NLV Financial Corporation and Subsidiaries

Annual Performance Review and Consolidated Financial Statements

As of and for the Years Ended December 31, 2022 and 2021

GENERAL DISCUSSION OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

About the Company

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

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

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

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

Distribution

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

- ***Affiliated Partner*** is an evolution of the traditional “career” channel, and includes producing and general agents who specialize in selling products to the middle and emerging affluent markets, professionals, business owners and other individuals for financial and business planning purposes.

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

Organization

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

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

Non-GAAP Measures

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

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

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

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

	For the Year Ended December 31,	
	2022	**2021**
	(in thousands)	
Total revenues	**$ 2,339,491**	$ 3,350,782
Net investment losses (gains)	**6,143**	(175,384)
Net investment losses (gains) from derivatives that hedge equity indexed products, which is included in interest credited to policyholder liabilities on a core earnings basis	**616,142**	(380,086)
Total revenues on a core earnings basis	**$ 2,961,776**	$ 2,795,312

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

	For the Year Ended December 31,	
	2022	**2021**
	(in thousands)	
Net income	**$ 132,363**	$ 392,124
Net investment losses (gains)	**6,143**	(175,384)
Amortization of DAC and sales inducements, and policyholder dividend obligations, and other adjustments related to net investment gains and losses	**(14,268)**	9,161
Income tax expense	**26,030**	100,543
Pre-tax operating income	**150,268**	326,444
Non-core losses, primarily volatility resulting from the measurement of indexed product liabilities	**241,616**	43,637
Core earnings	**$ 391,884**	$ 370,081

ANNUAL FINANCIAL PERFORMANCE REVIEW

This annual financial performance review provides an overview of the Company's results of operations as of and for the years ended December 31, 2022 and 2021, and, where applicable, factors that may affect the Company's future financial performance. This review should be read in conjunction with the Consolidated Financial Statements and Notes to Consolidated Financial Statements as of and for the years ended December 31, 2022 and 2021, which have been audited by PricewaterhouseCoopers LLP.

The Company's universal life, indexed universal life, and annuity products generate revenues through investment income and policy and contract charges that are earned during the life of the contracts. On a GAAP basis, revenues from net investment income include changes in the fair value of derivative instruments that economically hedge our indexed life and annuity products, primarily options and futures. Whole and term life insurance products generate primarily premium revenues. The decrease in the Company's total revenues on a GAAP basis was primarily driven by market value losses on derivative instruments of $616 million in 2022, compared to derivative gains of $380 million in 2021. The derivative losses in 2022 were due to a decrease in the value of derivatives reflective of the equity market volatility during the year. On a core earnings basis, which excludes from revenue such derivative gains (losses) as well as net investment gains (losses), the Company's total revenues were up 6% in 2022 from 2021. This increase was driven by strong growth in the life insurance business, including increases in premium revenues of $44 million and policy and contract charges of $108 million.

Net income was $132 million in 2022, compared to $392 million in 2021. The decrease in net income compared to 2021 was primarily due to negative non-core earnings of $242 million, which primarily reflected the equity market volatility and increased interest rates during the year, compared to negative non-core earnings of $44 million in 2021. Net income in 2022 included net investment losses of $6 million, compared to net investment gains of $175 million in 2021. The gains in 2021 were primarily comprised of fair value changes in partnerships.

The impact of the update of actuarial assumptions, which are reviewed annually during the third quarter, was a net positive adjustment to net income of $21 million in 2022, compared to a net negative adjustment to net income of $90 million in 2021.

Core earnings were $392 million in 2022 up from $370 million in 2021. The increase in core earnings was driven by higher revenues from insurance premiums and growth in policy and contract charges, partially offset by higher interest credited and policy acquisition expenses driven by increased sales of indexed universal life and annuity products.

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

Each of the components of core earnings and the factors that contributed to the changes for the years ended December 31, 2022 and 2021 are described in detail below.

	For the Year Ended December 31,	
	2022	**2021**
	(in thousands)	
Revenues:		
Insurance premiums	**$ 358,085**	$ 314,100
Policy and contract charges	**1,079,828**	971,857
Commissions, fees and other income	**106,462**	92,950
Net investment income	**1,417,401**	1,416,405
Total revenues, on a core earnings basis	**2,961,776**	2,795,312
Benefits and expenses:		
Increase in policy liabilities	**105,481**	16,241
Policy benefits	**593,558**	642,811
Policyholders' dividends and dividend obligations	**8,708**	35,155
Interest credited to policyholder account liabilities	**810,922**	754,300
Operating expenses	**401,617**	394,110
Interest expense	**67,332**	65,866
Policy acquisition expenses	**582,274**	516,748
Total benefits and expenses, on a core earnings basis	**2,569,892**	2,425,231
Core earnings	**$ 391,884**	$ 370,081

Insurance Premiums

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

Insurance premiums increased to $358 million in 2022 from $314 million in 2021. This increase was driven by higher term life product sales.

Policy and Contract Charges

Policy and contract charges include fees charged on indexed universal life products, variable annuities, premium loads, cost of insurance charges, surrender charges and rider charges. Policy and contract charges increased $108 million, or 11%, to $1.1 billion in 2022 from $972 million in 2021. This increase was driven by growth in overall account value, primarily on our indexed universal life products.

Commissions, Fees and Other Income

Commissions consist of dealer concessions earned by the Company's affiliated broker-dealer, Equity Services, Inc. Other income include revenues from reinsurance, change in cash surrender value of corporate owned life insurance ("COLI") and miscellaneous fee income. Revenues from commissions, fees and other income increased to $106 million in 2022 from $93 million in 2021, primarily due to increased fee income on certain indexed annuity products.

Net Investment Income

Net investment income represents interest income on our portfolio of bonds, mortgage loans, contract loans and short-term investments, as well as amortization of premium or accretion of discount on bonds, dividends from preferred and common stock, partnership income, and income (losses) from derivative instruments. On a non-GAAP core earnings basis, we exclude from net investment income any income (losses) from derivative instruments that economically hedge our indexed product liabilities; instead, those hedging results are presented within interest credited to policyholder account liabilities. Net investment income on a core earnings basis was $1.4 billion in 2022 and 2021. Higher income from debt securities and mortgages in 2022 were primarily offset by lower partnership income in 2022.

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

	For the Year Ended December 31,	
	2022	**2021**
	(in thousands)	
Net investment income		
Debt securities	**$ 1,086,422**	$ 1,017,727
Equity securities	**(9,641)**	9,072
Mortgage loans	**203,368**	174,439
Policy loans	**43,841**	42,896
Real estate	**3,411**	3,445
Derivatives	**(2,714)**	(4,748)
Partnerships	**120,208**	201,999
Other investment income	**3,800**	155
Gross investment income	**1,448,695**	1,444,985
Less: Investment expenses	**(31,294)**	(28,580)
Net investment income on a core earnings basis	**$ 1,417,401**	$ 1,416,405

Increase (Decrease) in Policy Liabilities

The increase (decrease) in policy liabilities reflects changes in the product liability reserves for whole and term life insurance, disability income insurance and changes in additional reserves held on certain annuities. The change in policy liabilities was a net increase of $105 million in 2022 compared to a net increase of $16 million in 2021. The increase in policy liabilities was related to the more favorable mortality experience, and continued growth of our indexed product lines.

Policy Benefits

Policy benefits include death benefits for life insurance policies, policy surrenders for whole life policies and disability income benefits. In addition, policy benefits include a small amount of miscellaneous benefits such as payments on life-contingent immediate annuities and premium waiver benefits due to disability. Policy benefits decreased $49 million to $594 million in 2022 from $643 million in 2021. This decrease was primarily due to mortality experience in 2022 as the impact of COVID-19 on mortality continued to decline.

Policyholders' Dividends and Dividend Obligations

Policyholders' dividends consist of the pro rata amount of dividends earned that will be paid or credited at the next policy anniversary and policyholder dividend obligations ("PDO") primarily arising from the Closed Block. Dividends are based on a scale that is designed to reflect the relative contribution of each group of policies to the Company's overall operating results. The dividend scales are approved annually by the Company's Board of Directors. For the non-GAAP measure of core earnings, policyholders' dividends and dividend obligations exclude amounts related to current year net investment gains (losses). Policyholders' dividends and dividend obligations included in core earnings decreased $26 million to $9 million in 2022 from $35 million in 2021. This decrease was primarily related to lower Closed Block earnings and lower dividends.

Interest Credited to Policyholder Account Liabilities

Interest credited to policyholder account liabilities represents amounts credited to universal life insurance, fixed deferred annuities and indexed products, as well as the change in reserves related to guaranteed lifetime income riders ("GLIR") and the amortization of sales inducements. For the non-GAAP presentation of core earnings, interest credited also includes income on options that economically hedge our indexed products. Core interest credited increased $57 million to $811 million in 2022 from $754 million in 2021.

This increase reflected growth in account value within our indexed product lines, driven by sales growth, partially offset by the impact of actuarial assumption updates in 2022. The actuarial assumption updates included in core interest credited in 2022 included a $31 million net positive impact on core earnings, reflecting updates and refinements for GLIR modeling, compared to a $5 million net positive impact on 2021 core earnings, reflecting updates for actual experience of GLIR utilization and a change in GLIR roll-up rates, partially offset by lower GLIR option budgets and mortality experience.

Operating Expenses

Operating expenses consist primarily of administrative, maintenance and operational expenses related to servicing the Company's business. Operating expenses were $402 million in 2022 compared to $394 million in 2021. Operating expenses in 2022 included higher growth-related premium taxes and personnel costs. Certain defined contribution deferred compensation liabilities reported in operating expenses were favorably impacted by increased interest rates in 2022. This change is largely offset by changes in the fair value of certain equity investments, which are reported within net investment income.

Interest Expense

Interest expense consists of interest paid on the Company's surplus notes and senior notes. Interest expense totaled $67 million and $66 million in 2022 and 2021, respectively.

Policy Acquisition Expenses

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

For the non-GAAP presentation of core earnings, policy acquisition expenses exclude amortization of DAC related to net investment gains (losses) on assets that support policy reserves, and amortization of DAC related to non-core earnings. Policy acquisition expenses for the life and annuity businesses included in core earnings were $582 million in 2022, up from $517 million in 2021. This increase was primarily attributable to higher amortization expense from an increased volume of indexed universal life and annuity products.

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

Net Investment Gains (Losses)

The Company recorded net investment losses of $6 million in 2022 compared to net investment gains of $175 million in 2021. Changes in the fair value of partnerships not accounted for using the equity method (based on the Company's level of ownership and influence) are recorded within net investment gains (losses). These partnerships saw significant fair value increases in 2021, resulting in gains of $155 million compared to gains of $12 million in 2022. The non-GAAP measure of pre-tax operating income excludes net investment gains (losses) and is also adjusted to exclude amortization of DAC and sales inducements, and policyholder dividend obligations, that are related to net investment gains (losses) (see "Non-GAAP Measures," above).

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

	For the Year Ended December 31,	
	2022	**2021**
	(in thousands)	
Net investment (losses) gains on:		
Debt securities	**$ (13,952)**	$ 17,467
Equity securities	**(5,663)**	4,925
Mortgage loans	**1,108**	(1,070)
Partnerships	**11,553**	155,331
Other invested assets	**811**	(1,269)
Net investment (losses) gains	**$ (6,143)**	$ 175,384

Federal Income Taxes

Federal income tax expense was $26 million in 2022 compared to income tax expense of $101 million in 2021. The Company's effective tax rate was 16% and 20% in 2022 and 2021, respectively.

Non-Core Earnings

Non-core earnings primarily include short-term income volatility that results from the fair value measurement under GAAP of certain indexed product liabilities, which are sensitive to movement in equity market indexes and future interest rate assumptions, and the related impact to DAC and deferred sales inducements. Non-core earnings reduced pre-tax operating earnings by $242 million in 2022 and $44 million in 2021. The losses (negative non-core earnings) in 2022 reflected the equity market volatility and increased interest rates during the year. The losses in 2021 were primarily due to interest rate movements, equity market volatility and a $26 million negative impact to non-core earnings from actuarial assumption updates.

SUMMARY OF FINANCIAL POSITION

Balance Sheet Information

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

As of December 31, 2022, total assets were $38.9 billion, primarily attributable to investments that support life insurance policy and annuity contracts with more than 1.2 million customers.

Cash and investments decreased $5.5 billion from December 31, 2021, which included a $5.9 billion decrease in unrealized gains (losses) on available-for-sale debt securities and a $1.3 billion decrease in derivative assets, primarily equity index options used to hedge our indexed product liabilities. After excluding derivative assets and net unrealized gains and losses, total cash and invested assets as of December 31, 2022 were $34.7 billion compared to $32.9 billion as of December 31, 2021, including an increase in available-for-sale debt securities of $1.7 billion, driven by cash flows from our growing life and annuity business. The remainder of the portfolio consists primarily of partnerships and other invested assets, cash, trading debt securities, equity securities, policy loans, and other short-term investments.

Total liabilities as of December 31, 2022 were $36.9 billion, compared to $37.4 billion as of December 31, 2021. The decrease of $428 million was primarily due to a decrease in derivative liabilities.

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

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

	As of December 31, 2022	As of December 31, 2021
	(in thousands)	
Assets:		
Cash and investments	**$ 31,963,411**	$ 37,482,486
Other general account assets	**6,119,633**	3,453,532
Separate account assets	**772,523**	1,006,373
Total assets	**$ 38,855,567**	$ 41,942,391
Liabilities and Stockholder's Equity:		
Total liabilities	**36,945,170**	37,372,710
Stockholder's Equity:		
Retained earnings	**3,729,404**	3,597,041
Accumulated other comprehensive (loss) income	**(1,819,007)**	972,640
Total stockholder's equity	**1,910,397**	4,569,681
Total liabilities and stockholder's equity	**$ 38,855,567**	$ 41,942,391

Cash Flow and Liquidity Information

Cash and restricted cash was $198 million at December 31, 2022, compared to $640 million at December 31, 2021. In addition to liquidity sourced from cash flows including premiums, deposits, investment income and maturities, the Company has access to secured asset-based borrowing capacity through membership in the Federal Home Loan Banks of Boston and Dallas. The Company evaluates liquidity risk quarterly by projecting cash flows under a stress scenario to ensure that there is sufficient liquidity to meet operating demands and objectives over a 36-month period, without consideration of mitigating actions such as the liquidation of investment holdings and changes in our investment strategy and product offerings.

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

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

	For the Year Ended December 31,	
	2022	**2021**
	(in thousands)	
Net cash (used in) provided by operating activities	**$ (36,103)**	$ 20,186
Net cash used in investing activities	**(2,817,055)**	(2,027,625)
Net cash provided by financing activities	**2,410,923**	1,999,360
Net decrease in cash	**$ (442,235)**	$ (8,079)

Net cash used in operating activities was $36 million in 2022, compared to net cash provided of $20 million in 2021. The change in cash provided by (used in) operating activities compared to the prior year was primarily due to changes in other assets and liabilities.

Net cash used in investing activities was $2.8 billion in 2022, compared to $2.0 billion in 2021. The increase in cash used in investing activities in the 2022 was primarily due to changes in short term investments and short-term broker collateral.

Net cash provided by financing activities was $2.4 billion in 2022, compared to $2.0 billion in 2021. The increase in net cash provided by financing activities was primarily due to an increase in policyholder deposits, net of withdrawals, and an increase in net issuances of Federal Home Loan Bank ("FHLB") funding agreements. Policyholder deposits increased $370 million primarily due to higher sales of indexed universal life products. FHLB net issuances (net of repayments) were $52 million in 2022, compared to $24 million in 2021. FHLB activity is managed opportunistically, so the volume of funding agreements issued depends on pricing and the availability of desirable assets to support these liabilities.

Other Selected Data

	As of December 31, 2022	As of December 31, 2021	Change
		(in billions)	
Life insurance in force (before reinsurance ceded)	**$ 291.2**	$ 251.9	$ 39.3
Total cash and invested assets (excluding unrealized gains and losses and derivatives)	**$ 34.7**	$ 32.9	$ 1.8

	For the Year Ended December 31, 2022	December 31, 2021	Change
Weighted New Annualized Premium ("WNAP") Sales		*(in millions)*	
Life	**$ 465**	$ 441	$ 24
Annuity	**325**	255	70
Total Life and Annuity WNAP	**$ 790**	$ 696	$ 94

PROSPECTIVE INFORMATION

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

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

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

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

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

- Ability to attract and retain producing agents and key personnel;

- Ability to raise additional capital;

- Costs related to future pension obligations;

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

- Pandemics or other catastrophic events; and

- A computer system failure or security breach.

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

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

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

Basis of Presentation and Principles of Consolidation

The following consolidated financial statements of NLVF have been prepared in conformity with GAAP. These financial statements should be read in conjunction with and are qualified in their entirety by reference to the Company's consolidated financial statements as of and for the years ended December 31, 2022 and 2021, which have been audited by PricewaterhouseCoopers LLP, including the accompanying notes which are an integral part of the audited financial statements. The preparation of financial statements in conformity with GAAP requires the Company to make estimates and assumptions that affect the reported amounts and related disclosures. Actual results could differ, possibly materially, from those estimates.

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

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

NLV Financial Corporation and Subsidiaries

Financial Statements

As of and for the Years Ended December 31, 2022 and 2021

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Report of Independent Auditors

To the Board of Directors of NLV Financial Corporation

Opinion

We have audited the accompanying consolidated financial statements of NLV Financial Corporation and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of comprehensive income, of changes in stockholder's equity and of cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

PricewaterhouseCoopers LLP

Boston, Massachusetts
February 22, 2023

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

(in thousands)	2022	2021
Assets:		
Cash and investments:		
Available-for-sale debt securities	**$ 22,946,775**	$ 27,136,714
Equity securities	**111,513**	80,074
Trading debt securities	**164,106**	183,344
Mortgage loans	**4,967,269**	4,956,163
Policy loans	**1,067,698**	967,491
Real estate investments	**7,906**	7,515
Derivative assets	**801,285**	2,108,105
Other invested assets	**1,403,185**	1,367,533
Short term investments	**295,512**	35,150
Cash and restricted cash	**198,162**	640,397
Total cash and investments	**31,963,411**	37,482,486
Deferred policy acquisition costs	**4,297,579**	2,143,365
Accrued investment income	**304,219**	263,787
Premiums and fees receivable	**17,829**	17,802
Amounts recoverable from reinsurers	**150,428**	168,450
Property and equipment, net	**159,304**	164,152
Corporate owned life insurance	**573,933**	550,656
Deferred tax asset	**405,997**	—
Federal income tax recoverable	**44,400**	—
Other assets	**165,944**	145,320
Separate account assets	**772,523**	1,006,373
Total assets	**$ 38,855,567**	$ 41,942,391
Liabilities:		
Policy liabilities:		
Policy benefit liabilities	**$ 3,852,755**	$ 4,201,865
Policyholder account liabilities	**29,889,964**	27,793,608
Policyholders' deposits	**88,837**	93,680
Policy claims payable	**143,051**	196,733
Policyholders' dividends and dividend obligations	**10,012**	272,472
Total policy liabilities	**33,984,619**	32,558,358
Amounts payable to reinsurers	**27,892**	36,308
Derivative liabilities	**510,660**	1,467,702
Other liabilities and accrued expenses	**563,998**	841,492
Pension and other post-retirement benefit obligations	**169,142**	204,234
Deferred income taxes	**—**	336,078
Federal income tax payable	**—**	6,388
Debt	**916,336**	915,777
Separate account liabilities	**772,523**	1,006,373
Total liabilities	**$ 36,945,170**	$ 37,372,710
Stockholder's equity:		
Class A common stock, 2,000 shares authorized, no shares issued and outstanding	**$ —**	$ —
Class B common stock, par value of $0.01, 1,001 shares authorized, 100 shares issued and outstanding	**—**	—
Preferred stock, 500 shares authorized, no shares issued and outstanding	**—**	—
Retained earnings	**3,729,404**	3,597,041
Accumulated other comprehensive (loss) income	**(1,819,007)**	972,640
Total stockholder's equity	**$ 1,910,397**	$ 4,569,681
Total liabilities and stockholder's equity	**$ 38,855,567**	$ 41,942,391

The accompanying notes are an integral part of these financial statements.

NLV Financial Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income
For the Years Ended December 31, 2022 and 2021

(in thousands)	2022	2021
Revenues:		
Insurance premiums	**$ 358,085**	$ 314,100
Policy and contract charges	**1,079,828**	971,857
Commissions and fee income	**65,031**	68,463
Net investment income	**801,259**	1,796,491
Net investment (losses) gains	**(6,143)**	175,384
Other income	**41,431**	24,487
Total revenues	**2,339,491**	3,350,782
Benefits and expenses:		
Increase in policy liabilities	**105,481**	16,241
Policy benefits	**593,558**	642,811
Policyholders' dividends and dividend obligations	**8,708**	36,882
Interest credited to policyholder account liabilities	**530,753**	1,174,238
Operating expenses	**401,617**	394,110
Interest expense	**67,332**	65,866
Policy acquisition expenses	**473,649**	527,967
Total benefits and expenses	**2,181,098**	2,858,115
Income before income taxes	**158,393**	492,667
Income tax expense	**26,030**	100,543
Net income	**$ 132,363**	$ 392,124
Other comprehensive (loss) income, net of tax:		
Unrealized losses on available-for-sale investments	**$ (2,808,295)**	$ (260,393)
Cash flow hedge on debt issuance	**41**	41
Change in funded status of retirement plans	**16,607**	9,575
Total other comprehensive loss	**(2,791,647)**	(250,777)
Comprehensive (loss) income	**$ (2,659,284)**	$ 141,347

The accompanying notes are an integral part of these financial statements.

NLV Financial Corporation and Subsidiaries
Consolidated Statements of Changes in Stockholder's Equity
For the Years Ended December 31, 2022 and 2021

(in thousands)	Class A Common Stock	Class B Common Stock	Preferred Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
December 31, 2020	$ —	$ —	$ —	$ 3,204,917	$ 1,223,417	$ 4,428,334
Net income	—	—	—	392,124	—	392,124
Other comprehensive loss	—	—	—	—	(250,777)	(250,777)
Total comprehensive income					(250,777)	141,347
December 31, 2021	$ —	$ —	$ —	$ 3,597,041	$ 972,640	$ 4,569,681
Net income	—	—	—	**132,363**	**—**	**132,363**
Other comprehensive loss	—	—	—	**—**	**(2,791,647)**	**(2,791,647)**
Total comprehensive loss					**(2,791,647)**	**(2,659,284)**
December 31, 2022	**$ —**	**$ —**	**$ —**	**$ 3,729,404**	**$ (1,819,007)**	**$ 1,910,397**

The accompanying notes are an integral part of these financial statements.

NLV Financial Corporation and Subsidiaries
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021

(in thousands)	**2022**	2021
Cash flows from operating activities:		
Net income	**$ 132,363**	$ 392,124
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for deferred income taxes	**9**	1,610
Interest credited to policyholder account liabilities	**530,753**	1,174,238
Amortization of deferred policy acquisition costs	**294,936**	359,114
Policy and contract charges	**(1,079,828)**	(971,857)
Net investment losses (gains)	**6,143**	(175,384)
Change in fair value of derivatives	**627,509**	(384,382)
Change in corporate owned life insurance policies	**(23,277)**	(29,530)
Depreciation	**33,322**	36,637
Other	**3,384**	(11,521)
Changes in assets and liabilities:		
Accrued investment income	**(40,432)**	(13,615)
Deferred policy acquisition costs	**(730,470)**	(667,426)
Policy liabilities	**246,945**	249,431
Other assets and liabilities	**(37,460)**	60,747
Net cash (used) provided by operating activities	**(36,103)**	20,186
Cash flows from investing activities:		
Proceeds from sales, maturities and repayments of investments	**2,527,692**	4,385,353
Cost of investments acquired	**(4,692,172)**	(6,557,200)
Property and equipment additions	**(27,501)**	(29,594)
Change in policy loans	**(100,207)**	(14,826)
Change in short term investments	**(260,362)**	176,800
Change in short term broker collateral	**(324,810)**	(16,272)
Other	**60,305**	28,114
Net cash used by investing activities	**(2,817,055)**	(2,027,625)
Cash flows from financing activities:		
Policyholders' deposits	**4,210,572**	3,726,319
Policyholders' withdrawals	**(1,863,739)**	(1,749,224)
Advances from Federal Home Loan Banks	**519,278**	1,132,990
Repayments to Federal Home Loan Banks	**(467,141)**	(1,109,049)
Change in other deposits	**11,953**	(1,676)
Net cash provided by financing activities	**2,410,923**	1,999,360
Net decrease in cash	**(442,235)**	(8,079)
Cash and restricted cash:		
Beginning of year	**640,397**	648,476
End of year	**$ 198,162**	$ 640,397
Supplemental disclosure of cash flow information:		
Interest paid	**$ 63,406**	$ 63,398
Income taxes paid	**$ 56,014**	$ 55,461

The accompanying notes are an integral part of these financial statements.

NOTE 1 – NATURE OF OPERATIONS AND STRUCTURE

NLV Financial Corporation ("NLVF") and its subsidiaries and affiliates (collectively, the "Company") offer a broad range of life insurance and annuity products. Through its insurance operations, which include National Life Insurance Company ("National Life"), which was chartered in Vermont in 1848, and Life Insurance Company of the Southwest ("LSW"), a Texas domiciled stock life insurer, which is a wholly-owned subsidiary of National Life. The Company employs approximately 1,230 people, primarily concentrated in Montpelier, Vermont and Addison, Texas.

On January 1, 1999, pursuant to a mutual holding company reorganization, National Life converted from a mutual to a stock life insurance company. Concurrent with the conversion to a stock life insurance company, National Life created a closed block of insurance and annuity policies (the "Closed Block"). Prior to the conversion, policyowners held policy contractual and membership rights from National Life. The reference to "policyowner," "policyholder" or "policy" throughout this document includes both life insurance and annuity contract owners. The contractual rights, as defined in the various insurance and annuity policies, remained with National Life after the conversion. This reorganization was approved by policyowners of National Life and was completed with the approval of the Commissioner of the Vermont Department of Financial Regulation. Membership interests held by policyowners of National Life at December 31, 1998, were converted to membership interests in National Life Holding Company ("NLHC"), a mutual insurance holding Company created for this purpose. Under the provisions of the reorganization of National Life from a mutual to a stock life insurance company, National Life issued 2.5 million common stock $1 par shares to its parent, NLVF, as a transfer from retained earnings.

All of National Life's outstanding shares are currently held by its parent, NLVF, which is a wholly-owned subsidiary of NLHC, the mutual holding company. Policyholders of National Life hold membership interests in NLHC. NLHC and its subsidiaries are collectively known as the National Life Group. NLHC has ownership of all of NLVF's common stock class B shares outstanding. NLVF has assets and operations primarily related to the issuance of debt and as the sponsor of certain employee related benefit plans. Under the terms of the reorganization, NLHC must always hold a majority of the voting shares of NLVF.

On March 6, 2015, National Life Distribution, LLC ("NLD") was formed as a subsidiary of LSW. NLD serves as a master agency for the Company's field force operations. National Life and LSW incur commission expenses based on applicable product commission schedules agreed to with NLD.

On August 5, 2015, Catamount Reinsurance Company ("Catamount") was formed as a subsidiary of National Life. Catamount is a special purpose financial insurance company domiciled in the state of Vermont. Catamount entered into a coinsurance with funds withheld agreement with National Life to reinsure the majority of in force Closed Block policies for statutory reporting. In 2016, the Catamount legal entity was transferred as a dividend to NLVF.

On August 17, 2016, Longhorn Reinsurance Company ("Longhorn") was formed as a subsidiary of National Life. Longhorn is a special purpose financial insurance company domiciled in the state of Vermont. Longhorn entered into a coinsurance with funds withheld agreement with LSW to reinsure certain indexed universal life ("IUL") insurance policies issued by LSW from January 1, 2011 through December 31, 2016 for statutory reporting. In 2019, the Longhorn legal entity was transferred as a dividend to NLVF.

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

The Company's leading annuity product lines are indexed annuities and fixed interest rate annuities. The

NOTE 1 – NATURE OF OPERATIONS AND STRUCTURE (continued)

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

The Company provides this broad range of life insurance and annuity products to a national client base through an extensive network of independent agents and an affiliated distribution channel. The Company focuses on serving Middle America in its target market of customers with household income of between $75,000 and $150,000, offering products with benefits that help Middle America customers meet needs during their lifetime, including lifetime income in retirement and accelerated death benefits if the insured becomes terminally, chronically or critically ill. In its individual annuity business, the Company focuses on the 403(b) K-12 educator markets. The Company offers products to meet financial and business planning needs, including estate, business succession and retirement planning, and deferred compensation and other key executive benefit planning for small business owners, professionals, and other middle to upper income individuals. The Company has in excess of 1,200,000 customers and, through its subsidiaries, is licensed to do insurance business in all 50 states and the District of Columbia. National Life is licensed to do business in all 50 states and the District of Columbia. LSW is licensed in 49 states and the District of Columbia. Catamount and Longhorn are licensed to do business in Vermont only. About 39% of the Company's total collected premiums and deposits are from residents of the states of California and Texas.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

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").

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.

Use of 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 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 insurance contracts; policy liabilities; valuation of investments; derivative instruments; and embedded derivatives; determination of hedging effectiveness on interest rate swaps; evaluation of other-than-temporary impairments; valuations related to benefit plans, income taxes 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 Company's consolidated financial position, results of operations or cash flows.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent Events

The Company has evaluated events subsequent to December 31, 2022 and through the consolidated financial statement issuance date of February 22, 2023. The Company has not evaluated subsequent events after the issuance date for presentation in these consolidated financial statements.

Cash and Restricted Cash

Included in cash are cash equivalents which consist of commercial paper with maturities of three months or less.

At December 31, 2022 and 2021, the Company had restricted cash of $185.8 million and $510.6 million, respectively, related to broker collateral on the Company's derivative investments.

Certain non-cash transactions have been excluded from the statement of cash flows in 2022 and 2021. In 2022, these amounts include capitalized bond interest of $5.5 million, loss from equity method partnerships of ($2.8) million and exchange transactions resulting in net bond disposals of $8.6 million, a partnership acquisition of $8.6 million, and separate account seed money transfer of $13.7 million. In 2021, these amounts include capitalized bond interest of $9.5 million, income from equity method partnerships of $8.0 million and exchange transactions resulting in net disposals of $8.6 million and a partnership acquisition of $7.1 million.

Short Term Investments

Short term investments include money market accounts that are carried at net asset value ("NAV") which approximates fair value. These short-term investments include liquid debt instruments purchased with original maturities of one year or less.

Investments

The Company's investment portfolio consists primarily of available-for-sale ("AFS") debt securities and equity securities. These securities are reported at fair value. Changes in the fair values of AFS debt securities are reflected in other comprehensive income ("OCI") after adjustments for related deferred policy acquisition costs, policyholder dividend obligations, loss reserve recognition, reserves, and deferred income taxes. Changes in the fair values of equity securities are reflected through net investment gains and (losses) in the Consolidated Statements of Comprehensive Income. When determining fair value, the Company utilizes observable market inputs and considers available data from a third-party pricing service, independent brokers and pricing matrices. Publicly available prices are used whenever possible. In the event that publicly available pricing is not available, the securities are submitted to independent brokers for pricing, or they are valued using a pricing matrix, which maximizes the use of observable inputs that include, but are not limited to, reported trades, benchmark yields, issuer spreads, bids, offers and/or cash flows. This process includes quantitative and qualitative analysis and is performed by the Company's investment professionals.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recognition and Presentation 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 to identify securities, using certain quantitative and qualitative characteristics, that could potentially be impaired. These identified securities are subjected to an enhanced analysis to determine if the impairments are other-than-temporary.

A debt security is deemed to be other-than-temporarily impaired if it meets the following conditions: (1) the Company intends to sell, or it is more likely than not the Company will be required to sell, the security before a recovery in value, or (2) the Company does not expect to recover the entire amortized cost basis of the security. If the Company intends to sell, or it is more likely than not that the Company will be required to sell, the security before a recovery in fair value, a charge is recorded in net investment gains and (losses) equal to the difference between the fair value and amortized cost basis of the security. For those other-than-temporarily impaired debt securities which do not meet the first condition and for which the Company does not expect to recover the entire amortized cost basis, the difference between the security's amortized cost basis and the fair value is separated into the portion representing a credit impairment, which is recorded in net investment gains and (losses), and the remaining impairment, which is recorded in OCI. Generally, the Company determines a security's credit impairment as the difference between its amortized cost basis and its best estimate of expected future cash flows discounted at the security's effective yield prior to impairment. The remaining non-credit impairment, which is recorded in OCI, is the difference between the security's fair value and the Company's best estimate of expected future cash flows discounted at the security's effective yield prior to the impairment. The remaining non-credit impairment typically represents current market liquidity, risk premiums, and interest rate fluctuations. The previous amortized cost basis less the impairment recognized in net investment gains and (losses) becomes the security's new cost basis.

Debt securities that are in an unrealized loss position are reviewed quarterly to determine if the decline in fair value would be considered other-than-temporary based on certain quantitative and qualitative factors. The primary factors considered in evaluating whether a decline in value is other-than-temporary include: (a) the length of time and extent to which the fair value has been less than cost or amortized cost and the expected recovery period of the security, (b) the financial condition, credit rating, and future prospects of the issuer, (c) whether the debtor is current on contractually obligated interest and principal payments, (d) the intent and ability of the Company not to sell the investment prior to anticipated recovery, and (e) the payment structure of the security.

For mortgage-backed or other collateralized structured debt securities, the Company considers factors including, but not limited to, commercial and residential property value declines that vary by property type and location, and average cumulative collateral loss rates that vary by vintage year. These assumptions require the use of significant management judgment and include the probability of issuer default and estimates regarding timing and amount of expected recoveries, which may include estimating the underlying collateral value. In addition, projections of expected future debt security cash flows may change based upon the new information regarding the performance of the issuer and/or underlying collateral such as changes in the projections of the underlying property value estimates.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recognition and Presentation of Other-Than-Temporary Impairments (continued)

The Company's best estimate of future cash flows involves assumptions including, but not limited to, various performance indicators, such as historical and projected default and recovery rates, credit ratings, current delinquency rates, loan-to-value ratios and the possibility of obligor re-financing. Estimating the underlying future cash flows is a quantitative and qualitative process, which incorporates information received from third-party sources along with certain internal assumptions and judgments regarding the future performance of the underlying collateral. Where possible, this data is benchmarked against third party sources.

Trading Debt Securities

Assets held in a segregated custody account in support of a modified coinsurance arrangement have been designated as trading debt securities. Trading debt securities are reported at fair value with changes in fair value recognized in net investment gains and (losses). See Reinsurance Note 6 for additional information on the modified coinsurance arrangement.

Mortgage Loans

Mortgage loans on commercial 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 borrowers' 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 and loss frequency and severity estimates. Changes in the valuation allowance are recognized through net investment gains and (losses).

For mortgage loans that are deemed impaired, an impairment loss is recognized through net investment 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.

Policy Loans

Policy loans are reported at their unpaid balance and are fully collateralized by related cash surrender values.

Real Estate

Real estate acquired in satisfaction of debt is classified either as held for investment or available for sale and transferred to real estate from mortgage loans at the lower of cost or fair value. Real estate investments held for investment purposes are reported at depreciated cost and real estate investments classified as available for sale are reported at the lower of cost or fair value, less the costs to sell, and are not depreciated. In evaluating real estate impairments, the Company considers, among other things, the fair value of the real estate compared to its carrying value.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other Invested Assets

Investments in limited partnerships are included in other invested assets. Partnerships over which the Company does not have significant influence are carried at fair value. The Company obtains the fair value of these investments generally from NAV information provided by the general partner or manager of the limited partnership, the financial statements of which generally are audited annually. Changes in the fair value of these limited partnerships are included in net investment gains and (losses) within the Consolidated Statements of Comprehensive Income. Limited partnerships over which the Company has significant influence are accounted for using the equity method. Under the equity method, the Company's pro-rata share of the partnerships' profits and losses are recognized in the Company's net investment income, and dividends received from the partnerships are recognized as return of capital up until the point that the initial investment has been fully recovered.

The Company receives U.S. Treasuries as broker collateral on the Company's derivative investments. These assets are considered restricted and are included in other invested assets. The Company also receives cash as broker collateral. For additional information, see Cash and Restricted Cash herein.

The Company's investments in affordable housing projects are included in other invested assets and are amortized using the proportional amortization method within income tax expense. The associated tax credits are also included as a component of income tax expense. For additional information, see Note 8.

The Company's investments in solar tax credit entities are included in other invested assets and are accounted for using the equity method. The Company's share of the entities' profits and losses are recognized as a component of net investment income.

Variable Interest Entities

A variable interest entity ("VIE") is a legal entity that does not have sufficient equity at risk to finance its activities without additional subordinated financial support, or is structured such that equity investors lack the ability to make significant decisions related to the entity's operations through voting rights or do not substantively participate in the gains and losses of the entity. The primary beneficiary, which is the interest holder that has both the power to direct the activities that most significantly affect the VIE's economic performance and the obligation to absorb losses or the right to receive benefits that could be significant to the VIE, is required to consolidate the VIE. The Company has variable interests in VIEs through a certain investment in notes and other invested assets. At December 31, 2022 and 2021, the Company had no interests in VIEs that met the criteria for consolidation. See Note 5 for additional information.

Derivatives

Derivatives include long options, short options, swaptions, interest rate swaps, and futures contracts. All derivatives are carried at fair value. Changes in the fair value of derivatives not designated as hedges are reflected in net investment income.

The Company designates certain interest rate swaps as fair value hedges when they have met the requirements to be deemed fair value hedges. The interest rate swaps that are designated as fair value hedges are used to convert fixed rate assets to floating rate. The Company recognizes unrealized and realized gains and losses on the swaps and on the related hedged items within net investment income. For additional information, see Note 5.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net investment gains and (losses)

Net investment gains and (losses) on the Company's Consolidated Statements of Comprehensive Income include realized capital gains (losses) which are recognized using the specific identification method. Net realized capital gains (losses) include adjustments for related deferred policy acquisition costs, sales inducement assets, reserves, policyholder dividend obligations, income taxes, and impairment of capitalized software.

Accumulated Other Comprehensive Income ("AOCI")

The balance of and changes in each component of AOCI attributable to the Company for the years ended December 31, 2022 and 2021, are as follows (in thousands):

	Unrealized gains (losses) on available-for-sale investments	Cash flow hedge on debt issuances	Change in funded status of retirement plans	Total
Balance, December 31, 2020	$ 1,340,605	$ (517)	$ (116,671)	$ 1,223,417
Other comprehensive loss before reclassifications	(246,244)	41	1,272	(244,931)
Amounts reclassified from AOCI	(14,149)	—	8,303	(5,846)
Balance, December 31, 2021	$ 1,080,212	$ (476)	$ (107,096)	$ 972,640
Other comprehensive loss before reclassifications	**(2,819,368)**	**41**	**9,120**	**(2,810,207)**
Amounts reclassified from AOCI	**11,073**	**—**	**7,487**	**18,560**
Balance, December 31, 2022	**$ (1,728,083)**	**$ (435)**	**$ (90,489)**	**$ (1,819,007)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accumulated Other Comprehensive Income (continued)

Reclassifications out of AOCI during the year ended December 31, 2022 were as follows (in thousands):

AOCI component	**Amounts reclassified out of AOCI (1)**	**Affected line item in the Consolidated Statements of Comprehensive Income**
Unrealized gains (losses) on available-for-sale investments	**$ (10,097)**	Sale of investments - in net investment gains and (losses)
	(3,919)	Impairment expense - in net investment gains and (losses)
	$ (14,016)	Total before tax
	2,943	Income tax benefit
	(11,073)	Net of tax
Change in funded status of retirement plans (2)	**$ (9,477)**	Amortization of actuarial gain/(loss) - in operating expenses
	1,990	Income tax benefit
	(7,487)	Net of tax
Total reclassifications for the period	**$ (18,560)**	Net of tax

(1) Positive amounts indicate gains/benefits reclassified out of AOCI. Negative amounts indicate losses/costs reclassified out of AOCI.
(2) These AOCI components are included in the computation of net periodic pension cost (see Note 9 for additional details).

Reclassifications out of AOCI during the year ended December 31, 2021 were as follows (in thousands):

AOCI component	Amounts reclassified out of AOCI (1)	Affected line item in the Consolidated Statements of Comprehensive Income
Unrealized gains (losses) on available-for-sale investments	$ 25,282	Sale of investments - in net investment gains and (losses)
	(7,372)	Impairment expense - in net investment gains and (losses)
	$ 17,910	Total before tax
	(3,761)	Income tax benefit
	14,149	Net of tax
Change in funded status of retirement plans (2)	$ (10,510)	Amortization of actuarial gain/(loss) - in operating expenses
	2,207	Income tax benefit
	(8,303)	Net of tax
Total reclassifications for the period	$ 5,846	Net of tax

(1) Positive amounts indicate gains/benefits reclassified out of AOCI. Negative amounts indicate losses/costs reclassified out of AOCI.
(2) These AOCI components are included in the computation of net periodic pension cost (see Note 9 for additional details).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Federal Home Loan Banks

National Life is a member of the Federal Home Loan Bank of Boston ("FHLB Boston") which provides National Life with access to a secured asset-based borrowing capacity. National Life had a letter of credit of $25.0 million and $40.0 million as of December 31, 2022 and 2021, and pledged collateral of $354.7 million and $442.7 million as of December 31, 2022 and 2021, respectively. Outstanding advances under this program were $168.1 million and $173.2 million as of December 31, 2022 and 2021, respectively. The membership requires an investment in the common stock of FHLB Boston. The common stock is redeemable by FHLB Boston. It is considered restricted and is reported in other invested assets at par value.

LSW is a member of the Federal Home Loan Bank of Dallas ("FHLB Dallas") which provides LSW with access to a secured asset-based borrowing capacity, including the ability to obtain loans as an alternative source of liquidity and to issue funding agreements. LSW had pledged collateral of $3.2 billion and $2.8 billion as of December 31, 2022 and 2021, respectively. Outstanding advances under this program were $2.1 billion and $2.0 billion as of December 31, 2022 and 2021, respectively. The membership requires an investment in the common stock of FHLB Dallas. The common stock is redeemable by FHLB Dallas. It is considered restricted and is reported in other invested assets at par value.

All of the outstanding advances in the form of funding agreements are included in policyholder account liabilities. The proceeds from these advances have been invested in a pool of fixed and floating rate income assets. The Company had no outstanding advances in the form of borrowings as of December 31, 2022 and 2021. Total interest expense of $3.3 million and $618 thousand was paid to FHLB Boston in 2022 and 2021, respectively. Total interest expense of $40.1 million and $5.8 million was paid to FHLB Dallas in 2022 and 2021, respectively.

National Life repaid advances to FHLB Boston of $15.7 million and $30.5 million in 2022 and 2021, respectively. LSW repaid advances to FHLB Dallas of $451.4 million and $1.1 billion in 2022 and 2021, respectively.

Off-Balance Sheet Arrangements

In October 2021, NLVF entered into a facility agreement with a Delaware trust, unrelated to the Company, that gives the Company the right over a 30-year period to issue at any time up to $750 million of 4.161% Senior Notes due August 15, 2051 to the Delaware trust in exchange for a corresponding amount of U.S. Treasury securities held by the Delaware trust. The undrawn amount in association with the facility agreement is an off-balance sheet arrangement unless the Company were to exercise its issuance right. This agreement provides an alternative source of liquid assets that the Company can access at its discretion. For additional details, see Note 10.

Policy Acquisition Expenses

Commissions and other costs that are related directly 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. Deferred policy acquisition costs for these products are adjusted for related unrealized gains (losses) on available-for-sale debt securities and prior to 2019, equity securities, (after deducting any related policyholder dividend obligations), through AOCI, net of related deferred income taxes. DAC for non-participating term and whole life insurance and participating limited-payment and single-payment life insurance is amortized in relation to premium income using assumptions consistent with those used in computing policy benefit liabilities.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Policy Acquisition Expenses (continued)

At least 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 changes in projected investment rates, interest crediting rates, policyholder dividend rates, mortality, expenses, contract lapses, withdrawals, surrenders and amortization period. The adjustments to DAC to reflect the update of the actuarial assumptions in 2022 and 2021 resulted in a $42.7 million net increase and $54.3 million net increase in policy acquisition expenses, respectively. The update of actuarial assumptions also resulted in, to a lesser extent, adjustments to sales inducement assets and liabilities and policy liabilities.

The Company offers various sales incentives including bonus interest credited on its annuity products at the point of sale, as well as higher interest crediting rates in the first policy year. The Company capitalizes and amortizes these sales inducements to the extent they are explicitly identified in the contract at inception, incremental to amounts credited on similar contracts without bonus interest, and higher than the contract's expected ongoing crediting rates for periods after the bonus period. Sales inducement assets are reported within DAC and are amortized based on the underlying gross profits of the products, with amortization adjusted periodically to reflect actual experience, as well as updates to assumptions for future estimated gross profits.

For internal replacements of insurance contracts, the Company determines whether the new contract has substantially changed from the original contract based on certain criteria such as whether the change requires additional underwriting, pricing that was not contemplated in the original contract or significant benefit changes. If the Company determines that the contract has substantially changed, the deferred acquisition costs related to the original contract are written off through a charge to policy acquisition expenses.

Property and Equipment

Property and equipment is reported at depreciated cost. Assets are depreciated over their useful life using the straight-line method of depreciation. The table below outlines the useful life for each asset class:

Asset Class	Years
Software	5
Equipment	5
Furniture	7
Renovations/semi-permanent fixtures	20
Home office/other buildings	40

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment (continued)

The tables below reflect the cost and accumulated depreciation for each major asset class as of December 31, 2022 and 2021 (in millions):

	December 31, 2022		
	Cost	**Accumulated Depreciation**	**Carrying Value**
Software	**$ 353.4**	**$ (250.8)**	**$ 102.6**
Equipment	**46.6**	**(43.0)**	**3.6**
Furniture	**30.8**	**(25.7)**	**5.1**
Renovations	**19.3**	**(6.6)**	**12.7**
Home office	**112.5**	**(77.2)**	**35.3**
	$ 562.6	**$ (403.3)**	**$ 159.3**

	December 31, 2021		
	Cost	Accumulated Depreciation	Carrying Value
Software	$ 329.7	$ (225.9)	$ 103.8
Equipment	45.1	(40.9)	4.2
Furniture	29.5	(23.7)	5.8
Renovations	18.9	(5.6)	13.3
Home office	110.9	(73.8)	37.1
	$ 534.1	$ (369.9)	$ 164.2

Depreciation expense recognized in operating expenses was $33.5 million and $36.7 million for the years ended December 31, 2022 and 2021, respectively.

Corporate Owned Life Insurance

The Company holds life insurance contracts on certain members of management and other key individuals. The Company made no corporate owned life insurance (“COLI”) purchases in 2022 or 2021. The Company’s investment in COLI is reported at the cash surrender value of these COLI contracts, which totaled $573.9 million and $550.7 million at December 31, 2022 and 2021, respectively.

COLI income includes the net change in cash surrender value and any benefits received or accrued. COLI income was $29.0 million and $29.5 million in 2022 and 2021, respectively, and is included in other income.

Receivable from Agents

The Company accrues receivables for amounts due from agents. These amounts due can take various forms including commissions recoverable from policy lapses or surrenders. As of December 31, 2022, and 2021, the Company had receivables from agents of $98.2 million and $94.4 million, respectively, which are included in other assets on the Consolidated Balance Sheets. These receivables are reported net of an accrued valuation allowance if it is deemed that amounts may not be collectible. The allowance for receivables from agents was $11.1 million and $10.2 million as of December 31, 2022 and 2021, respectively.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Separate Accounts

Variable products are reported within the separate accounts when investment risk is borne by the policyholder, investment income and investment gains and losses accrue directly to the policyholder, and the separate account meets additional accounting criteria to qualify for separate account treatment. The assets supporting the variable portion of variable annuity and variable universal life contracts that qualify for separate account treatment are carried at fair value and reported as separate account assets, with an equivalent summary total reported as separate account liabilities. Liabilities for minimum guaranteed benefits related to separate account policies are included in policy liabilities. Separate account results related to policyholders' interests are excluded from the Company's consolidated results of operations.

The assets of the Company's separately funded pension plans are held in the Company's separate accounts at fair value.

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 4.1% and 4.3% as of December 31, 2022 and 2021, respectively.

Policy benefit liabilities for non-participating life insurance, disability income insurance, 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 universal life insurance and investment-type annuities represent amounts that inure to the benefit of the policyholders before surrender charges. Policyholder account liabilities for indexed life insurance and annuity liabilities consist of a combination of underlying account value and embedded derivatives. The underlying account value is primarily based on deposits plus any interest credited, less amounts assessed for mortality, administrative and other policy fees. The embedded derivative component represents the fair value of the Company's future obligations related to interest crediting that is based on the performance of various indexes, as specified in the respective contracts. Such embedded derivatives are carried at fair value, with the change in fair value recorded through interest credited to policyholder account liabilities.

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, projected withdrawal and surrender activity, the level and limits on contract participation in any future increases in the underlying indexes, and an explicit risk margin for policyholder behavior, as well as a margin to reflect the impact the Company's own credit rating would have in the view of a market participant.

The guaranteed minimum interest rates for the Company's fixed interest rate annuities range from 0.1% to 5.25%. The guaranteed minimum interest rates for the Company's fixed interest rate universal life insurance policies range from 1.0% to 5.0%. These guaranteed minimum rates are before deduction for any policy administration fees or mortality charges.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Policy Liabilities (continued)

As part of the Company's annual actuarial assumption update, certain assumptions were revised for various blocks of business, including premium persistency, investment income, mortality, pricing, and lapse and surrender rates, which resulted in a $31.3 million net decrease and $37.1 million net increase in policy liabilities as of December 31, 2022 and 2021, respectively.

The Company tests reserves for any premium deficiency using best estimate assumptions. If a deficiency is found to exist, an additional reserve is typically recorded. There were no increases to the premium deficiency reserve in 2022 or 2021. The Company also tests reserves for adequacy assuming that all unrealized gains (losses) on investments are realized, and posts shadow reserves for any deficiency. As of December 31, 2022 and 2021, the shadow loss reserve was $0 and $12.0 million, respectively.

The Company also held a shadow reserve related to its Guaranteed Lifetime Income Rider in policy benefit liabilities of ($229.1) million and $156.5 million as of December 31, 2022 and 2021. The change in this shadow reserve is recorded in unrealized gains (losses) on available-for-sale investments within other comprehensive income. The net impact to accumulated other comprehensive income after shadow DAC and tax offsets was ($128.6) million and $85.2 million as of December 31, 2022 and 2021, respectively.

Reserves are established, as appropriate, for separate account product guarantees. These reserves, which are not significant, are primarily related to guaranteed minimum death benefits on variable annuities equal to the amount of premiums paid less prior withdrawals (regardless of investment performance). In addition, a policyholder less than seventy-six years of age may elect, at issue, to purchase an enhanced death benefit rider, which pays a benefit on death equal to the sum of the highest prior anniversary value and the net of premiums received and funds withdrawn since that date. Coverage from this rider ceases at age eighty. Guaranteed death benefits are reduced dollar-for-dollar for partial withdrawals. Partial withdrawals from policies issued after November 1, 2003 will use the pro-rata method. Separate account product guarantee reserves are calculated as a percentage of collected mortality and expense risk and rider charges, with the current period change in reserves reported in policy benefits.

The Company offers persistency bonuses on certain products, whereby policyholders can receive additional interest credits by maintaining their policy in force for predetermined durations. These additional interest credits are accrued ratably over the bonus period and adjusted for actual persistency.

The components of the sales inducement liability ("SIL") are shown below (in thousands), and are included in policy liabilities:

	SIL	
	2022	2021
Beginning of year	**$ 99,316**	$ 93,926
Increase due to interest, amortization and assumption updates	**5,072**	8,080
Payments	**(2,184)**	(2,690)
End of year	**$ 102,204**	$ 99,316

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reinsurance

Amounts recoverable from and payable to reinsurers are estimated in a manner consistent with the related liabilities associated with the reinsured policies. Reinsurance premiums and benefits paid or provided are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts.

Under a modified coinsurance ("modco") arrangement through which a quota share of new sales of certain indexed annuity products are ceded to an unaffiliated reinsurer, we retain the reserves and the assets supporting these reserves. The assets are held in a segregated custody account and have been designated as trading debt securities. Investment results from these assets, including gains and losses from sales, are passed directly to the reinsurer, and as a result we record a modco embedded derivative. The modco embedded derivative is recorded at fair value within amounts payable to reinsurers. Changes in the modco embedded derivative, which are equal to and offset by changes in the fair value of the assets, are reported in net investment gains and (losses).

Policyholders' Deposits

Policyholders' deposits primarily consist of death benefits held in interest-bearing accounts for life insurance contract beneficiaries.

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 arising from the Closed Block. Dividends are based on a scale that seeks to reflect the relative contribution of each group of policies to LSW's and National Life's overall operating results. The dividend scale is approved annually by the Board of Directors for the respective company.

Recognition of Insurance Revenues and Related Expenses

Premiums from traditional life insurance products, including term and whole life, and from certain annuities are recognized as revenue when due from the policyholder. Benefits and expenses are matched with income by providing for policy benefit liabilities and the deferral and amortization of policy acquisition costs so as to recognize profits over the life of the policies.

Premiums and surrenders from universal life insurance and investment-type annuities are reported as increases and decreases, respectively, in policyholder account liabilities. Revenues for these policies consist of mortality charges, policy administration fees, and surrender charges deducted from policyholder account liabilities. Policy benefits charged to expense include benefit claims in excess of related policyholder account liabilities.

Premiums from disability income policies are recognized as revenue over the period to which the premiums relate. Benefits and expenses are matched with income by providing for policy benefit liabilities and the deferral and amortization of policy acquisition costs so as to recognize profits over the life of the policies.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

NOTE 3 – NEW ACCOUNTING PRONOUNCEMENTS

Adopted

Leases
In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* which requires lease assets and lease liabilities to be recognized on the balance sheet, and key information about leasing arrangements to be disclosed. In March 2019, the FASB issued *ASU 2019-01 Leases (Topic 842)* which responds to several stakeholder inquiries regarding the implementation of ASU 2016-02. In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities,* to defer the effective date of Topic 842. For all entities that have not yet issued financial statements as of June 3, 2020, the pronouncement was effective for fiscal years beginning after December 15, 2021.

In November 2021, the FASB issued ASU 2021-09, *Leases (Topic 842): Discount Rate for Lessees that are not Public Business Entities,* to provide lessees that are not public business entities with a practical expedient that allows them to elect, as an accounting policy, to use a risk-free rate as the discount rate for all leases by class of underlying asset rather than at the entity-level. The Company adopted the risk-free rate as the discount rate for all leases. The adoption of this guidance did not have a material impact on the Company's consolidated results of operations or cash flows. See Note 11 for updated disclosures.

Compensation – Retirement Plans
In August 2018, the FASB issued ASU 2018-14 *Compensation-Retirement Plans-Defined Benefit Plans-General (Subtopic 715-20): Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans.* This guidance is intended to improve the effectiveness of defined benefit plan disclosures in the notes to the financial statements. For non-public entities, the pronouncement was effective for fiscal years beginning after December 15, 2021. The adoption of this standard did not have a material effect on the Company's consolidated financial condition, results of operations or cash flows. See Note 9 for updated disclosures.

Income Taxes
In December 2019, the FASB issued ASU 2019-12 *Income Taxes (Topic 740) – Simplifying the Accounting for Income Taxes*. This ASU update removes certain exceptions to the general principles in ASU 740, Income Taxes, including intra-period tax allocation when there is a loss from continuing operations, foreign subsidiary treatment under certain conditions and calculating interim income taxes when the year-to-date loss exceeds the anticipated loss. This update also clarifies and amends existing guidance related to changes in tax laws, business combinations and employee stock plans, among others. The updated guidance was effective for fiscal years beginning after December 15, 2021. The adoption of this standard did not have a material effect on the Company's consolidated financial condition and results of operations.

NOTE 3 – NEW ACCOUNTING PRONOUNCEMENTS (continued)

Not Yet Adopted

Credit Losses
In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (CECL)*. The guidance requires an entity to record an estimate for current expected credit losses for most financial assets not reported at fair value, premiums receivable, amounts recoverable from reinsurers, and certain off-balance sheet credit exposures. The estimate for expected credit losses should be based on relevant historical information, current information, and reasonable and supportable forecasts. In addition, the standard modifies the impairment model for AFS debt securities to remove the requirement for entities to consider the length of time the fair value has been below amortized cost and subsequent fair value recoveries, or declines, when determining if an asset is impaired. Both the current expected credit loss and AFS debt securities impairment models employ an allowance methodology to record impairments that can be modified in following periods due to improvements in expected cash flows. For non-public entities, the pronouncement is effective for fiscal years beginning after December 15, 2022. This guidance will be applied through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. A prospective transition approach is required for debt securities for which an other-than-temporary impairment had been recognized before the effective date.

For assets in scope of CECL, the Company will calculate an allowance for its expectation of lifetime credit losses on pool(s) of assets that are in scope of the standard. The allowance for credit losses will be based on available evidence on the credit quality of the pool. Available evidence will include past events, current conditions, and reasonable and supportable forecasts. The allowance will be adjusted on periodic basis to reflect changes in the pool(s) and other credit-related factors that could impact the Company's assessment of reasonable and supportable forecasts.

For assets in scope of the modified AFS impairment model, the Company will calculate an allowance for credit losses on the individual securities when (i) the amortized cost basis is less than the fair value, (ii) if the Company has determined that it does not intend to sell, or is more likely than not, required to sell, and (iii) if a qualitative assessment of impairment factors indicate that a credit loss exists. If the Company has determined that it will sell or will more likely than not be required to sell, a security in scope for an impairment assessment, the Company will record a write-down of the asset based on the difference between the asset's amortized cost basis and fair value. If the Company does not intend to sell or is not more likely than not required to sell, an AFS debt security in scope for impairment, the calculation for an allowance is based on the difference between the amortized cost basis and the present value of discounted cash flows of the investment, subject to the asset's fair value floor. For previously impaired AFS debt securities in which an allowance has been assessed, the allowance is subject to reversal in future periods if conditions indicate that the credit quality of the asset has improved.

The Company does not expect the adoption of ASC Update No. 2016-13 and the related updates to have a material impact on its financial position or results of operations. Subsequent measurement under both the AFS impairment and CECL models will be reported to net income, including the reversal of previous impairments recognized under the AFS impairment methodology. There will be no impact to the Company's consolidated cash flows.

Long-Duration Contracts
In August 2018, the FASB issued ASU 2018-12 *Financial Services-Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts.* This guidance is intended to simplify and improve the recognition, measurement, presentation, and disclosure requirements for long-duration contracts issued by an insurance entity.

NOTE 3 – NEW ACCOUNTING PRONOUNCEMENTS (continued)

In November 2020, the FASB issued ASU 2020-11, *Financial Services—Insurance (Topic 944), Effective Date and Early Application*, to defer the effective date of Topic 944. For non-public entities, the pronouncement is effective for fiscal years beginning after December 15, 2024. Early application is still permitted. The Company is currently assessing the impact of this standard. The adoption of this standard is expected to have a material effect on the Company's consolidated financial condition and results of operations.

NOTE 4 – FAIR VALUE MEASUREMENTS OF ASSETS AND LIABILITIES

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price).

Fair value measurement requires consideration of three broad valuation techniques: (i) the market approach, (ii) the income approach, and (iii) the cost approach. Entities are required to determine the most appropriate valuation technique to use, given what is being measured and the availability of sufficient inputs. The guidance prioritizes the inputs to fair valuation techniques and allows for the use of unobservable inputs to the extent that observable inputs are not available.

The Company has categorized its assets and liabilities into a three-level hierarchy, based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The Company categorizes financial assets and liabilities recorded at fair value on the balance sheet as follows:

- **Level 1** - Unadjusted quoted prices accessible in active markets for identical assets or liabilities at the measurement date. The types of assets and liabilities utilizing Level 1 inputs include equity securities listed in active markets, U.S. Treasury securities, and certain short-term investments.

NOTE 4 – FAIR VALUE MEASUREMENTS OF ASSETS AND LIABILITIES (continued)

- **Level 2** - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data (market-corroborated inputs). The types of assets and liabilities utilizing Level 2 inputs generally include U.S. agency and government securities, mortgage-backed securities ("MBSs") and asset-backed securities ("ABSs"), corporate debt, private placement investments, preferred stocks, and derivatives, including options and interest rate swaps, and short term investments. Generally, the Company classifies debt securities in Level 2 as market activity is not deemed to be substantial enough to warrant classification as an active market. Separate account assets classified within this level are generally similar to those classified within this level for the general accounts.

- **Level 3** - Prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Inputs reflect management's best estimate about the assumptions market participants would use at the measurement date in pricing the asset or liability. Consideration is given to the risk inherent in both the method of valuation and the valuation inputs. Generally, the types of assets and liabilities utilizing Level 3 valuations are embedded derivative liabilities.

In many situations, inputs used to measure the fair value of an asset or liability position may fall into different levels of the fair value hierarchy. In these situations, the Company will determine the level in which the fair value falls based upon the lowest level input that is significant to the determination of the fair value. In most cases, both observable (e.g., changes in interest rates) and unobservable (e.g., changes in risk assumptions) inputs are used in the determination of fair values that the Company has classified within Level 3. Consequently, these values and the related gains and losses are based upon both observable and unobservable inputs. If inputs to pricing models that were previously unobservable become observable, then an asset or liability can be transferred from Level 3 to Level 2.

Determination of fair values

The Company determines the fair values of certain financial assets and financial liabilities based on quoted market prices where available and where prices represent fair value. The Company also determines fair value based on future cash flows discounted at the appropriate current market rate. Fair values reflect adjustments for counterparty credit quality, the Company's default spreads, liquidity, and, where appropriate, risk margins on unobservable parameters. In the event that the Company believes that quoted prices are not representative of the true market value, due to distressed sales or inactive markets, the Company may make adjustments to quoted prices to estimate fair value.

NOTE 4 – FAIR VALUE MEASUREMENTS OF ASSETS AND LIABILITIES (continued)

Valuation Techniques

Available-for-sale debt securities and short term investments - The fair value of AFS securities and short term investments in an active and orderly market (e.g. not distressed or forced liquidation) is determined by management after considering one of four primary sources of information: unadjusted quoted prices accessible in active markets for identical assets or liabilities at the measurement date, third-party pricing services, independent broker quotations, or pricing matrices. Security pricing is applied using a "waterfall" approach whereby publicly available prices are first sought from third-party pricing services; the remaining unpriced securities are submitted to independent brokers for prices; or lastly, securities are priced using an internal pricing matrix. Typical inputs used by these three pricing methods include, but are not limited to, reported trades, benchmark yields, issuer spreads, bids, offers, and/or cash flows, and prepayments speeds. Based on the typical trading volumes and the lack of quoted market prices for fixed maturities, third-party pricing services will normally derive the security prices from recent reported trades for identical or similar securities, making adjustments through the reporting date based upon available market observable information as outlined above. If there are no recent reported trades, the third-party pricing services and brokers may use matrix or model processes to develop a security price where future cash flow expectations are developed based upon collateral performance and are then discounted at a market rate.

Prices from third-party pricing services are often unavailable for securities that are rarely traded or are traded only in privately negotiated transactions. As a result, certain securities are priced via independent broker quotations which utilize inputs that may be difficult to corroborate with observable market based data. Additionally, the majority of these independent broker quotations are non-binding. A pricing matrix is used to price securities for which the Company is unable to obtain either a price from a third-party pricing service or an independent broker quotation, by discounting the expected future cash flows from the security by a developed market discount rate utilizing current credit spreads on comparable securities.

The Company has analyzed the third-party pricing services' valuation methodologies and related inputs, and has also evaluated the various types of securities in its investment portfolio to determine an appropriate fair value hierarchy level based upon trading activity and the observability of market inputs. Money markets included in short term investments are valued using NAV as a practical expedient and are not categorized in the fair value hierarchy. Most prices provided by a third-party pricing service are classified into Level 2 because the inputs used in pricing the securities are market observable. Due to a general lack of transparency in the process that brokers use to develop prices, valuations that are based on brokers' prices are classified as Level 3. Some valuations may be classified as Level 2 if the price can be corroborated.

Information specific to the valuation of certain classes of investment securities is as follows:

U.S. government obligations - The fair values of U.S. government obligations, which include U.S. Treasuries, are based on observable broker bids from active market makers and inter-dealer brokers, as well as yield curves from dealers for same or comparable issues. U.S. Treasury securities are actively traded and categorized in Level 1 of the fair value hierarchy.

Government agencies - Government agencies, authorities and subdivisions securities include U.S. agencies and municipal bonds. The fair values of municipal bonds are using market quotations from recently executed transactions, spread pricing models, as well as interest rates. Government agency securities are valued based on market observable yield curves, interest rates, and spreads. Municipal bonds and government agency securities are generally categorized as Level 2.

NOTE 4 – FAIR VALUE MEASUREMENTS OF ASSETS AND LIABILITIES (continued)

Valuation Techniques (continued)

Corporates - Corporate bonds as well as ABS are valued using cash flow models based on appropriate observable inputs such as market quotes, yield curves, interest rates, and spreads and are generally categorized as Level 2.

Private placements - Fair values of private placement securities are determined using industry accepted models based on observable spreads. These securities are generally categorized in Level 2 of the fair value hierarchy. However, in instances where significant inputs are unobservable, they are categorized as Level 3.

Mortgage backed securities - The fair value of the MBS are valued using cash flow models based on appropriate observable inputs such as market quotes, yield curves, interest rates, and spreads and are generally categorized as Level 2.

Included in the pricing of ABS, commercial mortgage-backed securities ("CMBS"), and residential mortgage-backed securities ("RMBS") are estimates of the rate of future prepayments of principal over the remaining life of the securities. Such estimates are derived based on the characteristics of the underlying structure and prepayment speeds previously experienced at the interest rate levels projected for the underlying collateral. Actual prepayment experience may vary from these estimates. RMBS consist primarily of FNMA and GNMA mortgage-backed securities.

Equity securities - The fair value of equity securities is based on unadjusted quoted market prices from a third party pricing service as well as primary and secondary broker quotes. These securities are generally categorized as Level 1 for common stocks and Level 2 for preferred stocks. Equity securities that are valued using NAV as a practical expedient are not categorized in the fair value hierarchy.

Trading debt securities - Fair values of exchange traded debt securities are based on unadjusted quoted market prices from pricing services as well as primary and secondary brokers/dealers. Trading debt securities are generally categorized as Level 2 of the fair value hierarchy.

Derivatives - Derivative instruments held by the Company include options, swaptions, interest rate swaps and futures contracts. Fair value of these over the counter ("OTC") derivative products is calculated using models such as the Black-Scholes option-pricing model, which uses pricing inputs observed from actively quoted markets, and is widely accepted by the financial services industry. The majority of the Company's OTC derivative products use this and other pricing models, and are categorized as Level 2. Fair values of futures are based on quoted prices which are observable and readily and regularly available in an active market. Therefore, futures are categorized as Level 1.

Other invested assets - Investments in limited partnerships are included in other invested assets. Limited partnerships do not have a readily determinable fair value, and as such, the Company values them at its pro-rata share of the limited partnership's NAV, or its equivalent. Investments in limited partnerships are not categorized in the fair value hierarchy. Also included in other invested assets are U.S. Treasuries held as restricted collateral, which are categorized as Level 1.

NOTE 4 – FAIR VALUE MEASUREMENTS OF ASSETS AND LIABILITIES (continued)

Valuation Techniques (continued)

Separate account assets - Separate account assets include assets supporting our variable products that primarily consist of investments in mutual funds which are carried at fair value utilizing NAV as a practical expedient. Separate account assets also include the assets of the Company's separately funded pension plans, which are primarily comprised of bonds and generally categorized as Level 2. See Note 9 for additional information on the fair value hierarchy and valuation techniques for these pension plan assets. Separate account assets that are valued using NAV as a practical expedient are not categorized in the fair value hierarchy.

Policyholder account liabilities - Embedded derivatives contained in equity-indexed annuity and life contracts are included in policyholder account liabilities at fair value. The fair value of these derivatives is measured based on actuarial and capital market assumptions related to projected cash flows over the expected lives of the contracts. Option pricing models are used to estimate fair value, using assumptions about market conditions and policyholder behavior. The fair value measurement incorporates an explicit risk margin for policyholder behavior and for the impact the Company's own credit or nonperformance risk would have in the view of a market participant. Given the significant unobservable inputs used to value embedded derivatives, they are included in Level 3.

Amounts payable to reinsurers – Modco embedded derivatives are carried at fair value and included in amounts payable to reinsurers. The fair value of modco embedded derivatives is measured at an amount equal to the unrealized gains (losses) of trading debt securities held in a segregated custody account in support of modified coinsurance arrangements. Accordingly, such modco embedded derivatives are categorized on a basis consistent with the related trading debt securities.

NOTE 4 – FAIR VALUE MEASUREMENTS OF ASSETS AND LIABILITIES (continued)

Financial Instruments Measured at Fair Value on a Recurring Basis

Presented below is the fair value of all assets and liabilities measured at fair value on a recurring basis as of December 31, 2022 (in thousands):

Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
AFS debt securities:				
U.S. government obligations	$ 240,518	$ —	$ —	$ 240,518
Government agencies, authorities and subdivisions	—	1,370,031	10,288	1,380,319
Corporates	—	17,159,366	67,294	17,226,660
Private placements	—	2,060,967	200,625	2,261,592
Mortgage-backed securities	—	1,823,181	14,505	1,837,686
Total AFS debt securities	240,518	22,413,545	292,712	22,946,775
Trading debt securities	—	164,106	—	164,106
Equity securities (2)	1,509	14,910	26,096	42,515
Derivative assets	1,385	799,900	—	801,285
Other invested assets (2)	8,188	—	—	8,188
Separate account assets (2)	693	291,123	—	291,816
Amounts recoverable from reinsurers	—	25,408	4,024	29,432
Total assets subject to fair value disclosure (2)	$ 252,293	$ 23,708,992	$ 322,832	$ 24,284,117

Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Policyholder account liabilities (1)	$ —	$ —	$ 3,553,552	$ 3,553,552
Amounts payable to reinsurers	—	—	—	—
Derivative liabilities	—	510,660	—	510,660
Total liabilities subject to fair value disclosure	$ —	$ 510,660	$ 3,553,552	$ 4,064,212

1. The most sensitive assumption in determining policy liabilities for indexed annuities is the rate used to discount the excess projected contract values. This discount rate reflects the Company's nonperformance risk. If the discount rates used to discount the excess projected contract values at December 31, 2022 were to change by approximately 100 basis points, the fair value of the embedded derivative would change significantly, partially offset by a change to deferred policy acquisition costs.
2. In accordance with Topic 820, certain investments that are measured at fair value using NAV (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. See Financial Instruments Measured Using NAV, below.

NOTE 4 – FAIR VALUE MEASUREMENTS OF ASSETS AND LIABILITIES (continued)

Financial Instruments Measured at Fair Value on a Recurring Basis (continued)

The table below summarizes the reconciliation of the beginning and ending balances and related changes for the year ended December 31, 2022 for fair value measurements for which significant unobservable inputs were used in determining each instrument's fair value (in thousands):

	Beginning Balance	Transfer In to Level 3	Transfer Out of Level 3	Net Investment Gains/Loss In Earnings (realized and unrealized) [1]	Unrealized in OCI[2]	Purchases	Issuances	Sales	Settlements	Ending Balance	Net Investment Gains/Losses In Earnings for Assets and Liabilities Still Held at the Ending Date
Assets											
Government agencies, authorities and subdivisions	$ —	$ 13,626	$ —	$ (16)	$ (3,322)	$ —	$ —	$ —	$ —	$ 10,288	$ —
Corporates	87,238	—	—	7	(9,928)	9,643	—	(19,666)	—	67,294	—
Private placements	201,022	—	—	8	(1,608)	3,884	—	(2,681)	—	200,625	—
Trading debt securities	—	—	—	—	—	—	—	—	—	—	—
Mortgage-backed securities	18,920	19,958	(11,892)	(82)	(12,973)	874	—	(300)	—	14,505	—
Equity securities	—	3,380	—	—	(2,804)	25,520	—	—	—	26,096	—
Amounts recoverable from reinsurers	4,458	—	—	(71)	—	—	—	—	(363)	4,024	—
Total assets	$ 311,638	$ 36,964	$ (11,892)	$ (154)	$ (30,635)	$ 39,921	$ —	$ (22,647)	$ (363)	$ 322,832	$ —
Liabilities											
Policyholder account liabilities	$ 2,966,360	$ —	$ —	$ 74,043	$ —	$ —	$ —	$ —	$ 513,149	$ 3,553,552	$ —
Total liabilities	$ 2,966,360	$ —	$ —	$ 74,043	$ —	$ —	$ —	$ —	$ 513,149	$ 3,553,552	$ —

1. Includes (losses) gains on sales of financial instruments, changes in fair value of certain instruments, and other-than-temporary impairments.
2. Includes changes in fair value of certain instruments.

Presented below is the fair value of all assets and liabilities subject to fair value determination as of December 31, 2021 (in thousands):

Assets	Level 1	Level 2	Level 3	Total
AFS debt securities:				
U.S. government obligations	$ 304,519	$ —	$ —	$ 304,519
Government agencies, authorities and subdivisions	—	1,741,242	—	1,741,242
Corporates	—	20,070,357	87,238	20,157,595
Private placements	—	2,398,666	201,022	2,599,688
Mortgage-backed securities	—	2,314,750	18,920	2,333,670
Total AFS debt securities	304,519	26,525,015	307,180	27,136,714
Trading debt securities	—	183,344	—	183,344
Equity securities (2)	1,060	17,749	—	18,809
Derivative assets	1,600	2,106,505	—	2,108,105
Other invested assets (2)	17,000	—	—	17,000
Separate account assets (2)	1,393	376,794	—	378,187
Amounts recoverable from reinsurers	—	—	4,458	4,458
Total assets subject to fair value disclosure (2)	$ 325,572	$ 29,209,407	$ 311,638	$ 29,846,617

Liabilities	Level 1	Level 2	Level 3	Total
Policyholder account liabilities (1)	$ —	$ —	$ 2,966,360	$ 2,966,360
Amounts payable to reinsurers	—	6,478	—	6,478
Derivative liabilities	—	1,467,702	—	1,467,702
Total liabilities subject to fair value disclosure	$ —	$ 1,474,180	$ 2,966,360	$ 4,440,540

1. The most sensitive assumption in determining policy liabilities for indexed annuities is the rate used to discount the excess projected contract values. This discount rate reflects the Company's nonperformance risk. If the discount rates used to discount the excess projected contract values at December 31, 2021 were to change by approximately 100 basis points, the fair value of the embedded derivative would change significantly with an offset to deferred policy acquisition costs.
2. In accordance with Topic 820, certain investments that are measured at fair value using NAV (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. See Financial Instruments Measured Using NAV, below.

NOTE 4 – FAIR VALUE MEASUREMENTS OF ASSETS AND LIABILITIES (continued)

Financial Instruments Measured at Fair Value on a Recurring Basis (continued)

The table below summarizes the reconciliation of the beginning and ending balances and related changes for the year ended December 31, 2021 for fair value measurements for which significant unobservable inputs were used in determining each instrument's fair value (in thousands):

	Beginning Balance	Transfer In to Level 3	Transfer Out of Level 3	Net Investment Gains/Loss In Earnings (realized and unrealized) [1]	Unrealized in OCI[2]	Purchases	Issuances	Sales	Settlements	Ending Balance	Net Investment Gains/Losses In Earnings for Assets and Liabilities Still Held at the Ending Date
Assets											
Government agencies, authorities and subdivisions	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Corporates	—	112,043	—	—	(2,552)	3,249	—	(25,502)	—	87,238	—
Private placements	177,277	—	—	9	2,676	21,953	—	(893)	—	201,022	—
Trading debt securities	—	—	—	—	—	—	—	—	—	—	—
Mortgage-backed securities	—	—	—	(5)	1,533	17,392	—	—	—	18,920	—
Equity securities	—	—	—	—	—	—	—	—	—	—	—
Amounts recoverable from reinsurers	5,408	—	—	(695)	—	—	—	—	(255)	4,458	—
Total assets	$ 182,685	$ 112,043	$ —	$ (691)	$ 1,657	$ 42,594	$ —	$ (26,395)	$ (255)	$ 311,638	$ —
Liabilities											
Policyholder account liabilities	$ 2,495,522	$ —	$ —	$ 574,179	$ —	$ —	$ —	$ —	$ (103,341)	$ 2,966,360	$ —
Total liabilities	$ 2,495,522	$ —	$ —	$ 574,179	$ —	$ —	$ —	$ —	$ (103,341)	$ 2,966,360	$ —

1. Includes (losses) gains on sales of financial instruments, changes in fair value of certain instruments, and other-than-temporary impairments.
2. Includes changes in fair value of certain instruments.

Financial Instruments Measured Using NAV

Presented below are investments that are measured using NAV as a practical expedient as of December 31, 2022 and 2021 (in thousands):

Assets	**Fair Value as of December 31, 2022**	**Fair Value as of December 31, 2021**	**Unfunded Commitments as of December 31, 2022**	**Redemption Frequency (If Currently Eligible)**	**Redemption Notice Period**
		(in thousands)			
Equity securities	**$ 68,998**	$ 61,265	**$ —**	Not applicable	Not applicable
Other invested assets	**1,257,107**	1,190,126	**664,024**	Not applicable	Not applicable
Short term investments	**295,512**	35,150	**—**	Not applicable	Not applicable
Separate account assets	**480,707**	628,186	**5,996**	Not applicable or Quarterly	Not applicable or 70 days
Total	**$ 2,102,324**	$ 1,914,727	**$ 670,020**		

NLV Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2022

NOTE 5 – INVESTMENTS

Available-for-Sale Debt Securities

The amortized cost and the fair values of AFS debt securities at December 31, 2022 and December 31, 2021 were as follows (in thousands):

At December 31, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
AFS debt securities:				
U.S. government obligations	**$ 259,047**	**$ 17**	**$ 18,546**	**$ 240,518**
Government agencies, authorities and subdivisions	**1,581,892**	**3,442**	**205,015**	**1,380,319**
Corporates:				
Asset-backed securities	**2,899,576**	**3,311**	**156,357**	**2,746,530**
Communications	**1,225,374**	**6,886**	**213,760**	**1,018,500**
Consumer & retail	**5,196,989**	**16,339**	**834,691**	**4,378,637**
Financial institutions	**3,952,288**	**42,950**	**563,779**	**3,431,459**
Industrial and chemicals	**2,586,876**	**21,625**	**370,555**	**2,237,946**
REITS	**456,826**	**424**	**40,257**	**416,993**
Transportation	**586,473**	**2,514**	**90,464**	**498,523**
Utilities	**3,087,504**	**12,666**	**602,098**	**2,498,072**
Total corporates	**19,991,906**	**106,715**	**2,871,961**	**17,226,660**
Private placements	**2,575,408**	**5,445**	**319,261**	**2,261,592**
Mortgage-backed securities	**2,029,801**	**4,287**	**196,402**	**1,837,686**
Total AFS debt securities	**$ 26,438,054**	**$ 119,906**	**$ 3,611,185**	**$ 22,946,775**

At December 31, 2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
AFS debt securities:				
U.S. government obligations	$ 261,387	$ 43,161	$ 29	$ 304,519
Government agencies, authorities and subdivisions	1,490,728	251,082	568	1,741,242
Corporates:				
Asset-backed securities	2,439,561	27,655	7,527	2,459,689
Communications	1,174,577	152,725	6,646	1,320,656
Consumer & retail	4,906,682	652,272	15,613	5,543,341
Financial institutions	3,520,716	418,578	7,966	3,931,328
Industrial and chemicals	2,366,586	323,919	6,406	2,684,099
REITS	379,751	23,701	1,037	402,415
Transportation	582,176	78,404	1,675	658,905
Utilities	2,921,304	259,672	23,814	3,157,162
Total corporates	18,291,353	1,936,926	70,684	20,157,595
Private placements	2,483,622	131,719	15,653	2,599,688
Mortgage-backed securities	2,182,255	160,977	9,562	2,333,670
Total AFS debt securities	$ 24,709,345	$ 2,523,865	$ 96,496	$ 27,136,714

NOTE 5 – INVESTMENTS (continued)

Available-for-Sale Debt Securities (continued)

Unrealized gains (losses) included as a component of accumulated other comprehensive income as of December 31, 2022 and 2021 and changes therein included in other comprehensive income for the years ended December 31, 2022 and 2021 were as follows (in thousands):

	2022	2021
Balance, beginning of year	**$ 1,080,212**	$ 1,340,605
Net unrealized losses on AFS securities	**(5,901,395)**	(695,735)
Net unrealized (losses) gains on separate accounts	**(16,462)**	3,276
Net unrealized (losses) gains on other invested assets	**(142)**	756
Deferred policy acquisition costs	**1,718,681**	186,710
Loss reserve	**11,971**	3,016
Reserves	**385,669**	69,711
Deferred income taxes	**746,509**	69,218
Policyholder dividend obligation	**246,874**	102,655
(Decrease) increase in net unrealized gains (losses)	**(2,808,295)**	(260,393)
Balance, end of year	**$ (1,728,083)**	$ 1,080,212

	2022	2021
Balance, end of year includes:		
Net unrealized (losses) gains on AFS securities	**$ (3,481,230)**	$ 2,420,165
Net unrealized (losses) gains on separate accounts	**—**	16,462
Net unrealized losses on other invested assets	**(636)**	(494)
Deferred policy acquisition costs	**1,065,079**	(653,602)
Loss reserve	**—**	(11,971)
Reserves	**229,121**	(156,548)
Deferred income taxes	**459,363**	(287,146)
Policyholder dividend obligation	**220**	(246,654)
Total	**$ (1,728,083)**	$ 1,080,212

NOTE 5 – INVESTMENTS (continued)

Available-for-Sale Debt Securities (continued)

The amortized cost and fair values of debt securities by contractual maturity at December 31, 2022, are shown below (in thousands). Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized cost	Fair Value
Due in one year or less	**$ 508,472**	**$ 505,087**
Due after one year through 5 years	**3,041,927**	**2,963,559**
Due after 5 years through 10 years	**4,629,824**	**4,389,432**
Due after ten years	**16,228,030**	**13,251,011**
Mortgage-backed securities	**2,029,801**	**1,837,686**
Total	**$ 26,438,054**	**$ 22,946,775**

The Company determines the cost of investments sold based on average cost. The proceeds and gross realized gains (losses) on debt securities are shown below (in millions):

	2022	2021
Proceeds on debt securities	**$ 170.0**	$ 372.3
Gross realized gains on debt securities	**2.9**	9.7
Gross realized losses on debt securities	**(0.7)**	(1.4)

The Company recognized realized losses resulting from other-than-temporary declines in the fair value of debt securities of $3.9 million and $7.4 million in 2022 and 2021, respectively.

See Note 2 for additional information on the factors considered in determining whether declines in the fair value of investments are other-than-temporary.

NOTE 5 – INVESTMENTS (continued)

Available-for-Sale Debt Securities (continued)

Gross unrealized losses and investment fair values, aggregated by investment category, industry sector, and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2022 were as follows (in thousands):

	Less than 12 months		12 months or more		Total	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Description of securities						
U.S. government obligations	**$ 239,202**	**$ 18,485**	**$ 1,086**	**$ 61**	**$ 240,288**	**$ 18,546**
Government agencies, authorities and subdivisions	**1,262,012**	**189,966**	**29,279**	**15,049**	**1,291,291**	**205,015**
Corporates:						
Asset-backed securities	**1,835,632**	**92,036**	**726,003**	**64,321**	**2,561,635**	**156,357**
Communications	**749,140**	**152,209**	**132,957**	**61,551**	**882,097**	**213,760**
Consumer & retail	**3,588,206**	**655,690**	**373,290**	**179,001**	**3,961,496**	**834,691**
Financial institutions	**2,601,093**	**456,866**	**259,668**	**106,913**	**2,860,761**	**563,779**
Industrial and chemicals	**1,713,079**	**303,002**	**160,891**	**67,553**	**1,873,970**	**370,555**
REITS	**365,772**	**32,271**	**34,074**	**7,986**	**399,846**	**40,257**
Transportation	**405,940**	**74,212**	**49,558**	**16,252**	**455,498**	**90,464**
Utilities	**1,782,042**	**380,685**	**493,922**	**221,413**	**2,275,964**	**602,098**
Total corporates	**13,040,904**	**2,146,971**	**2,230,363**	**724,990**	**15,271,267**	**2,871,961**
Private placements	**1,641,454**	**202,488**	**361,108**	**116,773**	**2,002,562**	**319,261**
Mortgage-backed securities	**1,597,191**	**183,097**	**49,415**	**13,305**	**1,646,606**	**196,402**
Total debt securities	**$ 17,780,763**	**$ 2,741,007**	**$ 2,671,251**	**$ 870,178**	**$ 20,452,014**	**$ 3,611,185**

Gross unrealized losses and investment fair values, aggregated by investment category, industry sector, and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2021 were as follows (in thousands):

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of securities						
U.S. government obligations	$ 6,772	$ 29	$ —	$ —	$ 6,772	$ 29
Government agencies, authorities and subdivisions	40,816	568	—	—	40,816	568
Corporates:						
Asset-backed securities	740,610	5,862	143,625	1,665	884,235	7,527
Communications	151,950	3,729	37,645	2,917	189,595	6,646
Consumer & retail	502,049	12,194	61,786	3,419	563,835	15,613
Financial institutions	373,854	7,427	4,677	539	378,531	7,966
Industrial and chemicals	253,783	5,463	6,020	943	259,803	6,406
REITS	33,377	392	7,744	645	41,121	1,037
Transportation	46,212	764	20,613	911	66,825	1,675
Utilities	630,586	15,169	83,235	8,645	713,821	23,814
Total corporates	2,732,421	51,000	365,345	19,684	3,097,766	70,684
Private placements	332,090	6,895	175,620	8,758	507,710	15,653
Mortgage-backed securities	31,382	451	51,006	9,111	82,388	9,562
Total debt securities	$ 3,143,481	$ 58,943	$ 591,971	$ 37,553	$ 3,735,452	$ 96,496

NOTE 5 – INVESTMENTS (continued)

Available-for-Sale Debt Securities (continued)

Based upon the Company's analysis of market factors affecting the fair value of debt securities, as well as facts and circumstances surrounding the individual securities, the Company's assessment around the probability of all contractual cash flows, and the Company's ability and intent to hold the individual securities to maturity or recovery, the Company believes that the unrealized losses on these securities at December 31, 2022 and 2021 were temporary.

The Company does not intend to sell these securities nor are there any requirements to sell these securities. The Company will continue to monitor these holdings for any underlying deterioration in future quarters that would indicate that an individual security will not recover and will record OTTI as appropriate.

Trading Debt Securities

Trading debt securities consist of fixed maturity securities held in a segregated custody account, which support a modified coinsurance arrangement that became effective in 2018. The cost of trading debt securities held at December 31, 2022 and 2021 was $164.1 million and $183.3 million, respectively.

Equity Securities

The cost of equity securities held at December 31, 2022 and 2021 was $111.5 million and $80.1 million, respectively. The total return on certain equity investments is intended to offset the net appreciation or depreciation in value of certain defined contribution deferred compensation liabilities. The net change in deferred compensation liabilities is included in operating expenses.

NOTE 5 – INVESTMENTS (continued)

Mortgage Loans and Real Estate

The distributions of mortgage loans and real estate at December 31 were as follows (in thousands):

	2022	2021
Geographic Region		
New England	**6.0 %**	6.2 %
Middle Atlantic	**7.0**	7.0
East North Central	**9.6**	9.7
West North Central	**14.8**	15.2
South Atlantic	**19.2**	18.9
East South Central	**3.7**	3.8
West South Central	**10.2**	10.6
Mountain	**12.9**	12.4
Pacific	**16.6**	16.2
Total	**100.0 %**	100.0 %
Property Type		
Apartment	**24.1 %**	25.7 %
Retail	**21.2**	21.6
Office Building	**22.3**	23.2
Industrial	**27.5**	26.5
Other Commercial	**4.9**	3.0
Total	**100.0 %**	100.0 %
Mortgage loans	**$ 4,967,269**	$ 4,956,163
Real estate investments	**7,906**	7,515
Total mortgage loans and real estate	**$ 4,975,175**	$ 4,963,678

The Company applies a consistent and disciplined approach to evaluating and monitoring credit risk, and monitors credit quality on an ongoing basis. Quality ratings are based on internal evaluations of each loan’s specific characteristics, considering a number of key inputs. The two most significant contributors to the credit quality are debt service coverage and loan-to-value ratios. The debt service coverage ratio measures the amount of property cash flow available to meet annual interest and principal payments on debt. The loan-to-value ratio (“LTV”), commonly expressed as a percentage, compares the amount of the loan to the fair value of the underlying property collateralizing the loan.

NOTE 5 – INVESTMENTS (continued)

Mortgage Loans and Real Estate (continued)

The following tables summarize the credit quality of the Company's current commercial mortgage loan portfolio based on loan-to-value and debt service coverage ratios:

Debt Service Coverage Ratios as of December 31, 2022
(amounts in millions)

LTV Range	**≥ 2.0x**	**1.5x to <2.0x**	**1.25x to <1.5x**	**1.0x to <1.25x**	**<1.0x**	**Total Carrying Value**
< 50%	**$ 734.7**	**$ 433.8**	**$ 47.6**	**$ 103.0**	**$ —**	**$ 1,319.1**
50% - 60%	**1,052.6**	**468.7**	**152.4**	**38.9**	**—**	**1,712.6**
60% - 70%	**624.4**	**372.0**	**274.4**	**64.3**	**—**	**1,335.1**
70% - 80%	**166.8**	**221.4**	**28.1**	**7.2**	**—**	**423.5**
80% - 90%	**35.2**	**7.6**	**25.6**	**29.5**	**—**	**97.9**
> 90%	**14.0**	**31.9**	**15.8**	**13.9**	**8.1**	**83.7**
Total	**$ 2,627.7**	**$ 1,535.4**	**$ 543.9**	**$ 256.8**	**$ 8.1**	**$ 4,971.9**

Debt Service Coverage Ratios as of December 31, 2021
(amounts in millions)

LTV Range	≥ 2.0x	1.5x to <2.0x	1.25x to <1.5x	1.0x to <1.25x	<1.0x	Total Carrying Value
< 50%	$ 867.4	$ 324.4	$ 47.8	$ 71.4	$ —	$ 1,311.0
50% - 60%	1,040.7	551.3	137.1	12.7	—	1,741.8
60% - 70%	678.9	515.3	208.3	61.6	—	1,464.1
70% - 80%	133.8	180.2	49.6	7.8	29.5	400.9
80% - 90%	—	21.5	13.3	7.4	—	42.2
> 90%	—	—	—	—	—	—
Total	$ 2,720.8	$ 1,592.7	$ 456.1	$ 160.9	$ 29.5	$ 4,960.0

The difference between the total carrying value reflected in the tables above and the carrying value reflected in the Consolidated Balance Sheets is due to the related valuation allowance which is a general valuation allowance not attributable to any one mortgage and the market value adjustment on the hedge.

Mortgage loans and related valuation allowances at December 31, 2022 and 2021 were as follows (in thousands):

	2022	**2021**
Commercial loans	**$ 4,971,887**	$ 4,960,030
Valuation allowance	**(3,542)**	(4,650)
Impaired loans	**—**	—
Market value adjustment on hedge	**(1,076)**	783
Total	**$ 4,967,269**	$ 4,956,163

NOTE 5 – INVESTMENTS (continued)

Mortgage Loans and Real Estate (continued)

The table below includes additional disclosures for impaired loans as of December 31, 2022 and 2021 (in thousands):

	2022	2021
Impaired loans:		
Average total investment	**$ —**	$ 2,613
Interest income recognized	**—**	24
Interest received	**—**	228
Unpaid principal balance	**—**	—

No mortgage loan or real estate impairments were recognized in 2022 or 2021.

Activity in the valuation allowance for mortgage loans for the years ended December 31, 2022 and 2021 was as follows (in thousands):

	2022	2021
Balance, beginning of year	**$ 4,650**	$ 2,783
Changes to previously established valuation allowance	**(1,108)**	1,867
Balance, end of year	**$ 3,542**	$ 4,650

Mortgage Loans Modified in a Troubled Debt Restructuring

For a small portion of the Company's commercial mortgage loan portfolio classified as troubled debt restructuring, the Company grants concessions related to the borrowers' financial difficulties. Generally, the types of concessions include: 1) reduction of the contractual interest rate, 2) extension of the maturity date at an interest rate lower than current market interest rates and/or 3) a reduction of accrued interest. The Company considers the amount, timing and extent of the concession granted in determining any impairment or changes in the specific valuation allowance recorded in connection with the troubled debt restructuring. Through the portfolio monitoring process, the Company may have recorded a specific valuation allowance prior to the quarter when the loan was modified in a troubled debt restructuring. Accordingly, the carrying value (after specific valuation allowance) before and after modification through a troubled debt restructuring may not change significantly.

At December 31, 2022 and 2021, no loans were modified during the period in a troubled debt restructuring. Payment default is determined in the same manner as delinquency status, which is when interest and principal payments are 90 days past due.

Other Invested Assets

Other invested assets included the following as of December 31, 2022 and 2021 (in thousands):

	2022	2021
Limited partnerships	**$ 1,253,200**	$ 1,169,517
Affordable housing tax credits	**55,749**	77,019
Non-cash broker collateral	**8,188**	17,000
FHLB common stock	**82,011**	83,348
Other	**4,037**	20,649
Other invested assets	**$ 1,403,185**	$ 1,367,533

NOTE 5 – INVESTMENTS (continued)

Variable Interest Entities

The table below includes certain information regarding VIEs in which the Company held a variable interest as of December 31, 2022 and 2021 (in thousands).

Investment Type	**2022** Total VIE Assets (1)	**2022** Maximum Exposure to Loss (2)	2021 Total VIE Assets (1)	2021 Maximum Exposure to Loss (2)
Investment in notes	**$ 181,363**	**$ 181,363**	$ 180,543	$ 180,543
Other invested assets	**3,980**	**1,469**	4,615	1,710

1. Represents assets of the VIEs which the Company does not have the right to make use of to satisfy its own obligations.
2. Represents the Company's investments in these entities, plus any accrued receivables due from these entities.

Net Investment Income

The components of net investment income for the years ended December 31, 2022 and 2021 were as follows (in thousands):

	2022	**2021**
Debt securities	**$ 1,086,422**	$ 1,017,727
Equity securities	**3,526**	4,799
Mortgage loans	**203,368**	174,439
Policy loans	**43,841**	42,896
Real estate	**3,411**	3,445
Derivatives	**(630,222)**	379,634
Partnerships	**120,208**	201,999
Other investment income	**1,999**	132
Gross investment income	**832,553**	1,825,071
Less: investment expenses	**(31,294)**	(28,580)
Net investment income	**$ 801,259**	$ 1,796,491

Net Investment Gains and (Losses)

The following summarizes the components of net investment gains and (losses), including other-than-temporary impairments, by asset category for the years ended December 31, 2022 and 2021 (in thousands):

	2022	**2021**
Debt securities	**$ (13,952)**	$ 17,467
Equity securities	**(5,663)**	4,925
Mortgage loans	**1,108**	(1,070)
Partnerships	**11,553**	155,331
Other invested assets	**811**	(1,269)
Total	**$ (6,143)**	$ 175,384

NOTE 5 – INVESTMENTS (continued)

Derivatives

The Company enters into interest rate swaps to reduce market risks from changes in interest rates. These swaps are used to hedge changes in fair value of certain bond and mortgage investments. The Company has designated interest rate swaps as fair value hedges. The interest rate swaps are used to convert fixed rate assets to floating rate. The Company recognizes gains and losses on the swaps along with the related hedged items within net investment income on the Consolidated Statements of Comprehensive Income. Ineffectiveness recognized through net investment income in the years ended December 31, 2022 and 2021 was $1.8 million and $23 thousand, respectively.

The Company credits interest on policyholder account liabilities for certain of its products based on the performance of certain indexes (such as S&P 500), subject to contractual participation rates and caps on returns. These participation rates and caps are set each policy anniversary. The Company economically hedges the exposure for the next policy year, at the time the participation rates and caps are set, by entering into over-the-counter (OTC) options and exchange-traded futures contracts on the underlying indexes in an amount that approximates the obligation of the Company to credit interest at the policy anniversary, with adjustments for lapse assumptions. These derivative instruments do not qualify for hedge accounting and, therefore, changes in their fair value are included within net investment income. Call options purchased are included in derivatives assets at fair value. Call options written are included in derivatives liabilities and are carried at fair value. Since the derivatives purchased are based on the same indexes that the crediting rates are based upon, they substantially offset the market risk associated with the crediting rate in the policy year being hedged.

Under U.S. GAAP, indexed annuity and life contracts reported in policyholder account liabilities include embedded derivatives, which reflect the fair value of the Company’s future obligations related to interest crediting that is based on the performance of certain indexes, as specified in the respective contracts. The embedded derivative liabilities were $3.55 billion and $2.97 billion at December 31, 2022 and 2021, respectively.

The Company purchases options only from highly rated counterparties. However, in the event a counterparty failed to perform, the Company’s exposure would be equal to the fair value of the net options held from that counterparty. The Company held collateral from counterparties as secured OTC call options to mitigate a portion of this risk in the amount of $194.0 million and $527.6 million as of December 31, 2022 and 2021, respectively. The Company utilizes a scale based on credit rating of the counterparty to determine the appropriate amount of counterparty risk. As of December 31, 2022, there was no derivative counterparty exposure that exceeded $7.5 million, net of collateral. Beginning in 2021, the Company executed transactions in flexible exchange (“FLEX”) options in order to hedge equity market volatility. Unlike OTC options, FLEX options are cleared and guaranteed by the Options Clearing Corporation and therefore are not subject to counterparty credit risk.

The Company has embedded derivatives related to reinsurance contracts that are accounted for on a modified coinsurance basis. An embedded derivative exists because the arrangement exposes the reinsurer to third party credit risk. The embedded derivative is included in amounts recoverable from/payable to reinsurers, with changes in the fair value of the embedded derivative reported in net investment gains and (losses).

NOTE 5 – INVESTMENTS (continued)

Derivatives (continued)

The notional amounts and the fair value of derivatives at December 31, 2022 and 2021, excluding embedded derivatives, were as follows (in thousands):

	2022		2021		
	Notional	**Carrying Value of Assets / (Liabilities)**	**Notional**	**Carrying Value of Assets / (Liabilities)**	**Primary Underlying Risk Exposure**
Derivatives Designated as Hedge Accounting Instruments:					
Interest rate swaps[1]	**$ 172,750**	**$ 9,793**	$ 223,020	$ (6,849)	Interest Rates
Total Derivatives Designated as Hedge Accounting Instruments		**$ 9,793**		$ (6,849)	
Derivatives Not Designated as Hedge Accounting Instruments:					
Futures - Long[2]	**$ 9,266**	**$ (525)**	$ 4,045	$ 111	Equity Market
Futures - Short[2]	**(1,737)**	**98**	(7,614)	(209)	Equity Market
Interest rate swaps[1]	**24,700**	**670**	—	—	Interest Rates
Options - Long	**19,156,810**	**788,688**	16,646,440	2,097,239	Equity Market
Options - Short	**(14,458,950)**	**(505,740)**	(13,825,050)	(1,460,853)	Equity Market
Swaptions purchased	**200,000**	**749**	200,000	177	Interest Rates
Total Derivatives Not Designated as Hedge Accounting Instruments		**$ 283,940**		$ 636,465	
Total Derivatives		**$ 293,733**		$ 629,616	

1. Interest rate swaps are reflected gross of cash margin collateral of $(4.9) million and $9.1 million as of December 31, 2022 and 2021, respectively.
2. Futures are reflected gross of cash margin collateral of $1.4 million and $1.7 million as of December 31, 2022 and 2021, respectively.

As of December 31, 2022 and 2021, the following amounts were recorded on the Company's Consolidated Balance Sheets relating to the carrying amount of hedged assets (liabilities) and cumulative basis adjustments included in the carrying amount for hedged items designated in fair value hedging relationships (in thousands):

	2022		2021	
	Carrying Amount of the Hedged Assets / (Liabilities)	**Cumulative Amount of Fair Value Hedging Adjustment Included in the Hedged Assets / (Liabilities)[1]**	**Carrying Amount of the Hedged Assets / (Liabilities)**	**Cumulative Amount of Fair Value Hedging Adjustment Included in the Hedged Assets / (Liabilities)[1]**
Available-for-sale debt securities	**$ 182,584**	**$ (10,040)**	$ 247,503	$ 7,204
Mortgage Loans	**18,205**	**(1,086)**	20,064	783

1. There were no material fair value hedging accounting adjustments for hedged assets / (liabilities) for discontinued hedging relationships.

NOTE 6 – REINSURANCE

The Company reinsures certain risks assumed in the normal course of business. Effective in March 2018, for certain indexed universal life products, the Company may retain up to $4 million of risk on an individual life. For other individual life products sold on or after August 16, 2004, the Company generally retains no more than $2 million of risk on any person (excluding accidental death benefits and dividend additions). For individual life products sold after 2001 but prior to August 16, 2004, the Company generally retains no more than $1 million of risk on any person (excluding accidental death benefits and dividend additions). On individual life business issued prior to 2002, the Company generally retains no more than $3 million of risk (excluding accidental death benefits and dividend additions). Reinsurance for life products is ceded under yearly renewable term, coinsurance, and modified coinsurance agreements with various reinsurers.

Disability income products are reinsured under coinsurance and modified coinsurance agreements primarily with Unum Provident Corporation (“UNUM”). Under the terms of the agreements, the Company has agreed to pay UNUM an interest rate of 9.5% on the reserves of original modified coinsurance block and 7.0% on the other modified coinsurance reserves held by the Company.

Other income includes $4.1 million and $3.7 million in 2022 and 2021, respectively, related to the Company’s disability income reinsurance. Such income is largely offset by expenses incurred by the Company related to this block of business. Reserve transfers and interest payments under modified coinsurance agreements are included in the Consolidated Statements of Comprehensive Income as a component of decrease in policy liabilities expense.

Effective October 1, 2018, new issuances of certain of our indexed annuity products are subject to a quota share modified coinsurance arrangement with an unaffiliated reinsurer. The quota share ceded is currently 80% and may be adjusted for future sales. The quota share ceded for new issuances included in this agreement prior to 2020 was 50%. As the ceding company we retain the reserves, as well as the assets backing those reserves, and the reinsurer shares proportionally in all financial terms of the reinsured policies based on their respective percentage of the risk.

NOTE 6 – REINSURANCE (continued)

The effects of reinsurance for the years ended December 31, 2022 and 2021 were as follows (in thousands).

	2022	2021
Insurance premiums:		
Direct	**$ 395,615**	$ 355,326
Reinsurance assumed	**185**	188
Reinsurance ceded	**(37,715)**	(41,414)
Total insurance premiums	**$ 358,085**	$ 314,100
Increase (decrease) in policy liabilities:		
Direct	**$ 56,296**	$ (32,788)
Reinsurance assumed	**—**	—
Reinsurance ceded	**49,185**	49,030
Total increase in policy liabilities	**$ 105,481**	$ 16,241
Policy benefits:		
Direct	**$ 630,391**	$ 816,457
Reinsurance assumed	**301**	136
Reinsurance ceded	**(37,134)**	(173,783)
Total policy benefits	**$ 593,558**	$ 642,811
Policyholders' dividends:		
Direct	**$ 8,717**	$ 36,914
Reinsurance ceded	**(9)**	(32)
Total policyholders' dividends	**$ 8,708**	$ 36,882

The Company remains liable in the event any reinsurer is unable to meet its assumed obligations. The Company regularly evaluates the financial condition of its reinsurers and concentrations of credit risk of reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. The Company's largest reserve credit as of December 31, 2022 and 2021 was with Hannover Life Reinsurance Company of America for $472.5 million and $647.2 million, respectively. Total life insurance in force subject to reinsurance as of December 31, 2022 and 2021 was approximately $291.2 billion and $251.9 billion, respectively.

The Company assumes a small amount of reinsurance from other companies. These reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses, and provide additional capacity for growth.

NOTE 7 – DEFERRED POLICY ACQUISITION COSTS

The table below reflects the changes in the deferred policy acquisition costs asset for the years ended December 31, 2022 and 2021.

(in thousands)	2022	2021
Balance, beginning of year	**$ 2,143,365**	$ 1,648,380
Acquisition costs deferred	**730,470**	667,389
Amortization	**(294,937)**	(359,114)
Adjustment through other comprehensive income	**1,718,681**	186,710
Balance, end of year	**$ 4,297,579**	$ 2,143,365

The components of the sales inducement asset ("SIA") are shown below (amounts in millions):

	SIA	
	2022	2021
Beginning of year	**$ 194.4**	$ 178.9
Deferral	**29.5**	30.4
Amortization and assumption changes, net	**2.3**	(14.9)
End of year	**$ 226.2**	$ 194.4

NOTE 8 – FEDERAL INCOME TAXES

The Company files income tax returns in the U.S. federal and certain state jurisdictions. The Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years prior to 2017. The Company's 2017 through 2020 consolidated federal income tax returns are currently under examination by the IRS.

The components of federal income taxes and a reconciliation of the expected and actual federal income taxes and income tax rates for the years ended December 31 were as follows (in thousands):

	2022		**2021**	
	Amount	**Rate**	Amount	Rate
Current	**$ 26,021**		$ 98,932	
Deferred	**9**		1,610	
Total income tax expense	**$ 26,030**		$ 100,542	
Expected income taxes	**$ 33,305**	**21.0 %**	$ 103,460	21.0 %
Dividends received deduction	**(826)**	**(0.5)**	(919)	(0.2)
Affordable housing tax credits	**(18,970)**	**(12.0)**	(23,032)	(4.7)
Corporate owned life insurance	**(6,396)**	**(4.0)**	(6,149)	(1.2)
State income taxes	**2,106**	**1.3**	5,880	1.2
Other, net	**(759)**	**(0.5)**	608	0.3
Total without amortization	**$ 8,460**		$ 79,848	
Effective rate without amortization		**5.3 %**		16.4 %
Affordable housing tax credit amortization	**$ 17,570**	**11.1 %**	$ 20,694	4.0 %
Total income tax expense	**$ 26,030**		$ 100,542	
Effective federal income tax rate		**16.4 %**		20.4 %

Effective August 16th, 2022, the U.S. enacted the The Inflation Reduction Act (“IRA”) into law. With respect to this legislation, the Company does not expect any material impact to these financial statements.

The Company paid $50.0 million and $49.0 million in federal income taxes during 2022 and 2021, respectively.

As of 2022, there are no unrecognized tax benefits for the Company. It is likely there will be no significant change in the amount of unrecognized tax benefits within the next twelve months.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits in tax expense. The Company did not have any interest or penalties accrued at December 31, 2022 and 2021.

NOTE 8 – FEDERAL INCOME TAXES (continued)

Components of net deferred income tax liabilities at December 31 were as follows (in thousands):

	2022	2021
Deferred income tax assets:		
Net UCG AFS debt/equity securities	**$ 682,852**	$ —
Policy liabilities	**469,347**	567,030
Pension and other employee benefits	**43,972**	51,304
Loss carryforwards	**1,650**	—
Tax credits	**1,290**	—
Other	**1,673**	—
Total deferred income tax assets	**1,200,784**	618,334
Deferred income tax liabilities:		
Deferred policy acquisition costs	**701,837**	286,462
Debt/equity securities	**27,188**	23,645
Other invested assets	**46,638**	60,664
Net UCG AFS debt/equity securities	**—**	558,894
Property and equipment	**19,124**	24,624
Other	**—**	123
Total deferred income tax liabilities	**794,787**	954,412
Total net deferred income tax assets (liabilities)	**$ 405,997**	$ (336,078)

ASC 740 outlines the requirement to reduce the measurement of deferred tax assets that are not expected to be realized in the form of a valuation allowance. Recent changes in market conditions, including rising interest rates, created significant net unrealized losses in the company's available for sale debt security portfolio. The resulting deferred tax assets are due to these unrealized losses, which are capital in nature and if realized, are generally only deductible to the extent of realized capital gains. When evaluating the need for a valuation allowance, the Company assessed their ability and intent to hold the underlying securities to recovery. After weighing all positive and negative evidence, including management's assertion that the available for sale debt security portfolio will be held to recovery, no valuation allowance is necessary at December 31, 2022.

At December 31, 2022, the Company has $1.6 million of federal net operating loss carryforwards with no expiration date and $1.3 million of tax credit carryforwards expiring in 2042.

NOTE 9 – BENEFIT PLANS

The Company sponsors a qualified defined benefit pension plan covering nearly all employees. The plan is non-contributory, with benefits for National Life employees hired prior to July 1, 2001, based on an employee's retirement age, years of service, and compensation near retirement. Benefits for National Life 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, increasedat a specified rate of interest. The plan was closed to new employees hired on or after January 1, 2021.

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. The Board of Directors voted in June 2022 to terminate the plan effective July 31,2022. 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 National Life. None of the securities held in the Company's separate account were issued by the Company.

NOTE 9 – BENEFIT PLANS (continued)

The Company sponsors other pension plans, including a non-contributory defined benefit plan for National Life affiliated 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 postemployment 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. The Company provides employees with a 401(k) plan. Under the Company's 401(k) plan for employees, eligible employees earning less than a specified amount and hired prior to January 1, 2021 receive a 75% match up to 6% of an employee's salary, subject to maximum contribution guidelines. Employees earning more than the specified amount receive a 50% match up to 6% of an employee's salary, subject to maximum contribution guidelines. Employees hired on or after January 1, 2021 will receive a 100% match up to 6% of an employee's salary, subject to maximum contribution guidelines. Additional employee voluntary contributions may be made to the plans subject to contribution guidelines. Vesting and withdrawal privilege schedules are attached to the Company's matching contributions. Effective January 1, 2016, agency employees became a part of the employee 401(k) plan with the same matching contributions as home office employees.

The Company also provides a 401(k) plan for its regular full-time agents. The Company makes an annual contribution equal to 6.1% of an agent's compensation up to the Social Security Taxable Wage Base plus 7.5% of the agent's compensation in excess of the Social Security Taxable Wage Base. In addition, the agent may elect to defer a portion of the agent's compensation, up to the legal limit on elective deferrals, and have that amount contributed to the plan. Total annual contributions cannot exceed certain limits which vary based on total agent compensation.

For all of the Company's 401(k) plans, accumulated funds may be invested in a group annuity contract issued by National Life or in mutual funds. These plans are not separately funded. Costs associated with these plans are included in operating expenses. Liabilities for these plans are included in pension and other post-retirement benefit obligations.

Information with respect to the defined benefit plans as of and for the years ended December 31, 2022 and 2021 was as follows (in thousands):

	Pension Benefits		Other Benefits	
	2022	2021	**2022**	2021
Change in benefit obligation:				
Benefit obligation, beginning of year	**$ 508,167**	$ 532,542	**$ 26,357**	$ 29,058
Service cost for benefits earned during the period	**7,738**	9,085	**251**	490
Interest cost on benefit obligation	**14,372**	13,244	**771**	691
Plan participants' contributions	**—**	—	**1,042**	1,112
Actuarial (gains) losses	**(105,567)**	(18,510)	**(9,196)**	(2,483)
Benefits paid	**(26,089)**	(28,194)	**(3,044)**	(2,511)
Benefit obligation, end of year	**398,621**	508,167	**16,181**	26,357
Change in plan assets:				
Plan assets, beginning of year	**409,376**	427,918	**—**	—
Actual return on plan assets	**(83,385)**	1,806	**—**	—
Employer contributions	**22,229**	7,846	**2,002**	1,399
Plan participants' contributions	**—**	—	**1,042**	1,112
Benefits paid	**(26,089)**	(28,194)	**(3,044)**	(2,511)
Plan assets, end of year	**322,131**	409,376	—	—
Funded Status	**$ (76,490)**	$ (98,791)	**$ (16,181)**	$ (26,357)

NOTE 9 – BENEFIT PLANS (continued)

	Pension Benefits		Other Benefits	
	2022	2021	**2022**	2021
Amounts recognized in the Consolidated Balance Sheets as of December 31,:				
Pension and other post-retirement benefit obligations liability	**$ (44,809)**	$ (34,483)	**$ 23,042**	$ 24,065
Accumulated other comprehensive income	**121,299**	133,274	**(6,861)**	2,292
Net amount recognized	**$ 76,490**	$ 98,791	**$ 16,181**	$ 26,357
Pension and other post-retirement benefit obligations liability	**$ (76,490)**	$ (98,791)	**$ (16,181)**	$ (26,357)
Amounts recognized in accumulated other comprehensive income consists of:				
Net actuarial loss	**$ 121,299**	$ 133,201	**$ (6,861)**	$ 2,292
Net prior service cost	**59**	73	**—**	—
	$ 121,358	$ 133,274	**$ (6,861)**	$ 2,292

The total accumulated benefit obligation ("ABO"), the accumulated benefit obligation and fair value of plan assets for the Company's pension plans with accumulated benefit obligations in excess of plan assets, and the projected benefit obligation and fair value of plan assets for pension plans with projected benefit obligations in excess of plan assets as of the measurement date was as follows as of December 31, 2022 and 2021 (in thousands):

	2022	2021
Total Accumulated Benefit Obligation	**$ 378,765**	$ 474,191
Plans with ABO in excess of plan assets:		
ABO	**378,765**	474,191
Fair value of plan assets (1)	**322,116**	409,361
Plans with PBO in excess of plan assets:		
PBO	**398,621**	508,167
Fair value of plan assets (1)	**322,116**	409,361

(1) The difference to total plan assets shown on the prior page is due to accrual for income and liabilities that are not carried at fair value.

The components of net periodic benefit cost for the years ended December 31, 2022 and 2021 were as follows (in thousands):

	Pension Benefits		Other Benefits	
	2022	2021	**2022**	2021
Service cost for benefits earned during the period	**$ 7,738**	$ 9,085	**$ 251**	$ 490
Interest cost on benefit obligation	**14,372**	13,244	**771**	691
Expected income on plan assets	**(19,786)**	(21,188)	—	—
Net amortization of actuarial losses (gains)	**9,507**	10,093	**(44)**	403
Amortization of prior service benefits and plan amendments	**14**	14	**—**	—
Net periodic benefit cost (included in operating expenses)	**$ 11,845**	$ 11,248	**$ 978**	$ 1,584

Other changes in plan assets and benefit obligations recognized in other comprehensive income (in thousands):

	Pension Benefits		Other Benefits	
	2022	2021	**2022**	2021
Net gain (loss)	**$ 2,396**	$ (872)	**$ 9,196**	$ 2,483
Amortization of loss	**9,507**	10,093	**(44)**	403
Amortization of prior service cost (benefits)	**14**	14	**—**	—
Total recognized in other comprehensive income	**$ 11,917**	$ 9,235	**$ 9,152**	$ 2,886

NOTE 9 – BENEFIT PLANS (continued)

The actuarial assumptions used in determining benefit obligations at the measurement dates were as follows:

	Pension Benefits		Other Benefits	
	2022	2021	**2022**	2021
Discount rate	**5.25%**	2.90%	**5.25%**	2.90%
Rate of increase in future compensation levels	**4.0% - 5.0%**	4.0% - 5.0%		

The weighted-average assumptions used to determine net periodic benefit cost:

	Pension Benefits		Other Benefits	
	2022	2021	**2022**	2021
Discount rate	**2.90%**	2.55%	**2.90%**	2.55%
Rate of increase in future compensation levels	**4.0% - 5.0%**	4.0% - 5.0%		
Expected long term return on plan assets	**4.75%**	5.00%		

Included in the pension and other post-retirement benefit obligations liability as reported on the Consolidated Balance Sheets are deferred compensation and employee disability liabilities of $76.4 million and $79.1 million as of December 31, 2022 and 2021, respectively.

The assumed weighted average health care trend rate for next year is 6.50%. Trend rates are developed and reviewed annually based on discussions with various carriers and a comprehensive review of available surveys.

The Company uses the straight-line method of amortization for prior service cost and unrecognized gains and losses.

The percentage distribution of the fair value of total plan assets held as of the measurement date is as follows:

Plan Asset Category	**December 31, 2022**	December 31, 2021
Fixed income	**90%**	92%
Group annuity contract and other	**10%**	8%
Total	**100%**	100%

The primary objective is to maximize long-term total return within the investment policy and guidelines. The Company's investment policy for the plan assets associated with the separately funded plans is to maintain a target allocation of approximately 90%-100% fixed income and 0–10% alternative investments when measured at fair value.

The Company's expected future long-term rates of return are 4.75% and 4.45%, for the home office and agency employee plans, respectively, is based upon the combination of current asset mix of partnerships and fixed income, the Company's historical and projected experience, and on long-term projections by investment research organizations.

NOTE 9 – BENEFIT PLANS (continued)

The concentrations of credit risk associated with the plan assets are shown in the table below (in thousands):

		2022	2021
Fixed income	Aerospace/Defense	**$ 10,646**	$ 15,239
	Airlines	**491**	628
	Automotive	**3,341**	3,923
	Banking	**29,223**	41,000
	Cable	**5,317**	6,820
	Chemicals	**4,154**	4,381
	Consumer products	**3,224**	4,054
	Food and Beverage	**17,606**	21,375
	Government agency	**3,347**	5,095
	Health Care	**11,492**	14,338
	Housing	**21,006**	26,204
	Insurance - Health	**3,382**	4,066
	Insurance - Property and Casualty	**13,438**	18,945
	Insurance - Life	**4,804**	6,639
	Independent	**2,269**	2,917
	Integrated	**3,740**	5,481
	Local authorities	**12,588**	17,265
	Machine Construction	**1,642**	2,469
	Manufacturing	**5,004**	2,738
	Media	**3,889**	6,457
	Metals/Mining	**7,786**	10,649
	Midstream	**1,350**	3,851
	Pharmaceuticals	**19,255**	23,997
	Railroads	**9,058**	10,480
	Real Estate Investment Trusts	**4,954**	6,020
	Retailers	**12,974**	16,321
	Technology	**25,241**	32,573
	Transportation	**4,397**	5,933
	Utilities	**30,573**	37,663
	Wireless	**5,354**	6,762
	Wirelines	**6,353**	9,395
	Total fixed income	**287,898**	373,678
Partnerships		**26,593**	29,093
Cash		**88**	243
Short term cash equivalents		**3,371**	3,021
Group annuity		**975**	244
	Total Investments (1)	**$ 318,925**	$ 406,279

(1) The difference to total plan assets of $322,131 in 2022 and $409,377 for 2021 shown in the changes in plan assets are accruals for income and liabilities.

The assets of the Company’s separately funded pension plans are held in the Company’s separate account.

NOTE 9 – BENEFIT PLANS (continued)

The valuation techniques used for the plan assets are:

Corporates – Corporate bonds are valued using cash flow models based on appropriate observable inputs such as market quotes, yield curves, interest rates, and spreads. Corporate bonds are categorized as Level 2 in the fair value hierarchy. Bond mutual funds that have a readily determinable NAV are not categorized in the fair value hierarchy.

Partnerships - Investments in limited partnerships do not have a readily determinable fair value, and, as such, the Company values them at its pro-rata share of the limited partnership's NAV, or its equivalent. Investments in limited partnerships are not categorized in the fair value hierarchy.

Short term cash equivalents - Short term investments include money market accounts that are carried at NAV which approximates fair value. Investments in short term cash equivalents are not categorized in the fair value hierarchy.

Group annuity - This category consists of an investment in a National Life group variable annuity contract. The contract is carried at amortized cost, which approximates fair value. These assets are categorized in Level 2 of the hierarchy.

The valuation of plan assets as of December 31, 2022 and 2021 is as follows (in thousands):

2022 Fair Value	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Corporates [1]	**$ —**	**$ 291,123**	**$ —**	**$ 291,123**
Cash	**88**	**—**	**—**	**88**
Group annuity	**—**	**975**	**—**	**975**
Total Plan Assets [1]	**$ 88**	**$ 292,098**	**$ —**	**$ 292,186**

2021 Fair Value	Level 1	Level 2	Level 3	Total
Assets				
Corporates [1]	$ —	$ 376,794	$ —	$ 376,794
Cash	243	—	—	243
Group annuity	—	244	—	244
Total Plan Assets [1]	$ 243	$ 377,038	$ —	$ 377,281

1. In accordance with Topic 820, certain investments that are measured at fair value using NAV (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. As of December 31, 2022, the fair value of these investments in partnerships and short term cash equivalents were $26,593 and $3,371, respectively. As of December 31, 2021, the fair value of these investments in partnerships and short-term cash equivalents were $29,093 and $3,021, respectively.

Projected benefit payments for defined benefit obligations for each of the five years following December 31, 2022, and in aggregate for the five years thereafter is as follows (in thousands):

Year	Projected Pension Benefit Payments	Projected Other Benefit Payments
2023	$ 28,675	$ 1,233
2024	29,840	1,259
2025	29,976	1,275
2026	29,885	1,241
2027	28,681	1,197
2028-2032	145,847	5,580

NOTE 9 – BENEFIT PLANS (continued)

The Company’s general policy is to contribute the regulatory minimum required amount into its separately funded defined benefit pension plan. However, the Company may elect to make larger contributions subject to maximum contribution limitations. The Company’s expected contribution for 2023 into its separately funded defined benefit pension plans is anticipated to be up to $10 million.

NOTE 10 – DEBT

Debt consists of the following (in thousands):

	2022	2021
7.5% Senior Notes:	**$ 198,654**	$ 198,530
$200 million, maturing August 2033, interest payable semiannually on February 15 and August 15. The notes are unsecured and subordinated to any existing or future indebtedness of NLVF and its subsidiaries.		
6.5% Senior Notes:	**67,581**	67,546
Original issue of $75 million, maturing March 2035, interest payable semiannually on March 15 and September 15. The notes are unsecured and subordinated to any existing or future indebtedness of NLVF and its subsidiaries. In 2009, the Company's subsidiary, National Life repurchased $7.0 million of the senior notes. Interest paid to the subsidiary is eliminated in consolidation.		
10.5% Surplus Notes:	**166,569**	166,481
Original issue of $200 million, maturing September 15, 2039, interest payable semiannually on March 15 and September 15. The notes are unsecured and subordinated to any existing or future indebtedness of National Life.		
5.25% Surplus Notes:	**483,532**	483,220
$500 million, maturing July 19, 2068, interest payable semiannually on January 19 and July 19. The notes are unsecured and subordinated to any existing or future indebtedness of National Life.		
Total debt	**$ 916,336**	$ 915,777

In July 2018, National Life issued surplus notes with a principal balance of $350 million 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, or applicable LIBOR benchmark successor rate with an additional spread adjustment, plus 3.314%. The surplus notes are redeemable by National Life on or after July 19, 2048. In July 2018, National Life also completed 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 recognized in interest expense over the life of the 5.25% surplus notes. In April 2019, National Life issued an additional $128 million of the 2068 5.25% surplus notes, which brought the total of that issuance to $500 million.

Interest paid on the 7.5% senior notes was $15.0 million in 2022 and 2021. Interest paid on the 6.5% senior notes was $4.9 million in 2022 and 2021. Interest paid on the 10.5% surplus note was $17.6 million in 2022 and 2021. Interest paid on the 5.25% surplus note was $26.3 million in 2022 and 2021.

Subject to state regulatory limits and collateral requirements, National Life and LSW have secured asset-borrowing capacity available from FHLB Boston and FHLB Dallas, respectively. For additional information on FHLB, see Note 2.

NOTE 10 – DEBT (continued)

Facility Agreement for Senior Notes Issuance

In October 2021, NLVF entered into a 30-year facility agreement with a Delaware trust in connection with the sale by the Delaware trust of $750 million of pre-capitalized trust securities in a private placement pursuant to Rule 144A of the Securities Act of 1933, as amended. The Delaware trust invested the proceeds from the sale of the Delaware trust securities in a portfolio of principal and interest strips of U.S. Treasury securities. The facility agreement provides the Company the right to issue and sell to the Delaware trust up to an aggregate principal amount outstanding at any one time of $750 million of NLVF's 4.161% Senior Notes due August 15, 2051 in exchange for a corresponding amount of U.S. Treasury securities held by the Delaware trust. NLVF's 4.161% Senior Notes will not be issued unless and until the issuance right is exercised. In return, NLVF pays a semi-annual facility fee to the Delaware trust at a rate of 2.0665% per year (applied to the unexercised portion of the maximum amount of Senior Notes that NLVF could issue and sell to the Delaware trust), and NLVF reimburses the Delaware trust for its expenses. The facility fees paid were $15.5 million in 2022.

The issuance right will be exercised automatically in full upon our failure to make certain payments to the Delaware trust, such as paying the facility fee, reimbursing the Delaware trust for its expenses, or paying for any defaulted assets required to be purchased at their face amount from the Delaware trust, if the failure to pay is not cured within 30 days, or upon certain bankruptcy events involving NLVF. The Company is also required to exercise the issuance right in full if NLVF's consolidated net worth has fallen below $1.0 billion, subject to adjustment from time to time in certain cases, and upon certain other events described in the facility agreement.

Prior to any involuntary exercise of the issuance right, NLVF has the right to repurchase any or all of the 4.161% senior notes then held by the Delaware trust in exchange for a corresponding amount of U.S. Treasury securities. At any time and from time to time prior to February 15, 2051, NLVF may redeem any outstanding senior notes, in whole or in part, at a redemption price equal to the greater of par or a make-whole price, or thereafter, at par. As of December 31, 2022, NLVF has not exercised its issuance right with respect to the facility agreement and there are no 4.161% Senior Notes outstanding.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

The Company is subject, in the ordinary course of business, to claims, litigation, arbitration proceedings, and governmental examinations. Although the Company is not aware of any actions, proceedings or allegations that reasonably should give rise to a material adverse impact to the Company's financial position or liquidity, the outcome of any particular matter cannot be foreseen with certainty. It is the opinion of management that the ultimate resolution of these matters will not materially impact the Company's financial condition.

The Company is also involved in class action or putative class action litigation.

On April 30, 2020, two individuals filed a Consolidated Class Action Complaint in a lawsuit pending in the U.S. District Court for the Northern District of California and captioned In re PFA Insurance Marketing Litigation. Plaintiffs bring claims against Premier Financial Alliance, Inc. ("PFA"), an independent marketing organization with which LSW does business, for alleged violations of the California Unfair Competition and Endless Chain Scheme Laws and New Jersey Consumer Fraud Act and allege that LSW should be held liable as a result of its business relationship with PFA. The Company strongly disputes these allegations and has contested them vigorously. The parties are in the process of documenting the settlement terms, including preparing a motion for preliminary approval of the settlement, and the settlement remains subject to court approval, estimated at $15 million as of December 31, 2022. The Company is not conceding or admitting any wrongdoing or liability as part of the settlement and continues to deny each, any, and all allegations of wrongdoing, fault, liability, or damage whatsoever that have or could have been asserted in the lawsuit. The parties are in the process of

NOTE 11 – COMMITMENTS AND CONTINGENCIES (continued)

documenting the settlement terms, including preparing a motion for preliminary approval of the settlement, and the settlement remains subject to court approval.

The Company has a multi-year contract with NTT Data, Inc. which expires June 30, 2024. The contract provides data processing, information systems application and infrastructure services from NTT Data. The Company paid $36.9 million and $34.2 million under this contract in 2022 and 2021, respectively.

The Company has a multi-year contract with I-Pipeline which expires December 31, 2023. The contract provides business support through electronic applications. The Company paid $4.5 million and $4.6 million under this contract in 2022 and 2021, respectively.

The Company has a multi-year contract with Cognizant which expires June 30, 2024. The contract provides application support, application development and Quality Assurance (QA") services. The Company paid $17.6 million and $14.7 million under this contract in 2022 and 2021, respectively.

The Company has a multi-year contract with Microsoft which expires June 30, 2025. The contract provides software licenses to Microsoft end-user and data center products. The Company paid $4.9 million under this contract in 2022 and 2021.

The Company signed a multi-year contract with SalesForce.com which expires January 31, 2024. The contract provides customer relationship management application licenses and support. The Company paid $1.1 million under this contract in 2022 and 2021.

The Company signed a one-year renewal with Ultimate Software Group which expires December 31, 2023. The contract provides agent/agency and employee payroll services and support. The Company paid $2.1 and $1.8 million under this contract in 2022 and 2021, respectively.

As a lessee, the Company leases office space and office equipment under various operating leases. Lease assets and liabilities are recognized at the commencement of a lease based on the present value of lease payments over the lease term. The Company elected to adopt the package of practical expedients allowed in ASU 842. The Company applies a risk-free rate as the discount rate when determining lease classification and valuing the right of use assets and lease liabilities. Leases for office facilities contain options for renewals that may be exercised.

The lease assets and liabilities as of December 31, 2022 were as follows (in thousands):

	2022
Assets	
Operating lease assets (1)	$ 22,368
Total lease assets	$ 22,368
Liabilities	
Operating lease liabilities (2)	$ 27,421
Total lease liabilities	$ 27,421

(1) Operating lease assets are primarily reported within Other assets on the Consolidated Balance Sheets.
(2) Operating lease liabilities are reported within Other liabilities and accrued expenses on the Consolidated Balance Sheets.

NOTE 11 – COMMITMENTS AND CONTINGENCIES (continued)

The lease cost for the year ended December 31, was as follows (in thousands):

		2022
Operating lease cost (1)		**6,228**
Total lease cost	**$**	**6,228**

(1) Operating lease costs are primarily included in Operating expenses on the Consolidated Statements of Comprehensive Income.

Payments for operating leases for the year ended December 31, 2022 were $6.8 million.

The following represents future payments due by period for lease obligations (in thousands):

For the year ending December 31:		Operating leases
2023	$	6,596
2024		5,667
2025		4,024
2026		3,729
2027		3,284
Thereafter		5,577
Total lease payments		28,877
Less: interest		1,456
Present value of lease liabilities	$	27,421

The weighted-average remaining lease term and weighted-average discount rate as of December 31, 2022 were as follows:

	2022
Weighted-average remaining lease term (in years):	
Operating leases	5.6
Weighted-average discount rate:	
Operating leases	1.78 %

The Company had unfunded mortgage loan, partnership, and AFS debt security commitments of $61.4 million, $664.0 million, and $30.5 million, respectively, at December 31, 2022. Partnership commitments may be called by the partnership during the commitment period (on average two to five years) to fund the purchase of new investments and partnership expenses. Once the commitment period expires, the Company is under no obligation to fund the remaining unfunded commitment but may elect to do so.

Alternative Sources of Liquidity

In October 2021, NLVF entered into a facility agreement with a Delaware trust that gives the Company the right over a 30-year period to issue at any time up to $750 million of 4.161% Senior Notes due August 15, 2051 to the Delaware trust in exchange for a corresponding amount of U.S. Treasury securities held by the Delaware trust, therefore providing an alternative source of liquidity. This agreement provides an alternative source of liquid assets that the Company can access at its discretion. For additional details, see Note 10.

NOTE 12 – NATIONAL LIFE CLOSED BLOCK

National Life established and began operating the Closed Block on January 1, 1999. The Closed Block was established pursuant to regulatory requirements as part of the reorganization into a mutual holding company corporate structure. The Closed Block was established for the benefit of holders of certain of National Life's individual participating life insurance and annuity policies in force at December 31, 1998. The Closed Block is designed to give reasonable assurance to holders of policies in the Closed Block that assets will be available to provide for payment of policy benefits, including the continuation of dividends throughout the life of such policies based upon the 1998 dividend scale if the experience underlying such dividend scale (including portfolio interest rates) continues as it was in 1998, and for appropriate adjustment in such dividend scale if the experience changes. The Closed Block is expected to remain in effect until all policies within the Closed Block are no longer in force. Assets assigned to the Closed Block at January 1, 1999, together with projected future premiums and investment returns, are reasonably expected to be sufficient to pay out all future Closed Block policy benefits, expenses, and taxes. Such benefits include dividends paid out under the current dividend scale, adjusted to reflect future changes in the underlying experience. The assets and liabilities allocated to the Closed Block are recorded in the Company's financial statements on the same basis as other similar assets and liabilities. National Life remains contingently liable for all contractual benefits and expenses of the Closed Block.

If actual cumulative Closed Block earnings are greater than expected cumulative earnings, only the expected earnings will be recognized in net income of the Company. Actual cumulative earnings in excess of expected earnings represent undistributed earnings attributable to Closed Block policyholders.

These excess earnings are recorded as a policyholder dividend obligation (included in policyholders' dividend liability) to be paid to Closed Block policyholders unless offset by future results that are less than expected. If actual cumulative performance is less favorable than expected, only actual earnings will be recognized in income. In 2022 and 2021, the Company recorded increases in policyholder dividend obligation of $0.2 million and $14.1 million, respectively. Unrealized gains in the Closed Block generated a policyholder dividend obligation through accumulated other comprehensive income of ($0.2) million and $246.7 million at December 31, 2022 and 2021, respectively. The total policyholder dividend obligation at December 31, 2022 and 2021 was zero and $260.8 million, respectively.

NOTE 12 – NATIONAL LIFE CLOSED BLOCK (continued)

Summarized financial information for the Closed Block effects included in the consolidated financial statements as of December 31, 2022 and 2021, and for the years ended December 31, 2022 and 2021 is as follows (in thousands):

	2022	2021
Liabilities:		
Policy liabilities and accruals	**$ 2,461,396**	$ 2,842,168
Other liabilities	**187**	23,821
Total liabilities	**$ 2,461,583**	$ 2,865,989
Assets:		
Cash	**$ 496**	$ 25,178
Short term investments	**4,960**	—
Available-for-sale debt securities	**1,686,488**	2,251,099
Mortgage loans	**102,156**	106,054
Policy loans	**252,502**	267,044
Accrued investment income	**24,148**	25,429
Premiums and fees receivable	**2,244**	3,346
Other assets	**45,880**	10,141
Total assets	**$ 2,118,874**	$ 2,688,291
Excess of reported liabilities over assets	**$ 342,709**	$ 177,698
Accumulated other comprehensive loss represented above	**(175,644)**	—
Unrealized loss and liabilities	**$ 167,065**	$ 177,698

	2022	2021
Revenues:		
Insurance premiums and other income	**$ 48,214**	$ 55,758
Net investment income	**94,401**	103,679
Net investment (losses) gains	**(962)**	1,540
Total revenues	**$ 141,653**	$ 160,977
Benefits and Expenses:		
Decrease in policy liabilities	**(60,636)**	(117,199)
Policy benefits	**177,048**	222,826
Policyholders' dividends and dividend obligations	**2,504**	31,152
Interest credited to policyholder account liabilities	**5,063**	6,469
Operating expenses	**3,107**	3,366
Commission expenses	**1,107**	669
Total benefits and expenses	**$ 128,193**	$ 147,283
Pre-tax results of operations	**13,460**	13,694
Income tax expense	**2,827**	2,889
Closed Block results of operations	**$ 10,633**	$ 10,805
Excess of reported Closed Block liabilities over Closed Block assets:		
Beginning of year	**177,698**	188,503
Closed Block results of operations	**10,633**	10,805
End of year	**$ 167,065**	$ 177,698

NOTE 12 – NATIONAL LIFE CLOSED BLOCK (continued)

Amortized cost of available for sale debt securities held by the Closed Block was $1.9 billion and $2.0 billion at December 31, 2022 and 2021, respectively.

Participating insurance in force within the Closed Block at December 31, 2022 and 2021 was $4.2 billion and $4.4 billion, respectively.

Many expenses related to Closed Block policies and operations, including amortization of policy acquisition costs, are charged to operations outside the Closed Block; accordingly, the contribution from the Closed Block presented above does not represent the actual profitability of the Closed Block operations. Operating costs and expenses outside the Closed Block are therefore disproportionate to the actual business outside the Closed Block.

NOTE 13 – STATUTORY INFORMATION AND RESTRICTIONS

The Company's insurance operations, domiciled in the states of Vermont (National Life, Catamount, and Longhorn) and Texas (LSW), prepare statutory financial statements in accordance with statutory accounting principles ("SAP") prescribed or permitted by the insurance departments of the states of domicile. Prescribed statutory accounting principles include the Accounting Practices and Procedures Manual of the National Association of Insurance Commissioners ("NAIC") as well as state laws, regulations, and general administrative rules applicable to all insurance enterprises domiciled in a particular state. Permitted statutory accounting practices include practices not prescribed by the domiciliary state, but allowed by the domiciliary state regulatory authority. National Life and LSW do not have any permitted practices. Catamount and Longhorn have permitted practices approved by the State of Vermont.

LSW paid no dividends to National Life in 2022 or 2021. National Life paid a cash dividend to NLVF of $55 million and $50 million in 2022 and 2021, respectively. For U.S. GAAP, the dividends were eliminated in consolidation. Dividends declared by National Life and LSW in excess of the greater of ten percent of statutory surplus or statutory net gain from operations require pre-approval by the Commissioner of the Vermont Department of Financial Regulation and Commissioner of the Texas Department of Insurance, respectively.

No capital contributions occurred in 2022 or 2021.

National Life's statutory surplus was $2.53 billion (unaudited) and $2.88 billion at December 31, 2022 and 2021, respectively. Statutory net income (loss) was a net loss of $(63.7) million (unaudited) and a net gain of $10.8 million (unaudited) in 2022 and 2021, respectively.

LSW's statutory surplus was $1.77 billion (unaudited) and $1.97 billion at December 31, 2022 and 2021, respectively. Statutory net income (loss) was a net loss of $(164.3) million (unaudited) and a net gain of $307.7 million (unaudited) in 2022 and 2021, respectively.

Pursuant to certain statutory requirements, as of December 31, 2022, National Life and LSW had securities on deposit with a statutory carrying value of $6.9 million and $3.4 million, respectively, in insurance department special deposit accounts.

NOTE 14 – PARTICIPATING LIFE INSURANCE

Participating life insurance in force was 10.7% and 11.7% of the face value of total insurance in force at December 31, 2022 and 2021, respectively. The premiums on participating life insurance policies were 4.7% and 5.0% of total individual life insurance premiums in 2022 and 2021, respectively.