to support the growth in business. The Company recognized $13.8 million in other-than-temporary impairments for the year ended December 31, 2014 compared to $24.1 million for the year ended December 31, 2013. Included in net income are the positive market related impacts on our product related embedded derivatives of $12.3 million and $25.9 million in 2014 and 2013, respectively.

	For the Year Ended December 31,	
	2014	**2013**
		(as adjusted)
	(In thousands)	
Income Statement Data		
Revenues:		
Insurance premiums	**$ 231,629**	$ 256,567
Policy and contract charges	**396,358**	346,338
Mutual fund commissions, fees and other income	**122,680**	125,033
Net investment income	**986,481**	963,117
Change in value of trading equity securities	**(1,029)**	2,360
Total revenues	**1,736,119**	1,693,415
Benefits and expenses:		
Policy reserves	**$ (50,994)**	$ (11,834)
Policy benefits	**512,671**	457,809
Policyholders' dividends and dividend obligations	**61,453**	79,424
Interest credited to policyholder account liabilities	**396,616**	435,188
Operating expenses	**264,332**	243,260
Interest expense	**41,434**	41,610
Policy acquisition expenses and amortization of present present value of future profits, net	**316,819**	270,173
Total benefits and expenses	**1,542,331**	1,515,630
Core Earnings	**$ 193,788**	$ 177,785

Insurance Premiums

Insurance premiums include premiums from whole and term life insurance and disability income. Total insurance premiums for 2014 were $231.6 million as compared to $256.6 million in 2013. This decrease in premium income is primarily due to lower paid-up premiums and renewal premiums on traditional life products within the Closed Block. The decline in the paid-up premiums is due to the change in the dividend scale in 2013, which equates to a lower dividend and therefore lower paid up additions in 2014. The decrease in renewal premiums is consistent with expectations of declining experience in the Closed Block as it continues to mature and the shift in our mix of business as noted by the increase in Policy and Contract Charges noted below.

Policy and Contract Charges

Policy and contract charges for indexed, fixed, and variable universal life and annuity policies consist of costs of insurance, expense loads, surrender charges and other related fees. Policy and contract charges increased $50.0 million, or 14.4%, to $396.4 million in 2014 from $346.3 million in 2013. The increase is driven by an increase in overall policies in-force due to strong sales of indexed universal life products which increased 27.6% over prior year-to-date, and an increase in Guaranteed Lifetime Income Rider (GLIR) charges related to growth of in-force business.

Mutual Fund Commissions, Fees and Other Income

Mutual fund commissions consist of dealer concessions earned by the Company's affiliated broker-dealers, Equity Services, Inc. and Sentinel Financial Services Company. Mutual fund fees consist primarily of mutual fund administration and asset management fees earned by the Company's affiliated investment advisors, Sentinel Administrative Services, Inc. and Sentinel Asset Management, Inc. Revenues from mutual fund commissions, fees and other income decreased $2.4 million, or 1.9%, to $122.7 million in 2014 as compared with $125.0 million in 2013. This decrease is primarily related to a decline in assets under management from redemptions in certain funds and lower sales.

Net Investment Income

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

	For the Year Ended December 31,	
	2014	**2013**
		(as adjusted)
Net Investment Income	**(In thousands)**	
Debt securities interest	**$ 805,164**	$ 766,757
Equity securities dividends	**4,432**	5,329
Mortgage loan interest	**125,904**	130,576
Policy loan interest	**40,886**	40,010
Real estate income	**8,525**	6,750
Partnership distributions	**24,594**	22,556
Other investment income	**195**	47
Gross investment income	**1,009,700**	972,025
Less: investment expenses	**(23,219)**	(20,960)
Less: change in valuation allowance on mortgage loans	**-**	12,052
Net investment income	**$ 986,481**	$ 963,117

Net investment income includes income earned on our investment portfolio including interest income on bonds, mortgage loans, contract loans and short term investments along with bond premium/discount amortization, dividends on preferred and common stock and partnership income. Net investment income increased $23.4 million, or 2.4%, to $986.5 million in 2014 from $963.1 million in 2013. The increase was driven by an increase in the size of the bond portfolio driven by the overall growth of our inforce business and an increase in bond prepayments to $30.3 million, which was $17.0 million higher than in 2013.

Policy Reserves

Policy reserves reflect the impact of changes in the product liability reserves for life insurance, disability income insurance and the additional reserves held on certain annuities. The change in policy reserves decreased $39.2 million to $(51.0) million in 2014 as compared with $(11.8) million in 2013. This decrease is the result of the impact of the annual actuarial assumption review and poor mortality experience in the Closed Block.

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 increased $54.9 million, or 12.0%, to $512.7 million in 2014 as compared with $457.8 million in 2013. The increase is the result of the impact of the annual actuarial assumption review and unfavorable mortality experience in the Closed Block.

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") arising from the Closed Block. Dividends are based on a scale that seeks to reflect the relative contribution of each group of policies to the Company's overall operating results. The Closed Block dividend scales are approved annually by National Life Insurance Company's Board of Directors. The total policyholder dividend expense decreased $18.0 million, or 22.6%, to $61.5 million in 2014 compared to $79.4 million in 2013. This decrease was the result of a full review performed at December 31, 2013 that more closely aligned the dividends with the recent performance of the Closed Block.

Interest Credited to Policyholder Account Liabilities

Interest credited to policyholder account liabilities consists of interest credited to universal life insurance, fixed deferred annuities and indexed products. Interest credited decreased $38.6 million to $396.6 million in 2014 from $435.2 million in 2013. The decrease is due to favorable actuarial assumption changes coupled with a lower crediting rate on our indexed products, reflecting the lower interest rates in 2014.

Operating Expenses

Operating expenses consist primarily of administrative and maintenance expenses related to servicing the business and overhead needs of the Company's operations. Operating expenses increased $21.1 million, or 8.7%, to $264.3 million in 2014 from $243.3 million in 2013. The increase is attributed to certain information technology expenses related to improving technology infrastructure and increased costs to support the growth in sales.

Interest Expense

Interest expense consists of interest paid on the Company's surplus notes and senior notes. Interest expense remained relatively constant and totaled $41.4 million in 2014 and $41.6 million in 2013.

Policy Acquisition Expenses and Amortization of Present Value of Future Profits, Net

Policy acquisition expenses include commissions and other costs that are directly related to the successful acquisition of new or renewal business. Policy acquisition expenses are net of amounts deferred on life and annuity sales and include the amortization of amounts previously deferred. Policy acquisition expenses increased $46.6 million, or 17.3%, to $316.8 million in 2014 as compared with $270.2 million in 2013. The increase is related to an increase in amortization associated with our indexed products and higher non-deferrable expenses as overall sales are higher than prior year to date, partially offset by the annual unlocking of our actuarial assumptions.

Net Income Reconciliation

A reconciliation of net income to pre-tax operating income and core earnings is as follows:

	For the Year Ended December 31, 2014	2013 *(as adjusted)*
	(In thousands)	
Net Income	**$ 144,318**	$ 142,445
Net realized losses, net of policy acquisition, policyholder dividend obligation, and income tax effects	**(31)**	2,867
Income tax on operations	**61,850**	58,324
Pre-Tax Operating Income	**$ 206,137**	$ 203,636
Net effect of derivatives, embedded derivatives, and other market effects	**(12,349)**	(25,851)
Core Earnings	**$ 193,788**	$ 177,785

Net Realized Investment Gains (Losses), Net of Offsets

Net realized gains were $0.0 million in 2014 compared to net losses of $(2.9) million in 2013. The increase is primarily due to a rebalancing of our portfolio within the Closed Block which resulted in $21.9 million of net gains with an offsetting adjustment to the policyholder dividend obligation.

	For the Year Ended December 31,	
	2014	**2013**
	(In thousands)	
Debt securities	**$ 25,878**	$ 5,248
Equity securities	**12,046**	5,109
Mortgage loans	**(1,481)**	(5,598)
Partnerships	**(5,332)**	(3,595)
Other invested assets	**(1,452)**	(1,478)
Real estate	**1,170**	(4,429)
Property and equipment	**(6,144)**	-
Net realized investment gains (losses)	**$ 24,685**	$ (4,743)
DAC amortization	**(2,134)**	331
Interest credited	**(544)**	-
Policyholder dividend obligation	**(21,960)**	-
Income taxes	**(16)**	1,545
Net realized gains (losses), net of offsets	**$ 31**	$ (2,867)

Income Tax on Operations

Income tax on operations is the federal income tax expense less any taxes for net realized investment gains (losses). The federal income tax expense for 2014 was $61.9 million, which represents an effective tax rate of 30.0% compared to $56.8 million in 2013 with an effective tax rate of 28.1%. The Company's effective tax rate is less than the nominal income tax rate of 35% primarily due to credits generated from investments in qualified affordable housing projects, non-taxable earnings related to the Company's corporate-owned life insurance investments, and the dividends received deduction.

Net Effect of Derivatives, Embedded Derivatives, and Other Market Effects

Net effect of derivatives, embedded derivatives, and other market effects was $12.3 million in 2014 compared to $25.9 million in 2013. Changes are due to the impact from the change in the interest rates that influence the values of the embedded derivatives and related options.

SUMMARY OF FINANCIAL POSITION

The following table provides a summary of balance sheet data:

	As of December 31, 2014	As of December 31, 2013 *as adjusted*
	(In thousands)	
Balance Sheet Data		
Cash and investments	**$ 21,832,562**	$ 20,560,056
Other general account assets	**1,813,395**	1,757,825
Separate account assets	**771,669**	774,181
Total assets	**$ 24,417,626**	$ 23,092,062
Total liabilities	**$ 22,013,851**	$ 20,839,924
Retained earnings	**2,134,584**	1,990,266
Accumulated other comprehensive income	**269,191**	261,872
Total stockholder’s equity	**2,403,775**	2,252,138
Total liabilities and stockholder’s equity	**$ 24,417,626**	$ 23,092,062

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

	For the Year Ended December 31, 2014	For the Year Ended December 31, 2013
	(In thousands)	
Cash Flow Data		
Net cash provided by operating activities	**$ 59,852**	$ 163,300
Net cash used in investing activities	**(965,834)**	(592,437)
Net cash provided by financing activities	**839,363**	565,541
Net Increase (Decrease) in Cash	**$ (66,619)**	$ 136,404

	As of December 31, 2014	As of December 31, 2013	Change
	(In thousands)		
Other Selected Data			
Life insurance in force (before reinsurance ceded)	**$ 83,211,224**	$ 74,975,900	$ 8,235,324
Total assets under management	**$ 31,411,000**	$ 30,393,000	$ 1,018,000
<u>Weighted New Annualized Premium (WNAP)</u>			
Life	**$ 171,746**	$ 151,070	$ 20,676
Annuity	**193,047**	181,085	11,962
Mutual Funds	**127,882**	111,896	15,986
Total WNAP	**$ 492,675**	$ 444,051	$ 48,624

CRITICAL ACCOUNTING ESTIMATES

The preparation of U.S. GAAP financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant areas of management's judgment include:

- actuarial assumptions affecting policyholder reserves and estimated gross profits;
- policy liabilities;
- valuation of derivatives;
- valuation of mortgages;
- pension and other postretirement employee benefits;
- evaluation of other-than-temporary impairments;
- goodwill and intangibles impairment; and
- federal income taxes.

Certain of these estimates are particularly sensitive to market conditions, and deterioration and/or volatility in the debt or equity markets could have a material impact on the consolidated financial statements.

Actuarial Assumptions Affecting Policyholder Reserves and Estimated Gross Profits

Commissions and other costs that are directly related to the successful acquisition of new or renewal insurance contracts are generally deferred. Deferred policy acquisition costs ("DAC") for participating life insurance, universal life insurance, and annuities are amortized in relation to estimated gross profits. Amortization is adjusted retrospectively for actual experience and when estimates of future gross profits are revised. Future gross profits may be revised due to changes in projected investment rates, mortality assumptions, expenses, contract lapses, withdrawals, and surrenders. Deferred policy acquisition costs for these products are adjusted for related unrealized gains (losses) on available-for-sale debt and equity securities (after deducting any related policyholder dividend obligations) through Other Comprehensive Income, net of related deferred income taxes.

DAC for non-participating term and whole life insurance and participating single-payment and limited-payment life insurance is amortized in relation to premium income using assumptions consistent with those used in computing policy benefit liabilities.

Annually, the Company reviews long-term assumptions underlying the projections of estimated gross profits and its calculation of the recoverability of DAC balances. These assumptions include investment returns, policyholder dividend scales, interest crediting rates, mortality, persistency, and administrative expenses.

Policy Liabilities

Policy benefit liabilities for participating life insurance are developed using the net level premium method, with interest and mortality assumptions used in calculating policy cash surrender values. Participating life insurance terminal dividend reserves are accrued in relation to gross profits, and are included in policy benefit liabilities. The average investment yield used in estimating gross profits for participating contracts was 5.08% % and 5.35% as of December 31, 2014 and 2013, respectively.

Policy benefit liabilities for non-participating life insurance, disability income, and certain annuities are developed using the net level premium method with assumptions for interest, mortality, morbidity, and voluntary terminations. In addition, disability income policy benefit liabilities include provisions for future claim administration expenses.

Policyholder account liabilities for non-indexed life insurance (universal life products) and investment-type annuities represent amounts that inure to the benefit of the policyholders before surrender charges. Policyholder account balances for indexed life insurance and annuity liabilities consist of a combination of underlying account value and embedded derivative values. The underlying account value is primarily based on the initial deposit plus any interest credited. The embedded derivative component is based on the fair value of the contract's expected participation in future increases in the S&P 500, Russell 2000 or MSCI Emerging Markets indices. The fair value of the embedded derivative component includes assumptions about future interest rates and interest rate structures, future costs for options used to hedge the contract obligations, the level and limits on contract participation in any future increases in the S&P 500, Russell 2000, or MSCI Emerging Markets indexes, and an explicit risk margin for variance of policyholder behavior along with the associated impact the Company's own credit rating would have in the view of a market participant.

Valuation of Derivatives

Derivatives include long options, short options, swaptions, interest rate swaps, and futures contracts which are carried at fair value. The fair value of derivatives is based on publicly available data. When that data is not available, the Company uses independent broker pricing quotes or valuation models. Changes in fair value are reflected in the Consolidated Statements of Comprehensive Income as a component of net investment income.

Valuation of Mortgages

Mortgage loans on real estate are carried at amortized cost less a valuation allowance for probable losses on unidentified loans. The evaluation and assessment of the adequacy of the provision for losses and the need for mortgage impairments is based on known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the value of the underlying collateral, composition of the loan portfolio, current economic conditions, loss experience, and other relevant factors. These assumptions require the use of significant management judgment and include the probability and timing of borrower default as well as loss frequency and severity estimates. Changes in the valuation allowance are recognized through net investment income.

For mortgage loans that are deemed impaired, an impairment loss is recognized through realized gains and losses as the difference between the carrying amount and the Company's share of either (a) the present value of the expected future cash flows discounted at the loan's original effective interest rate, (b) the loan's observable market price, or (c) the fair value of the collateral. Interest income on an impaired loan is accrued to the extent it is deemed collectable and the loan continues to perform under its original or restructured terms. Interest income on defaulted loans is recognized when received.

Mortgage loans and related valuation allowances at December 31 were as follows:

	As of December 31,	
	2014	**2013**
	(In thousands)	
Commercial loans	**$ 2,337,961**	$ 2,271,603
Related valuation allowances	**(1,566)**	(2,504)
Impaired loans	**(4,797)**	(7,966)
Market value adjustment on hedge	**151**	-
Total	**$ 2,331,749**	$ 2,261,133

Pension and Other Postretirement Employee Benefits

The Company sponsors a qualified defined benefit pension plan covering substantially all employees. The plan is non-contributory, with benefits for NLIC employees hired prior to July 1, 2001, based on an employee's retirement age, years of service, and compensation near retirement. Benefits for NLIC employees hired after June 30, 2001, and other Company employees are based on the amount credited to the employee's account each year, which is a factor of the employee's age, service, and compensation, increased at a specified rate of interest. The Company also sponsors a frozen non-contributory qualified defined benefit plan that provided benefits to employees in the Career channel general agencies. The Plan was amended effective January 1, 2004 to freeze plan benefits. No new participants were admitted to the Plan after December 31, 2003, and there were no increases in benefits after December 31, 2003 for existing participants. These pension plans are separately funded. Plan assets are primarily bonds and common stocks held in a Company separate account and funds invested in a group variable annuity contract held in the general account of NLIC. None of the securities held in the Company's separate account were issued by the Company, but some investments are advised by an affiliate.

The Company also sponsors other pension plans, including a non-contributory defined benefit plan for NLIC career general agents contracted prior to July 1, 2001 that provides benefits based on years of service and sales levels and a non-contributory defined supplemental benefit plan for certain executives. These defined benefit pension plans are non-qualified and are not separately funded.

The Company sponsors defined benefit post-retirement plans that provide medical and life insurance benefits to certain retired employees, agency staff, agents and general agents. Spouses and dependents of participants generally qualify for the medical coverage and dental plans. Substantially all employees who began service prior to July 1, 2001 may be eligible for medical and life insurance retiree benefits if they are employed until retirement age and meet certain minimum service requirements while working for the Company. Substantially all employees beginning service prior to January 1, 2005 may be eligible for life insurance retiree benefits if they reach retirement age and meet certain minimum service requirements while working for the Company.

Evaluation of Other-Than-Temporary Impairments

The evaluation of securities for impairment is a quantitative and qualitative process, which is subject to risks and uncertainties and is intended to determine whether declines in fair value of investments should be recognized in current period earnings and whether the securities are other-than-temporarily impaired ("OTTI"). The risks and uncertainties include changes in general economic conditions, the issuer's financial condition and/or future prospects, the effects of changes in interest rates or credit spreads and the expected recovery period. The Company has a security monitoring process overseen by investment and accounting professionals that identifies securities, using certain quantitative and qualitative characteristics, which could be potentially impaired. These identified securities are subjected to an enhanced analysis to determine if the impairments are other-than-temporary.

Goodwill and Intangibles Impairment

Goodwill and other intangible assets with indefinite useful lives are reviewed for impairment in accordance with FASB ASC 350, *Intangibles – Goodwill and Other* on an annual basis, or more frequently if circumstances indicate that a possible impairment has occurred. The assessment for impairment begins with a qualitative determination of factors that could indicate that an impairment is more likely than not to exist. If it is determined that an impairment is more likely than not to exist, then a quantitative assessment is completed. The quantitative impairment testing is performed using the fair value approach, which requires the use of estimates and judgment, at the reporting unit or intangible asset level. The determination of a reporting unit's fair value is based on management's best estimate, which generally considers a discounted cash flow analysis as well as market-based earnings and revenue multiples of the unit's peer companies. If the carrying value of a reporting unit or intangible asset exceeds its fair value, an impairment is recognized as a charge against income equal to the excess of the carrying value of goodwill or intangible asset over its fair value. The goodwill and intangible balances represent the Company's acquisition of partnership interests and other mutual funds to enhance its asset management business. In 2014 and 2013, there were no impairments or other reductions recorded.

Federal Income Taxes

The Company files a consolidated tax return. Current federal income taxes are charged or credited to operations based upon amounts estimated to be payable or recoverable as a result of taxable operations for the current year. Deferred income tax assets and liabilities are recognized based on temporary differences between financial statement carrying amounts and income tax bases of assets and liabilities using enacted income tax rates and laws.

STATUTORY INFORMATION

Statutory income and surplus amounts may increase or decrease in any period depending upon a variety of factors, and may be compounded in extreme scenarios or if multiple factors occur at the same time.

The table below sets forth statutory income and statutory surplus for NLIC and LSW. The statutory surplus amount as of December 31, 2014 and December 31, 2013 in the table below are based on actual statutory filings with the applicable U.S. regulatory authorities.

National Life Insurance Company

	Net Income	Surplus
2014	**$19.1 million**	**$1,541.2 million**
2013	$88.5 million	$1,413.1 million

Life Insurance Company of the Southwest

	Net Income	Surplus
2014	**$105.6 million**	**$779.0 million**
2013	$142.5 million	$720.2 million

The following table summarizes the Company’s financial ratings from the major independent rating organizations:

A.M. Best	Standard & Poor’s	Moody’s
A (Excellent)	A (Strong)	A2 (Good)

These ratings are not a recommendation to buy or hold any of the Company’s debt securities, and they may be revised or revoked at any time at the sole discretion of the rating organization.

PROSPECTIVE INFORMATION

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

- Difficult conditions in the global capital markets and the economy;
- Significant market valuation fluctuations of the Company’s investments, including some that are relatively illiquid;
- Subjectivity in determining the amount of allowances and impairments taken on certain Company investments;
- Defaults on commercial mortgages held by the Company;
- Exposure to mortgage-backed securities;
- Impairments of other institutions;
- Changes in interest rates;
- Effectiveness of the Company’s hedging strategies;

- Impact of economic conditions on customers and vendors;
- Downgrades or potential downgrades in the Company's ratings;
- Changes in accounting rules;
- Adverse regulatory and legislative developments;
- Litigation and regulatory investigations;
- Effectiveness of the Company's risk management policies and procedures;
- Availability of reinsurance;
- Failure of counterparties to perform under reinsurance agreements and other contracts with the Company;
- Significant competition in the Company's businesses;
- Sensitivity of the amount of statutory capital the Company must hold to factors outside of the Company's control;
- Adequacy of the Company's reserves for future policy benefits and claims;
- Deviations from assumptions regarding future mortality, morbidity, and interest rates used in calculating reserve amounts and pricing the Company's products;
- Ability to attract and retain career agents, independent agents and key personnel;
- Ability to raise additional capital;
- Costs related to future pension obligations;
- Impact of international tension between the United States and other nations, terrorist attacks and ongoing military and other actions;
- Pandemics or other catastrophic events; and
- A computer system failure or security breach.

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

Our goals over the next several years are to grow and improve our life insurance, annuity, and asset management businesses by continuing responsible growth in life insurance and flow annuity business and to improve the efficiency and effectiveness of the overall organization. The Company will drive production by continuing to deliver new and innovative products and riders. We will also continue to seek efficiencies throughout our operations and invest in our technology infrastructure to improve services for our business, producers, customers, and employees.

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

Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements of NLVF have been prepared in conformity with U.S. GAAP. 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. As a result, these financial statements should be read in conjunction with the related footnotes. Actual results could differ 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 December 31,

(in thousands)	2014	2013
Assets:		*(as adjusted)*
Cash and investments:		
Available-for-sale debt securities	**$ 16,879,781**	$ 15,469,157
Available-for-sale equity securities	**43,638**	90,534
Trading equity securities	**14,890**	18,860
Mortgage loans	**2,331,749**	2,261,133
Policy loans	**808,598**	786,971
Real estate investments	**54,041**	46,839
Derivatives	**677,169**	874,586
Other invested assets	**493,924**	341,605
Short term investments	**270,320**	345,300
Cash and restricted cash	**258,452**	325,071
Total cash and investments	**21,832,562**	20,560,056
Deferred policy acquisition costs	**951,160**	927,742
Accrued investment income	**184,877**	177,539
Premiums and fees receivable	**19,422**	21,889
Federal income tax recoverable	**12,863**	6,682
Amounts recoverable from reinsurers	**126,013**	135,780
Present value of future profits of insurance acquired	**13,236**	17,163
Property and equipment, net	**144,304**	119,608
Corporate owned life insurance	**245,025**	236,326
Other assets	**116,495**	115,096
Separate account assets	**771,669**	774,181
Total assets	**$ 24,417,626**	$ 23,092,062
Liabilities:		
Policy liabilities:		
Policy benefit liabilities	**$ 4,572,292**	$ 4,598,741
Policyholder account liabilities	**14,358,653**	13,246,553
Policyholders' deposits	**82,482**	73,198
Policy claims payable	**61,405**	72,329
Policyholders' dividends	**246,145**	170,893
Total policy liabilities	**19,320,977**	18,161,714
Amounts payable to reinsurers	**38,853**	22,376
Derivatives	**358,905**	529,695
Other liabilities and accrued expenses	**551,343**	494,062
Pension and other post-retirement benefit obligations	**252,801**	164,160
Deferred income taxes	**251,922**	205,769
Debt	**467,381**	487,967
Separate account liabilities	**771,669**	774,181
Total liabilities	**$ 22,013,851**	$ 20,839,924
Stockholder's Equity:		
Class A common stock, 2,000 shares authorized, no shares issued and outstanding	**$ -**	$ -
Class B common stock, par value of $0.01, 1,001 shares authorized, 100 shares issued and outstanding	**-**	-
Preferred stock, 500 shares authorized, no shares issued and outstanding	**-**	-
Retained earnings	**2,134,584**	1,990,266
Accumulated other comprehensive income	**269,191**	261,872
Total stockholder's equity	**$ 2,403,775**	$ 2,252,138
Total liabilities and stockholder's equity	**$ 24,417,626**	$ 23,092,062

NLV Financial Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income
For the Years Ended December 31,

(in thousands)	2014	2013	2012
		(as adjusted)	*(as adjusted)*
Revenues:			
Insurance premiums	**$ 231,629**	$ 256,567	$ 276,743
Policy and contract charges	**396,358**	346,338	305,657
Mutual fund commissions and fee income	**107,321**	109,839	121,545
Net investment income	**1,186,100**	1,297,458	1,057,376
Net realized investment gains (losses)	**24,685**	(4,743)	(7,312)
Change in value of trading equity securities	**(1,029)**	2,360	730
Other income	**15,359**	15,194	16,937
Total revenues	**1,960,423**	2,023,013	1,771,676
Benefits and Expenses:			
Increase (decrease) in policy liabilities	**(50,994)**	(11,834)	32,447
Policy benefits	**512,671**	457,809	410,064
Policyholders' dividends and dividend obligations	**83,413**	79,424	94,980
Interest credited to policyholder account liabilities	**564,687**	743,522	492,962
Operating expenses	**264,332**	243,260	219,122
Interest expense	**41,434**	41,610	41,702
Policy acquisition expenses and amortization of present value of future profits, net	**338,696**	269,997	307,405
Total benefits and expenses	**1,754,239**	1,823,788	1,598,682
Income before income taxes	**206,184**	199,225	172,994
Income tax expense	**61,866**	56,780	48,393
Net income	**$ 144,318**	$ 142,445	$ 124,601
Other comprehensive income, net of tax:			
Unrealized gains (losses) on available-for-sale securities	**83,362**	(267,301)	200,237
Cash flow hedge on debt issuance	**34**	34	34
Change in funded status of retirement plans	**(76,077)**	35,466	(13,504)
Total other comprehensive income	**7,319**	(231,801)	186,767
Comprehensive income	**$ 151,637**	$ (89,356)	$ 311,368

NLV Financial Corporation and Subsidiaries
Consolidated Statements of Changes in Stockholder's Equity
For the Years Ended December 31,

	Class A Common Stock	Class B Common Stock	Preferred Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
(in thousands)						
January 1, 2012 *(as originally reported)*	$ -	$ -	$ -	$ 1,725,875	$ 306,906	$ 2,032,781
Effect of retrospective implementation of *ASU 2014-01* , for more information see Note 3	-	-	-	(2,655)	-	(2,655)
January 1, 2012 *(as adjusted)*	-	-	-	1,723,220	306,906	2,030,126
Net income	-	-	-	124,601	-	124,601
Other comprehensive income	-	-	-	-	186,767	186,767
Total comprehensive income						311,368
December 31, 2012	-	-	-	1,847,821	493,673	2,341,494
Net income	-	-	-	142,445	–	142,445
Other comprehensive income	-	-	-	–	(231,801)	(231,801)
Total comprehensive income						(89,356)
December 31, 2013	**-**	**-**	**-**	**1,990,266**	**261,872**	**2,252,138**
Net income	-	-	-	**144,318**	**-**	**144,318**
Other comprehensive income	-	-	-	**-**	**7,319**	**7,319**
Total comprehensive income						**151,637**
December 31, 2014	**$ -**	**$ -**	**$ -**	**$ 2,134,584**	**$ 269,191**	**$ 2,403,775**

NLV Financial Corporation and Subsidiaries
Consolidated Statements of Cash Flows
For the Years Ended December 31,

(in thousands)	**2014**	2013	2012
Cash Flows from Operating Activities:			
Net income	**$ 144,318**	$ 142,445	$ 124,601
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for deferred income taxes	**42,057**	35,770	20,837
Interest credited to policyholder account liabilities	**564,687**	743,522	492,962
Amortization of deferred policy acquisition costs	**235,482**	170,741	213,162
Policy and contract charges	**(396,358)**	(346,338)	(305,657)
Net realized investment (gains) losses	**(24,685)**	4,743	7,312
Net option gains	**(199,619)**	(334,341)	(113,333)
Change on corporate owned life insurance policies	**(8,700)**	(8,632)	(9,331)
Amortization of present value of future profits of insurance acquired	**3,928**	4,416	4,910
Depreciation	**19,996**	14,108	13,034
Other	**(10,229)**	6,220	(1,468)
Changes in assets and liabilities:			
Accrued investment income	**(7,338)**	351	(5,173)
Deferred policy acquisition costs	**(313,010)**	(259,080)	(240,045)
Policy liabilities	**51,488**	1,399	44,815
Other assets and liabilities	**(42,165)**	(12,024)	667
Net cash provided by operating activities	**59,852**	163,300	247,293
Cash Flows from Investing Activities:			
Proceeds from sales, maturities and repayments of investments	**2,805,312**	2,326,530	2,169,532
Cost of investments acquired	**(3,715,105)**	(2,951,453)	(3,101,806)
Property and equipment additions	**(47,585)**	(41,051)	(34,261)
Change in policy loans	**(21,627)**	(19,641)	(17,720)
Change in short term investments	**74,980**	(62,429)	(91,996)
Change in short term broker collateral	**(75,790)**	155,903	49,630
Other	**13,981**	(296)	(1,371)
Net cash used by investing activities	**(965,834)**	(592,437)	(1,027,992)
Cash Flows from Financing Activities:			
Policyholders' deposits	**1,825,595**	1,565,731	1,600,019
Policyholders' withdrawals	**(1,011,044)**	(972,223)	(851,954)
Advance from Federal Home Loan Bank	**50,000**	-	-
Debt retirement	**(20,587)**	-	-
Change in other deposits	**(4,601)**	(27,967)	22,997
Net cash provided by financing activities	**839,363**	565,541	771,062
Net Decrease in Cash	**(66,619)**	136,404	(9,637)
Cash and Restricted Cash:			
Beginning of year	**325,071**	188,667	198,304
End of year	**$ 258,452**	$ 325,071	$ 188,667
Supplemental disclosure of cash flow information:			
Interest paid	**$ 41,198**	$ 41,744	$ 41,837
Income taxes paid	**$ 11,817**	$ 11,924	$ 175