NLV Financial Corporation and Subsidiaries

Quarterly Performance Review and Consolidated Financial Statements

Third Quarter 2018

NLV FINANCIAL CORPORATION AND SUBSIDIARIES
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About the Company

NLV Financial Corporation ("NLVF") through its subsidiaries (collectively, the "Company", "we", "our") offers life insurance policies, annuity contracts and investment products and services. The Company's principal insurance product lines include whole life, term life, fixed interest universal life, indexed universal life, variable universal life, fixed interest rate annuities, and fixed indexed annuities and variable annuities.

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 payment of policy benefits, including 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. ("SAMI"), Equity Services, Inc. ("ESI"), Catamount Reinsurance Company, and certain other subsidiaries, and indirectly owns 100% of the outstanding common stock of Life Insurance Company of the Southwest ("LSW") and Longhorn Reinsurance Company, which are both wholly owned by NLIC. NLVF indirectly owns National Life Distribution, LLC ("NLD"), whose sole member is LSW.

Prior to October 27, 2017, the Company also distributed and provided investment advisory and administrative services to the Sentinel Group Funds, Inc. through SAMI and its subsidiaries. On October 27, 2017, the Company executed the sale of certain assets under management, related to the investment advisory and investment management services provided to the mutual fund business, to Touchstone Investments, a subsidiary of Western & Southern Financial Group.

Distribution

Our target market is Middle America customers comprised primarily of families, small business owners, multicultural markets, and K-12 educators. Our strategy is to leverage our living benefit riders in both our life insurance and 403(b) individual annuity products to provide peace of mind to everyone we touch. We market and distribute our products throughout the United States through three principal channels: Career, Affiliated Independent and Institutional Markets.

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

- ***Affiliated Independent:*** The Affiliated Independent channel consists of agents who 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, 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.

- ***Institutional Markets:*** Institutional Markets works directly with institutional clients, issuing funding agreements directly with Federal Home Loan Banks in Boston and Dallas.

Overview

This Quarterly Financial Performance Review provides an overview of NLVF's results of operations for the three and nine months ended September 30, 2018 and 2017 and, where appropriate, factors that may affect NLVF's future financial performance. This review should be read in conjunction with the Consolidated Financial Statements and Notes to Consolidated Financial Statements as of and for the years ended December 31, 2017 and 2016. The discussion below, unless otherwise noted, is prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP").

In addition to net income, we use 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 capital gains (losses). Core earnings equal pre-tax operating income before changes in our liabilities for indexed life and annuity products that are accounted for at fair value ("marked to market") as embedded derivatives. Changes in the fair value of these embedded derivatives from period to period may result in significant income statement volatility, due to changes in assumptions about future interest rates and equity markets. Core earnings is a useful measure 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. We believe the combined presentation and discussion of pre-tax operating income, core earnings, and net income provides information that will enhance readers' understanding of our underlying results, operating trends and profitability. A non-GAAP reconciliation of core earnings, pre-tax operating income and net income is presented on page 7.

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Core earnings for the third quarter of 2018 increased $4.2 million, or 7%, to $63.3 million compared to $59.1 million in the third quarter of 2017. Excluding the impact of the actuarial assumption changes discussed below, core earnings were approximately $2.3 million lower than the prior year quarter, as growth in life policy charge revenues and strong investment performance were more than offset by higher operating expenses and interest expense on our new surplus notes issued in July 2018. In 2018, we are adding personnel and upgrading systems, to both improve service and customer experience and support the higher volume of business resulting from strong sales. Legal fees and technology expenses were also higher in the current year period.

For the nine months ended September 30, 2018, core earnings were $166.0 million compared to $178.8 million in the same period of 2017. The 2017 period included a $14 million adjustment to deferred acquisition costs related to refining the composition of assets that support our indexed universal life products. After excluding that one-time adjustment, and the impact of actuarial assumption updates in both periods, core earnings for the nine-month period decreased approximately $5.5 million compared to the same period of 2017. Consistent with the quarterly period, our year-to-date results reflected higher revenues from growth in the business and strong investment performance, more than offset by higher interest expense, legal fees, technology expenses and growth costs.

The impact of actuarial assumption updates was a net positive adjustment to core earnings of $4.9 million in the third quarter of 2018, compared to a net negative adjustment of $1.1 million in the third quarter of 2017. The adjustments in the 2018 period primarily reflected updated assumptions for life mortality, offset by updated lapse and spread assumptions for indexed annuities. The adjustments in the 2017 period primarily reflected updated assumptions for life premium persistency and mortality, which were largely offset by refinements in modeling and spread assumptions for indexed annuity products.

Each of the components of core earnings and the factors that contributed to the changes for the three and nine months ended September 30, 2018 compared to the same periods in 2017 are described in detail below.

NLV FINANCIAL CORPORATION AND SUBSIDIARIES

Quarterly Financial Performance Review

(in thousands)	For the Three Months Ended September 30, 2018	For the Three Months Ended September 30, 2017	For the Nine Months Ended September 30, 2018	For the Nine Months Ended September 30, 2017
Revenues:				
Insurance premiums	**$ 47,427**	$ 48,046	**$ 136,954**	$ 144,022
Policy and contract charges	**163,764**	142,325	**473,769**	412,754
Mutual fund commissions and fee income	**12,495**	23,304	**37,972**	70,691
Net investment income	**290,096**	270,422	**849,299**	799,461
Change in value of trading equity securities	**1,183**	608	**1,527**	1,817
Other income	**7,521**	6,100	**21,970**	18,722
Total revenues	**522,486**	490,805	**1,521,491**	1,447,467
Benefits and expenses:				
Decrease in policy liabilities	**(4,736)**	(9,460)	**(91,766)**	(34,623)
Policy benefits	**111,338**	125,695	**401,462**	351,949
Policyholders' dividends and dividend obligations	**9,472**	15,439	**31,267**	48,595
Interest credited to policyholder account liabilities	**165,368**	123,613	**469,639**	401,067
Operating expenses	**77,529**	72,842	**240,786**	229,811
Interest expense	**14,063**	9,781	**34,422**	29,612
Policy acquisition expenses and amortization of present value of future profits, net	**86,157**	93,775.00	**269,679**	242,240
Total benefits and expenses	**459,191**	431,685	**1,355,489**	1,268,651
Core earnings	**$ 63,295**	**$** 59,120	**$ 166,002**	$ 178,816

Insurance premiums include considerations on traditional whole, term life insurance and disability income contracts. Premiums of $47.4 million and $137.0 million for the three and nine months ended September 30, 2018, respectively, were stable compared to $48.0 million and $144.0 million for the same periods in 2017. The slight decreases were driven by lower sales of whole life products and lower renewal premiums due to the expected run-off of the Closed Block. Deposits received for investment-type products such as fixed annuities, fixed index annuities and universal life policies, which comprise the majority of our new sales, are not included in premiums. Revenue from universal life products is reflected in 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 $21.5 million, or 15%, to $163.8 million for the three months ended September 30, 2018 from $142.3 million for the same period in 2017. For the nine months ended September 30, 2018, these charges increased $61.0 million, or 15%, to $473.8 million from $412.8 million for the same period in 2017. These significant increases were driven by growth in overall account value due primarily to continued strong sales of indexed universal life products.

Mutual fund commissions and fee income in the three months ended September 30, 2018 consist of dealer concessions earned by the Company's affiliated broker-dealer, Equity Services, Inc. Prior to the October 27, 2017 sale of assets under management related to the mutual fund business, mutual fund fees also included 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 and fee income decreased $10.8 million to $12.5 million for the three months ended September 30, 2018 compared to $23.3 million for the same period in 2017. For the nine months ended September 30, 2018, revenues from mutual fund commissions and fee income decreased $32.7 million to $38.0 million from $70.7 million for the same period in 2017. These decreases were primarily due to the sale of the mutual fund business and were largely offset by a corresponding decrease in mutual fund commission expense, which is reported within policy acquisition expenses and amortization of present value of future profits, net.

Net investment income includes 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, and partnership income. For the non-GAAP measure of core earnings, net investment income excludes income from options that economically hedge our indexed products; such income is included as a component of interest credited in the presentation of core earnings. Net investment income on a core earnings basis increased $19.7 million, or 7.3%, to $290.1 million for the three months ended September 30, 2018 from $270.4 million for the same period in 2017. For the nine months ended September 30, 2018, net investment income on a core earnings basis increased $49.8 million, or 6.2%, to $849.3 million from $799.5 million for the same period in 2017. These increases were primarily driven by higher partnership income in the current year and an increase in the size of the bond and mortgage portfolio, due to the overall growth of our in-force business.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(in thousands)	**2018**	**2017**	**2018**	**2017**
Net investment income				
Bonds	**$ 224,077**	$ 217,048	**$ 667,809**	$ 645,349
Preferred stocks	**243**	241	**725**	830
Common stocks	**671**	651	**1,767**	1,452
Mortgage loans	**40,921**	35,617	**115,426**	107,494
Policy loans	**11,180**	10,454	**31,304**	31,162
Real estate	**1,193**	1,654	**7,135**	5,382
Partnerships	**18,133**	11,966	**47,603**	31,063
Derivatives	**373**	(1,313)	**(355)**	(4,521)
Other invested assets	**2,539**	687	**3,825**	1,081
Total gross investment income	**299,330**	277,005	**875,239**	819,292
Less: Investment expenses	**(9,234)**	(6,583)	**(25,940)**	(19,831)
Net investment income	**$ 290,096**	$ 270,422	**$ 849,299**	$ 799,461

Policy reserves reflect the impact of changes in the product liability reserves for whole and term life insurance, disability income insurance and the additional reserves held on certain annuities. The change in policy reserves was a decrease of $4.9 million and $91.8 million in the three and nine months ended September 30, 2018, respectively, compared to a decrease in reserves of $9.7 million and $34.6 million for the same periods in 2017. The larger decrease for the year-to-date period was primarily attributable to reserves released by the surrender of certain large whole life policies in the current year.

Policy benefits include death benefits for life insurance policies, policy surrenders for whole life policies and disability income benefits. In addition, policy benefits include a small amount of miscellaneous benefits such as payments on life-contingent immediate annuities and premium waiver benefits due to disability. For the three months ended September 30, 2018, policy benefits decreased $14.4 million, or 11.5%, to $111.3 million from $125.7 million for the same period in 2017. The 2017 period included a premium persistency assumption update adjustment of $9 million. For the nine months ended September 30, 2018, policy benefits increased $49.6 million, or 14.1%, to $401.5 million from $351.9 million for the same period in 2017. The increase for the nine month period was primarily driven by higher mortality for indexed universal life and Closed Block policies, as well as the surrender of certain large whole life policies.

Policyholders' dividends and dividend obligations consist of the pro rata amount of dividends earned that will be paid or credited at the next policy anniversary and policyholder dividend obligations ("PDO") primarily arising from the Closed Block. Dividends are based on a scale that is designed to reflect the relative contribution of each group of policies to the Company's overall operating results. The dividend scales are approved annually by the Board of Directors. For the non-GAAP measure of core earnings, policyholders' dividends and dividend obligations exclude amounts related to current period net realized capital gains (losses). Policyholders' dividends and dividend obligations included in core earnings decreased $5.9 million and $17.3 million for the three and nine months ended September 30, 2018, respectively, from the same periods in 2017. These decreases were related to lower earnings in the Closed Block compared to prior year.

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"). For the non-GAAP presentation of core earnings, interest credited also includes income on options that economically hedge our indexed products. For the three months ended September 30, 2018, core interest credited increased $41.8 million to $165.4 million from $123.6 million for the same period in 2017. For the nine months ended September 30, 2018, core interest credited increased $68.5 million to $469.6 million from $401.1 million for the same period in 2017.

These increases were attributable to actuarial assumption updates as well as growth in our indexed annuity business. The actuarial assumption adjustments in the 2018 period included core interest credited expense of approximately $10 million, primarily an increase in GLIR reserves related to a refinement in lapse rate assumptions, based on experience. The actuarial assumption adjustments in the 2017 period decreased core interest credited expense by approximately $15 million, which included an update of spread assumptions and a refinement of sales inducement amortization. As a result, the period over period change in the impact of actuarial assumption updates was a $25 million increase in interest credited expense for the three and nine-month periods compared to the prior year periods.

Operating expenses consist primarily of administrative, maintenance and operational expenses related to servicing the Company's business. Operating expenses increased $4.7 million, or 6.5%, to $77.5 million for the three months ended September 30, 2018, from $72.8 million for the same period in 2017. For the nine months ended September 30, 2018, operating expenses increased $11.0 million, or 4.8%, to $240.8 million from $229.8 million for the same period in 2017. These increases included higher legal expenses, increased software maintenance costs, higher premium taxes, and additional personnel to support high levels of customer service as well as significantly higher volumes, due to the Company's strong sales growth.

Interest expense consists of interest paid on the Company's surplus notes and senior notes. Interest expense totaled $14.1 million and $34.4 million for the three and nine months ended September 30, 2018, respectively, compared to $9.8 million and $29.6 million for the same periods in 2017. In July 2018, NLIC issued $350 million of surplus notes that mature in 2068. These surplus notes will accrue interest at a fixed rate of 5.25% until July 18, 2048, and thereafter at a floating rate equal to the Three-month USD LIBOR rate plus 3.314%. Interest is payable semi-annually, subject to approval of the Vermont Insurance Commissioner. The surplus notes are redeemable by NLIC on or after July 19, 2048. NLIC also completed in July 2018 an exchange transaction in which it issued an additional $22.1 million of the 5.25% surplus notes in exchange for its 10.5% surplus notes, originally issued in 2009, with a principal balance of $12.8 million. The discount at the time of the exchange, $9.3 million, will be charged to interest expense over the life of the 5.25% surplus notes. The increase in interest expense for both periods compared to the same periods in 2017 was due to the issuance of the new surplus notes.

Policy acquisition expenses and amortization of present value of future profits, net includes 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 deferred acquisition costs ("DAC"). For the non-GAAP presentation of core earnings, policy acquisition expenses exclude amortization of DAC related to net realized capital gains (losses) on assets that support policy reserves, and amortization of DAC related to other non-core earnings. Policy acquisition expenses decreased to $86.2 million for the three months ended September 30, 2018, from $93.8 million for the same period in 2017. For the nine months ended September 30, 2018, policy acquisition expenses increased to $269.7 million from $242.2 million for the same period in 2017. In the three- and nine-month periods of 2018, amortization expense was reduced by $9.3 million of favorable actuarial assumption adjustments related primarily to updated mortality rates. In the same periods of 2017, actuarial assumption adjustments resulted in $6.3 million of additional expense, mainly due to spread assumptions on indexed annuities and unfavorable mortality updates for universal life products. As a result, the decrease in amortization expense for the three and nine-month periods compared to the same periods in 2017 incuded a $15.6 million period over period decrease in the net impact of actuarial assumption updates. This was partially offset, or more than offset for the nine-month period, by higher amortization expense primarily driven by higher gross profits on indexed universal life and annuity products.

Net Income Reconciliation

(in thousands)	**For the Three Months Ended September 30, 2018**	**For the Three Months Ended September 30, 2017**	**For the Nine Months Ended September 30, 2018**	**For the Nine Months Ended September 30, 2017**
Net income	**$ 53,445**	$ 35,153	**$ 151,566**	$ 126,102
Net realized capital losses (gains), net of offsets	**2,355**	1,696	**3,886**	(1,931)
Income tax expense on operations	**15,492**	14,588	**38,904**	47,583
Pre-tax operating income	**71,292**	51,437	**194,356**	171,754
Net effect of derivatives, embedded derivatives and other market effects	**(7,997)**	7,683	**(28,354)**	7,062
Core earnings	**$ 63,295**	$ 59,120	**$ 166,002**	$ 178,816

Net realized capital losses, net of offsets as presented in pre-tax operating income were $2.4 million for the three months ended September 30, 2018 compared to net realized capital losses of $1.7 million for the same period in 2017. For the nine months ended September 30, 2018, net realized capital losses were $3.9 million compared to net realized capital gains of $1.9 million for the same period in 2017. Further details are provided in the table below:

(in thousands)	For the Three Months Ended September 30, 2018	For the Three Months Ended September 30, 2017	For the Nine Months Ended September 30, 2018	For the Nine Months Ended September 30, 2017
Bonds and other debt securities				
Gross gains	**$ 953**	$ 2,243	**$ 8,204**	$ 13,494
Gross losses	**(1,418)**	(2,884)	**(5,714)**	(4,932)
Mortgage loans				
Gross gains	**339**	18	**458**	365
Gross losses	**—**	—	**—**	(31)
Other than temporary declines	**(700)**	(762)	**(1,046)**	(1,496)
Real estate				
Gross gains	**—**	—	**—**	122
Gross losses	**—**	(1,893)	**—**	(2,493)
Other than temporary declines	**(840)**	—	**(840)**	—
Partnerships				
Gross losses	**(5)**	—	**(12)**	(118)
Other than temporary declines	**(1,383)**	—	**(5,714)**	—
Other				
Gross gains	**(4)**	874	**133**	901
Gross losses	**1**	(313)	**(39)**	(1,472)
Net realized capital (losses) gains, U.S. GAAP basis	**(3,057)**	(2,717)	**(4,570)**	4,340
Offsets included for core earnings presentation:				
Amortization of deferred acquisition costs	**90**	(124)	**(252)**	(569)
Interest credited	**(2)**	(190)	**(40)**	(943)
Policyholder dividend obligation	**(2)**	418	**(37)**	560
Income tax benefit (expense)	**616**	917	**1,013**	(1,457)
Net realized capital (losses) gains, net of offsets	**$ (2,355)**	$ (1,696)	**$ (3,886)**	$ 1,931

Income tax on operations is the federal income tax expense less any taxes for net realized capital gains (losses). The federal income tax expense for the third quarter of 2018 was $15.5 million, which represented an effective tax rate of 22%, compared to income tax expense of $14.6 million, which represented an effective tax rate of 28% for the same period in 2017. The federal income tax expense for the nine months ended September 30, 2018 was $38.9 million, which represented an effective tax rate of 20%, compared to income tax expense of $47.6 million, which represented an effective tax rate of 28% for the same period in 2017. The change in effective tax rates was primarily due to tax reform changes enacted in December 2017.

Net non-core effect of derivatives, embedded derivatives and other market effects contributed $8.0 million and $28.4 million to pre-tax operating income for the three and nine months ended September 30, 2018 compared to a reduction to pre-tax operating income of $7.7 million and $7.1 million for the same period in 2017. These non-core earnings reflect the portion of the change in the fair value of derivatives related to changes in expected future interest rates and equity market indices including the Standard & Poor's ("S&P") 500 index.

Cash Flow Information

Net cash used by operations was $187.2 million in the nine months ended September 30, 2018, compared to $111.2 million of net cash provided by operations in the same period in the prior year. The decrease was primarily due to higher acquisition expenditures related to increased sales and higher benefit payments in the current year, as well as a decrease in income taxes payable and an additional pension contribution.

Net cash used in investing activities increased to $1.1 billion in the nine months ended September 30, 2018, compared to $1.0 billion in the same period in the prior year. The increase in net investing activity is directly correlated to the increase in net cash provided by financing activities in the current year.

Net cash provided by financing activities was $1.2 billion in the nine months ended September 30, 2018, compared to $1.0 billion in the same period of 2017. The increase was due to the issuance of $350 million of new 5.25% surplus notes, less $5 million of associated costs, and partially offset by $19 million of net repayments of FHLB funding agreements in the current year period, compared to net issuances of $167 million in the prior year period. Our Institutional Markets FHLB activity is approached opportunistically, so the volume of funding agreements issued depends on pricing and the availability of desirable assets to support these liabilities. There were no issuances of FHLB funding agreements in the three-month period ended September 30, 2018.

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

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

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

We will continue to manage our investment portfolio with the objective of maximizing risk-adjusted returns and maintaining targeted duration matching of our product obligations and related investments.

Basis of Presentation

The following unaudited NLVF condensed consolidated financial information represents the financial position as of 2018 and December 31, 2017 and the results of operations for the three and nine months ended September 30, 2018 and 2017, respectively. The unaudited NLVF consolidated financial information has been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The unaudited NLVF condensed consolidated financial information should be read in conjunction with the audited NLVF Consolidated Financial Statements as of and for the years ended December 31, 2017 and 2016. In the Quarterly Financial Performance Review, certain non-GAAP measures are used to provide a clearer understanding of how management views and manages our operations.

The preparation of financial information requires management to make estimates and assumptions that impact the reported amounts of assets, liabilities, revenues, and benefits and expenses during the reporting periods. The most significant estimates include those used in determining estimated gross profits used in the valuation and amortization of assets and liabilities associated with variable annuity and universal life-type contracts; policy liabilities; valuation of investments and derivative instruments; embedded derivatives; evaluation of other-than-temporary impairments on available-for-sale securities; valuations related to benefit plans; and litigation and regulatory contingencies. Certain of these estimates are particularly sensitive to market conditions, and deterioration and/or volatility in the debt or equity markets could have a material impact on the consolidated financial statements. Future events including, but not limited to, changes in the levels of mortality, morbidity, interest rates, persistency, asset valuations and defaults, could cause actual results to differ from the estimates used in the financial statements. Although management believes the amounts presented represent its best estimates, actual results could differ from those estimates.

The results of past accounting periods are not necessarily indicative of the results to be expected in future periods.

NLV FINANCIAL CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets (Unaudited)

(in thousands)	As of September 30, 2018	As of December 31, 2017
Assets:		
Cash and investments:		
Available-for-sale debt securities	**$ 19,412,695**	$ 20,048,333
Available-for-sale equity securities	**45,919**	35,839
Trading equity securities	**25,136**	19,812
Mortgage loans	**3,595,024**	3,350,570
Policy loans	**904,912**	877,927
Real estate investments	**23,698**	24,465
Derivative assets	**919,457**	993,249
Other invested assets	**1,017,170**	960,415
Short term investments	**698,650**	228,480
Cash and restricted cash	**267,582**	284,070
Total cash and investments	**26,910,243**	26,823,160
Deferred policy acquisition costs	**1,970,460**	1,539,129
Accrued investment income	**237,696**	217,982
Premiums and fees receivable	**10,276**	22,577
Amounts recoverable from reinsurers	**109,203**	122,889
Property and equipment, net	**165,816**	153,110
Federal income tax recoverable	**752**	—
Corporate owned life insurance	**430,457**	420,069
Other assets	**94,450**	94,611
Separate account assets	**873,316**	814,928
Total assets	**$ 30,802,669**	$ 30,208,455
Liabilities:		
Policy liabilities:		
Policy benefit liabilities	**$ 4,175,815**	$ 4,408,663
Policyholder account liabilities	**20,645,365**	19,485,437
Policyholders' deposits	**90,221**	97,900
Policy claims payable	**76,350**	68,645
Policyholders' dividends and dividend obligations	**57,772**	184,931
Total policy liabilities	**25,045,523**	24,245,576
Amounts payable to reinsurers	**28,596**	23,457
Derivative liabilities	**482,438**	566,986
Other liabilities and accrued expenses	**622,225**	682,703
Pension and other post-retirement benefit obligations	**146,274**	194,257
Deferred income taxes	**82,451**	181,517
Federal income tax payable	**—**	66,109
Debt	**802,863**	452,638
Separate account liabilities	**873,316**	814,928
Total liabilities	**$ 28,083,686**	$ 27,228,171
Stockholder's equity:		
Class A common stock, 2,000 shares authorized, no shares issued and outstanding	**$ —**	$ —
Class B common stock, par value of $0.01, 1,001 shares authorized, 100 shares issued and outstanding	**—**	—
Preferred stock, 500 shares authorized, no shares issued and outstanding	**—**	—
Retained earnings	**2,743,447**	2,591,881
Accumulated other comprehensive income	**(24,464)**	388,403
Total stockholder's equity	**$ 2,718,983**	$ 2,980,284
Total liabilities and stockholder's equity	**$ 30,802,669**	$ 30,208,455

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

NLV FINANCIAL CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations (Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(in thousands)	2018	2017	2018	2017
Revenues:				
Insurance premiums	**$ 47,427**	$ 48,046	**$ 136,954**	$ 144,022
Policy and contract charges	**163,764**	142,325	**473,769**	412,754
Mutual fund commissions and fee income	**12,495**	23,304	**37,972**	70,691
Net investment income	**428,238**	348,641	**1,024,088**	1,028,616
Net realized capital gains (losses)	**(3,057)**	(2,717)	**(4,570)**	4,340
Change in value of trading equity securities	**1,183**	608	**1,527**	1,817
Other income	**7,522**	6,100	**21,970**	18,722
Total revenues	**657,572**	566,307	**1,691,710**	1,680,962
Benefits and expenses:				
Decrease in policy liabilities	**(4,736)**	(9,460)	**(91,766)**	(34,623)
Policy benefits	**111,338**	125,695	**401,462**	351,949
Policyholders' dividends and dividend obligations	**9,473**	15,021	**31,303**	48,035
Interest credited to policyholder account liabilities	**298,455**	196,914	**606,587**	591,104
Operating expenses	**77,529**	79,828	**240,786**	247,573
Interest expense	**14,063**	9,781	**34,422**	29,612
Policy acquisition expenses and amortization of present value of future profits, net	**83,128**	99,702	**279,458**	272,169
Total benefits and expenses	**589,250**	517,481	**1,502,252**	1,505,819
Income before income taxes	**68,322**	48,826	**189,458**	175,143
Income tax expense	**14,877**	13,673	**37,892**	49,041
Net income	**$ 53,445**	$ 35,153	**$ 151,566**	$ 126,102

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

NLV FINANCIAL CORPORATION AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholder's Equity (Unaudited)

(in thousands)	Class A Common Stock	Class B Common Stock	Preferred Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
January 1, 2017	$ —	$ —	$ —	$ 2,399,476	$ 139,077	$ 2,538,553
Comprehensive income:						
Net income	—	—	—	126,102	—	126,102
Change in unrealized gains on available-for-sale securities, net	—	—	—	—	127,767	127,767
Change in cash flow hedge on debt issuance, net	—	—	—	—	25	25
Change in additional minimum pension liability, net	—	—	—	—	6,199	6,199
Total comprehensive income						260,093
September 30, 2017	$ —	$ —	$ —	$ 2,525,578	$ 273,068	$ 2,798,646

(in thousands)	Class A Common Stock	Class B Common Stock	Preferred Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
January 1, 2018	$ —	$ —	$ —	$ 2,591,881	$ 388,403	$ 2,980,284
Comprehensive income:						
Net income	—	—	—	151,566	—	151,566
Change in unrealized gains on available-for-sale securities, net	—	—	—	—	(419,390)	(419,390)
Change in cash flow hedge on debt issuance, net	—	—	—	—	31	31
Change in additional minimum pension liability, net	—	—	—	—	6,492	6,492
Total comprehensive income						(261,301)
September 30, 2018	$ —	$ —	$ —	$ 2,743,447	$ (24,464)	$ 2,718,983

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

NLV FINANCIAL CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)

(in thousands)	For the Nine Months Ended September 30, 2018	2017
Cash flows from operating activities:		
Net income	**$ 151,566**	$ 126,102
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for deferred income taxes	**10,678**	17,947
Interest credited to policyholder account liabilities	**606,587**	591,104
Amortization of deferred policy acquisition costs	**199,279**	193,260
Policy and contract charges	**(473,769)**	(412,754)
Net realized capital losses	**4,570**	(4,340)
Change in fair value of derivatives	**(174,326)**	(229,325)
Change in corporate owned life insurance policies	**(10,388)**	(6,000)
Amortization of present value of future profits of insurance acquired	**—**	2,125
Depreciation	**22,229**	25,019
Other	**1,259**	(378)
Changes in assets and liabilities:		
Accrued investment income	**(19,713)**	(20,558)
Deferred policy acquisition costs	**(359,155)**	(301,615)
Policy liabilities	**(14,232)**	25,716
Other assets and liabilities	**(131,817)**	104,872
Net cash (used) provided by operating activities	**(187,232)**	111,175
Cash flows from investing activities:		
Proceeds from sales, maturities and repayments of investments	**2,552,454**	2,411,456
Cost of investments acquired	**(3,060,425)**	(3,609,704)
Property and equipment additions	**(36,224)**	27,532
Change in policy loans	**(26,985)**	(20,047)
Change in short term investments	**(470,170)**	61,244
Change in short term broker collateral	**(43,721)**	96,263
Other	**12,454**	(15,648)
Net cash used by investing activities	**(1,072,617)**	(1,048,904)
Cash flows from financing activities:		
Policyholders' deposits	**1,908,444**	1,685,671
Policyholders' withdrawals	**(959,974)**	(854,691)
Advances from Federal Home Loan Banks	**152,682**	211,778
Repayments to Federal Home Loan Banks	**(172,165)**	(44,950)
Proceeds from debt issuance	**345,068**	—
Debt retirement	**—**	(1,995)
Change in other deposits	**(30,694)**	13,180
Net cash provided by financing activities	**1,243,361**	1,008,993
Net (decrease) increase in cash	**(16,488)**	71,264
Cash and restricted cash:		
Beginning of year	**284,070**	244,500
End of year	**$ 267,582**	$ 315,764

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