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"), and Catamount Reinsurance Company ("Catamount") which are both wholly owned by NLIC.

On March 6, 2015, National Life Distribution, LLC ("NLD") was formed as a subsidiary of LSW. In 2015, the entity is serving as a paymaster for National Life Group's field force operations. All commission expenses continue to be incurred in the operating companies.

On August 5, 2015, Catamount Reinsurance Company was formed as a subsidiary of National Life. Catamount is a special purpose financial insurance company domiciled and licensed in the state of Vermont. Catamount entered into a coinsurance with funds withheld agreement with National Life to reinsure the Closed Block policies for statutory reporting.

As of December 31, 2015, the Company had $31.1 billion of assets under management and served in excess of 829,000 customers. Of these totals, about $21.5 billion was attributable to life insurance policy and annuity contract values with more than 724,000 policy and contract holders. Approximately $6.1 billion was attributable to mutual fund and other client-managed assets representing approximately 105,000 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 middle America customers comprised primarily of families, small business owners, multicultural markets, and K-12 educators. Our strategy is to leverage our living benefit riders in both our life insurance and 403b products to provide peace of mind to everyone we touch. The Company markets and distributes its products throughout the United States through four principal channels: Career, Affiliated Independent, Sentinel Investments and Institutional Markets.

- ***Career:*** The Career channel consists of approximately 2,370 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 19,760 agents. While the agents have access to all products, approximately 6,250 of the agents primarily sell life insurance and annuity products with an emphasis on the 403(b) qualified tax deferred retirement savings market for individuals employed by public schools. All other agents primarily offer life insurance, annuity, and mutual fund products to the middle and emerging affluent markets, for purposes of providing for the financial consequences of specific life events, such as death, retirement, college funding, and chronic or long term illness.

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

- ***Institutional Markets:*** Institutional Markets works directly with institutional clients, issuing funding agreements directly to Federal Home Loan Bank partners in Boston and Dallas. Additionally, Institutional Markets works directly with fixed income asset managers to provide stable value wrap products to their stable value portfolios. In the future, business partners are expected to expand to include banks, corporations, consultants and some brokers in order to increase Institutional Markets product offerings.

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, 2015 and 2014, 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, 2015 and 2014 and for each of the years in the three-year period ended December 31, 2015, 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.

RESULTS OF OPERATIONS

The following tables present the Company's summary consolidated financial and other data for the years ended December 31, 2015, and 2014. The selected consolidated financial data has been derived from the Company's consolidated financial statements.

Core earnings decreased $3.9 million, or 2.0%, to $189.9 million in 2015 from $193.8 million in 2014. This was primarily the result of implementing new mortality tables that impacted both our pension expense and reserves related to our Guaranteed Income Lifetime Rider ("GLIR"), which was offset by favorable actuarial assumption changes as compared to prior year and the results of continued growth. Net income decreased $35.0 million to $109.3 million in 2015 from $144.3 million in 2014. Included in net income are the market related impacts on our product related embedded derivatives of ($33.7) million and $12.3 million in 2015 and 2014, respectively.

	For the Year Ended December 31,	
	2015	**2014**
	(In thousands)	
Income Statement Data		
Revenues:		
Insurance premiums	**$ 227,547**	$ 231,629
Policy and contract charges	**445,899**	396,358
Mutual fund commissions, fees and other income	**117,488**	122,680
Net investment income	**1,006,498**	986,481
Change in value of trading equity securities	**(1,130)**	(1,029)
Total revenues	**1,796,302**	1,736,119
Benefits and expenses:		
Policy reserves	**$ (1,720)**	$ (50,994)
Policy benefits	**440,896**	512,671
Policyholders' dividends and dividend obligations	**64,197**	61,453
Interest credited to policyholder account liabilities	**461,709**	396,616
Operating expenses	**274,790**	264,332
Interest expense	**40,149**	41,434
Policy acquisition expenses and amortization of present present value of future profits, net	**326,370**	316,819
Total benefits and expenses	**1,606,391**	1,542,331
Core Earnings	**$ 189,911**	$ 193,788

Further information about each of these line items is presented below. The Closed Block is referenced in the analysis for various line items, but overall the Closed Block had minimal impact on results. Year over year, the Closed Block income contribution to overall earnings for the year is in line with the expectation laid out on the plan of operations.

Insurance Premiums

Insurance premiums include premiums from whole and term life insurance and disability income. Total insurance premiums for 2015 were $227.5 million as compared to $231.6 million in 2014. The decrease in renewal premiums is consistent with expectations of the Closed Block as the block of business 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 $49.5 million, or 12.5%, to $445.9 million in 2015 from $396.4 million in 2014. The increase is driven by an increase in overall policies in-force due to strong sales of indexed universal life products, and an increase in 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 administrator and investment advisor, Sentinel Administrative Services, Inc. and Sentinel Asset Management, Inc., respectively. Revenues from mutual fund commissions, fees and other income decreased $5.2 million, or 4.2%, to $117.5 million in 2015 as compared with $122.7 million in 2014. 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,	
	2015	**2014**
Net Investment Income	(In thousands)	
Debt securities interest	**$ 821,146**	$ 805,164
Equity securities dividends	**2,936**	4,432
Mortgage loan interest	**135,120**	125,904
Policy loan interest	**41,175**	40,886
Real estate income	**9,254**	8,525
Partnership distributions	**27,131**	24,594
Other investment income	**(4,839)**	195
Gross investment income	**1,031,923**	1,009,700
Less: investment expenses	**(25,425)**	(23,219)
Net investment income	**$ 1,006,498**	$ 986,481

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 $20.0 million, or 2.0%, to $1,006.5 million in 2015 from $986.5 million in 2014. The increase was driven by an increase in the size of the bond portfolio driven by the overall growth of our in-force business.

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 increased $49.3 million to $(1.7) million in 2015 as compared with $(51.0) million in 2014. This increase in reserve is primarily related to Closed Block as there was a decrease in death benefits as compared to 2014 resulting in lower reserves released on death in 2015.

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 $71.8 million, or 14.0%, to $440.9 million in 2015 as compared with $512.7 million in 2014. The decrease is primarily related to higher death benefits expense in the Closed Block in 2014 as compared to 2015 and the impacts of unfavorable assumption changes in 2014. This is offset by unfavorable mortality in universal life in the current year.

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 increased $2.7 million, or 4.5%, to $64.2 million in 2015 compared to $61.5 million in 2014. This increase reflects earnings in the Closed Block and is due to favorable policyholder experience which generated an increase in the obligation to policyholders.

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 and changes in the liabilities associated with these products. Interest credited increased $65.1 million to $461.7 million in 2015 from $396.6 million in 2014. The increase is related to the growth in account value within the indexed product lines and an increase in the reserve associated with the GLIR, due to a change in mortality tables.

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 $10.5 million, or 4.0%, to $274.8 million in 2015 from $264.3 million in 2014. The increase is attributed to certain information technology expenses related to improving technology infrastructure and an increase in pension expense due to a required change to the mortality tables.

Interest Expense

Interest expense consists of interest paid on the Company's surplus notes and senior notes. Interest expense totaled $40.1 million in 2015 and $41.4 million in 2014.

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 $9.6 million, or 3.0%, to $326.4 million in 2015 as compared with $316.8 million in 2014. The increase is related to an increase in DAC amortization of $8.8 million, due to higher gross profits associated with our indexed products as well as higher non-deferrable expenses.

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,	
	2015	**2014**
	(In thousands)	
Net Income	**$ 109,304**	$ 144,318
Net realized losses (gains), net of offsets	**3,198**	(31)
Income tax on operations	**43,666**	61,850
Pre-Tax Operating Income	**$ 156,168**	$ 206,137
Net effect of derivatives, embedded derivatives and other market effects	**33,743**	(12,349)
Core Earnings	**$ 189,911**	$ 193,788

Net Realized Investment (Losses) Gains, Net of Offsets

Net realized losses were $(3.2) million in 2015 compared to net gains of $0.0 million in 2014. Further details are provided in the table below:

	For the Year Ended December 31,	
	2015	**2014**
	(In thousands)	
Debt securities	**$ 1,664**	$ 25,878
Equity securities	**(180)**	12,046
Mortgage loans	**(2,802)**	(1,481)
Partnerships	**(1,725)**	(5,332)
Other invested assets	**(155)**	(1,452)
Real estate	**26**	1,170
Property and equipment	**-**	(6,144)
Debt retirement	**(5,409)**	-
Net realized investment (losses) gains	**$ (8,581)**	$ 24,685
DAC amortization	**2,899**	(2,134)
Interest credited	**853**	(544)
Policyholder dividend obligation	**(92)**	(21,960)
Income taxes	**1,723**	(16)
Net realized (losses) gains, net of offsets	**$ (3,198)**	$ 31

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 2015 was $41.9 million, which represents an effective tax rate of 27.7% compared to $61.9 million in 2014 with an effective tax rate of 30.0%. 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 $(33.7) million in 2015 compared to $12.3 million in 2014. These changes are due to a combination of the impact from the change in the interest rates that influence the values of the embedded derivatives and related options, changes in our portfolio earned rates, and the overall movement of the S&P. The S&P was down 0.7% in 2015 compared to an increase of 11.4% in 2014.

SUMMARY OF FINANCIAL POSITION

The following table provides a summary of balance sheet data:

	As of December 31, 2015	As of December 31, 2014
	(In thousands)	
Balance Sheet Data		
Cash and investments	**$ 22,058,545**	$ 21,832,562
Other general account assets	**2,221,923**	1,813,395
Separate account assets	**714,621**	771,669
Total assets	**$ 24,995,089**	$ 24,417,626
Total liabilities	**$ 22,725,106**	$ 22,013,851
Retained earnings	**2,243,408**	2,134,104
Accumulated other comprehensive income	**26,575**	269,671
Total stockholder's equity	**2,269,983**	2,403,775
Total liabilities and stockholder's equity	**$ 24,995,089**	$ 24,417,626

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

	For the Year Ended December 31, 2015	For the Year Ended December 31, 2014
	(In thousands)	
Cash Flow Data		
Net cash provided by operating activities	**$ 164,999**	$ 59,852
Net cash used in investing activities	**(1,564,216)**	(965,834)
Net cash provided by financing activities	**1,281,933**	839,363
Net Decrease in Cash	**$ (117,284)**	$ (66,619)

	As of December 31, 2015	As of December 31, 2014	Change
		(In thousands)	
Other Selected Data			
Life insurance in force (before reinsurance ceded)	**$ 93,769,232**	$ 83,211,224	$ 10,558,008
Total assets under management	**$ 31,101,793**	$ 31,411,000	$ (309,207)
Weighted New Annualized Premium (WNAP)			
Life	**$ 184,232**	$ 171,746	$ 12,486
Annuity	**183,575**	193,047	(9,472)
Mutual Funds	**97,114**	127,882	(30,768)
Institutional	**116,031**	-	116,031
Total WNAP	**$ 580,952**	$ 492,675	$ 88,277

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 eligible to be 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 4.94% and 5.08% as of December 31, 2015 and 2014, 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 indexes. 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. 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 realized investment gains (losses).

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,	
	2015	2014
	(In thousands)	
Commercial loans	**$ 2,693,531**	$ 2,337,961
Related valuation allowances	**(1,568)**	(1,566)
Impaired loans	**(5,687)**	(4,797)
Market value adjustment on hedge	**435**	151
Total	**$ 2,686,711**	$ 2,331,749

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 mutual funds and bonds 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 who met the eligibility requirements to enter the plan prior to January 1, 2005 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 postretirement plans that provide medical benefits to employees, agency staff and agents. Medical coverage is contributory; with retiree contributions adjusted annually, and contain cost sharing features such as deductibles and copayments. The postemployment plans are not separately funded, and the Company, therefore, pays for plan benefits from operating cash flows. The costs of providing these benefits are recognized as they are earned by employees.

The Company also sponsors various defined contribution and deferred compensation plans.

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 2015 and 2014, 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, LSW and Catamount. The statutory surplus amount as of December 31, 2015 and December 31, 2014 in the table below are based on actual statutory filings with the applicable U.S. regulatory authorities.

National Life Insurance Company

	Net Income	Surplus
2015	**$12.0 million**	**$1,778.0 million**
2014	$19.1 million	$1,541.2 million

Life Insurance Company of the Southwest

	Net Income	Surplus
2015	**$35.9 million**	**$840.9 million**
2014	$105.6 million	$779.0 million

Catamount Reinsurance Company

	Net Income*	Surplus
2015	**$(83.8) million**	**$59.3 million**

**Catamount Reinsurance Company's unfavorable income in 2015 is driven by various nonrecurring transactions including the payment of a $136 million ceding commission to NLIC.*

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 business 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)	2015	2014
Assets:		
Cash and investments:		
Available-for-sale debt securities	**$ 17,111,699**	$ 16,879,781
Available-for-sale equity securities	**60,916**	25,938
Trading equity securities	**14,505**	14,890
Mortgage loans	**2,686,711**	2,331,749
Policy loans	**823,456**	808,598
Real estate investments	**44,667**	54,041
Derivatives	**299,941**	677,169
Other invested assets	**631,439**	511,624
Short term investments	**244,043**	270,320
Cash and restricted cash	**141,168**	258,452
Total cash and investments	**22,058,545**	21,832,562
Deferred policy acquisition costs	**1,295,231**	951,160
Accrued investment income	**199,025**	184,877
Premiums and fees receivable	**19,685**	19,422
Federal income tax recoverable	**-**	12,863
Amounts recoverable from reinsurers	**135,208**	126,013
Present value of future profits of insurance acquired	**9,751**	13,236
Property and equipment, net	**169,978**	144,304
Corporate owned life insurance	**268,115**	245,025
Other assets	**124,930**	116,495
Separate account assets	**714,621**	771,669
Total assets	**$ 24,995,089**	$ 24,417,626
Liabilities:		
Policy liabilities:		
Policy benefit liabilities	**$ 4,509,427**	$ 4,572,292
Policyholder account liabilities	**15,760,710**	14,358,653
Policyholders' deposits	**85,591**	82,482
Policy claims payable	**61,567**	61,405
Policyholders' dividends	**154,114**	246,145
Total policy liabilities	**20,571,409**	19,320,977
Amounts payable to reinsurers	**26,305**	38,853
Derivatives	**139,507**	358,905
Other liabilities and accrued expenses	**438,724**	551,343
Pension and other post-retirement benefit obligations	**225,680**	252,801
Deferred income taxes	**150,541**	251,922
Federal income tax payable	**576**	-
Debt	**457,743**	467,381
Separate account liabilities	**714,621**	771,669
Total liabilities	**$ 22,725,106**	$ 22,013,851
Stockholder's Equity:		
Class A common stock, 2,000 shares authorized, no shares issued and outstanding	**$ -**	$ -
Class B common stock, par value of $0.01, 1,001 shares authorized, 100 shares issued and outstanding	**-**	-
Preferred stock, 500 shares authorized, no shares issued and outstanding	**-**	-
Retained earnings	**2,243,408**	2,134,104
Accumulated other comprehensive income	**26,575**	269,671
Total stockholder's equity	**$ 2,269,983**	$ 2,403,775
Total liabilities and stockholder's equity	**$ 24,995,089**	$ 24,417,626

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

(in thousands)	2015	2014	2013
Revenues:			
Insurance premiums	**$ 227,547**	$ 231,629	$ 256,567
Policy and contract charges	**445,899**	396,358	346,338
Mutual fund commissions and fee income	**100,826**	107,321	109,839
Net investment income	**925,208**	1,186,100	1,297,458
Net realized investment (losses) gains	**(8,581)**	24,685	(4,743)
Change in value of trading equity securities	**(1,130)**	(1,029)	2,360
Other income	**16,661**	15,359	15,194
Total revenues	**1,706,430**	1,960,423	2,023,013
Benefits and Expenses:			
Decrease in policy liabilities	**(1,720)**	(50,994)	(11,834)
Policy benefits	**440,896**	512,671	457,809
Policyholders' dividends and dividend obligations	**64,289**	83,413	79,424
Interest credited to policyholder account liabilities	**427,754**	564,687	743,522
Operating expenses	**274,790**	264,332	243,260
Interest expense	**40,149**	41,434	41,610
Policy acquisition expenses and amortization of present value of future profits, net	**309,024**	338,696	269,997
Total benefits and expenses	**1,555,182**	1,754,239	1,823,788
Income before income taxes	**151,248**	206,184	199,225
Income tax expense	**41,944**	61,866	56,780
Net income	**$ 109,304**	$ 144,318	$ 142,445
Other comprehensive income, net of tax:			
Unrealized (losses) gains on available-for-sale securities	**(258,047)**	83,362	(267,301)
Cash flow hedge on debt issuance	**34**	34	34
Change in funded status of retirement plans	**14,917**	(76,077)	35,466
Total other comprehensive (loss) income	**(243,096)**	7,319	(231,801)
Comprehensive (loss) income	**$ (133,792)**	$ 151,637	$ (89,356)

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)						
December 31, 2012	$ -	$ -	$ -	$ 1,847,341	$ 494,153	$ 2,341,494
Net income	-	-	-	142,445	–	142,445
Other comprehensive income	-	-	-	–	(231,801)	(231,801)
Total comprehensive income						(89,356)
December 31, 2013	-	-	-	1,989,786	262,352	2,252,138
Net income	-	-	-	144,318	-	144,318
Other comprehensive income	-	-	-	-	7,319	7,319
Total comprehensive income						151,637
December 31, 2014	-	-	-	**2,134,104**	**269,671**	**2,403,775**
Net income	-	-	-	**109,304**	**-**	**109,304**
Other comprehensive income	-	-	-	**-**	**(243,096)**	**(243,096)**
Total comprehensive income						**(133,792)**
December 31, 2015	**$ -**	**$ -**	**$ -**	**$ 2,243,408**	**$ 26,575**	**$2,269,983**

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

(in thousands)	2015	2014	2013
Cash Flows from Operating Activities:			
Net income	**$ 109,304**	$ 144,318	$ 142,445
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for deferred income taxes	**29,663**	42,057	35,770
Interest credited to policyholder account liabilities	**427,754**	564,687	743,522
Amortization of deferred policy acquisition costs	**202,049**	235,482	170,741
Policy and contract charges	**(445,899)**	(396,358)	(346,338)
Net realized investment (gains) losses	**8,581**	(24,685)	4,743
Net option (gains) losses	**79,606**	(199,619)	(334,341)
Change on corporate owned life insurance policies	**(7,156)**	(8,700)	(8,632)
Amortization of present value of future profits of insurance acquired	**3,485**	3,928	4,416
Depreciation	**24,694**	19,996	14,108
Allowance for doubtful mortgages	**-**	-	(11,385)
Other	**(9,040)**	(10,229)	6,220
Changes in assets and liabilities:			
Accrued investment income	**(14,148)**	(7,338)	351
Deferred policy acquisition costs	**(317,916)**	(313,010)	(259,080)
Policy liabilities	**67,769**	51,488	1,399
Other assets and liabilities	**6,253**	(42,165)	(639)
Net cash provided (used) by operating activities	**164,999**	59,852	163,300
Cash Flows from Investing Activities:			
Proceeds from sales, maturities and repayments of investments	**3,272,590**	2,805,312	2,326,530
Cost of investments acquired	**(4,613,227)**	(3,715,105)	(2,951,453)
Property and equipment additions	**(40,036)**	(47,585)	(41,051)
Cost of corporate owned life insurance acquired	**(15,934)**	-	-
Change in policy loans	**(14,858)**	(21,627)	(19,641)
Change in short term investments	**26,277**	74,980	(62,429)
Change in short term broker collateral	**(145,130)**	(75,790)	155,903
Other	**(33,898)**	13,981	(296)
Net cash provided (used) by investing activities	**(1,564,216)**	(965,834)	(592,437)
Cash Flows from Financing Activities:			
Policyholders' deposits	**1,823,046**	1,825,595	1,565,731
Policyholders' withdrawals	**(1,017,670)**	(1,011,044)	(972,223)
Advance from Federal Home Loan Bank	**610,770**	50,000	-
Repayments to Federal Home Loan Bank	**(100,000)**	-	-
Debt retirement	**(15,079)**	(20,587)	-
Change in other deposits	**(19,134)**	(4,601)	(27,967)
Net cash provided (used) by financing activities	**1,281,933**	839,363	565,541
Net Increase (Decrease) in Cash	**(117,284)**	(66,619)	136,404
Cash and Restricted Cash:			
Beginning of year	**258,452**	325,071	188,667
End of year	**$ 141,168**	$ 258,452	$ 325,071
Supplemental disclosure of cash flow information:			
Interest paid	**$ 40,421**	$ 40,744	$ 41,290
Income taxes paid	**$ (18,645)**	$ 11,817	$ 11,924