



National Life
Group®

Because

love

matters

2019 Annual Report

Because *good*

What MATTERS to YOU?

At National Life, we care about what matters.

What is that, you might ask?

After 171 years, we've proudly served customers through world wars, depressions, flu epidemics, and some questionable fashion trends.

And throughout those generations, we discovered what really matters has stayed the same all along.

Family. Friends. Love. Trust.

It's all...

good

That's why we've been here since 1848, listening to our clients so we can help protect what matters to them.

Living our values of Do good. Be good. Make good.

And looking forward to helping you focus on what matters for many years to come.



Products issued by:

National Life Insurance Company Life Insurance Company of the Southwest
National Life Group® is a trade name of National Life Insurance Company, founded in Montpelier, VT in 1848, Life Insurance Company of the Southwest, Addison, TX, chartered in 1955, and their affiliates. Each company of National Life Group is solely responsible for its own financial condition and contractual obligations. Life Insurance Company of the Southwest is not an authorized insurer in New York and does not conduct insurance business in New York.

matters

During “Big Game” Sunday, while other companies were spending big bucks on television advertising during the event in Miami, we were providing 1,700 meals to homeless women and their children in a neighborhood just northwest of downtown.

Instead of partying in the sky boxes at Hard Rock Stadium or spending millions for 30 seconds of TV fame at halftime, we did what we do best: An unexpected bit of good.

We’ve been putting policyholders first for 171 years. The companies of National Life Group are not publicly traded. We are independent and our mutual structure has allowed us to focus on our policyholders — and the greater good — since the chartering of National Life Insurance Company in 1848.

Our corporate values – Do good. Be good. Make good. – are not just words on a wall. They are who we are. We believe we have a responsibility to use our position and resources for something more than our own bottom line.

In 2019 we launched an initiative to end childhood hunger in our home state of Vermont where one in eight households struggles with food insecurity. In 2019 we also formed the National Coalition for Safe Schools, a teacher-led initiative to help K–12 educators take a leadership role in keeping America’s schools safe, with a national school safety summit in Alabama.

Through these efforts we are sharing our success with our clients and our communities. We are doing good.

At the same time we are doing very well. We remain one of the fastest growing life insurance companies in America.¹ In 2019 we were ranked a top 10 life insurer as measured by sales.²

We are financially strong:

- In 2019 we provided \$3.3 billion in policyholder benefits, up 24% over 2018³
- Our life sales of \$361 million were up 17% over 2018⁴
- Our total life insurance in force stood at \$170 billion, an increase of 22% over 2018⁵
- Our core earnings of \$285 million were up 27% over 2018⁶

What we do is critical: Our products keep alive the dreams of families, the hopes of small business owners and the dignity and financial independence of seniors.

As critical, however, is the *why* that drives us.

Because good matters.

Mehran Assadi
Mehran Assadi
Chairman, CEO & President

Board of Directors *from left to right*

Roger B. Porter *IBM Professor of Business & Government, Harvard University, Cambridge, MA*

Carol Carlson *Retired Partner, Ernst & Young, LLP, Needham, MA*

Harris H. Simmons *Chairman, Chief Executive Officer & President, Zions Bancorporation & Chairman, Zions First National Bank, Salt Lake City, UT*

Thomas H. MacLeay *Lead Director, Former Chief Executive Officer, National Life Group, Montpelier, VT*

Mehran Assadi *Chairman, Chief Executive Officer & President, National Life Group, Montpelier, VT*

David R. Coates *Retired Partner, KPMG, Colchester, VT*

Bruce M. Lisman *Retired, JP Morgan Chase, New York, NY*



James H. Douglas *Former Governor of Vermont, Middlebury, VT*

Yvette D. Bright *Retired, Independence Blue Cross, Philadelphia, PA*

Because *peace of mind* matters

National Life's vision is to bring peace of mind to everyone we touch. Here are some of the ways we worked toward this in 2019...



We adopted a cause to help end childhood hunger in Vermont, targeting more than **\$500,000** to hunger relief programs, hosting multiple food drives, serving **201** neighbors at a community meal in our cafeteria, building awareness through videos and community relations, and working with leaders from throughout the state to tackle this issue.

We served **938,171** customers, handling **every hour:**

- 2,580** pages of mail
- 480** payment items
- 420** calls
- 120** applications
- 76** underwriting approvals



National Life employees donated more than **7,400** volunteer hours and pledged **\$286,519** to their nonprofits of choice, matched dollar for dollar.



Our LifeChanger of the Year teacher recognition program honored **860** educators nationwide, awarding **\$70,000** in prizes.



National Life Group
LifeChanger
OF THE YEAR

National Life Group
DO good FEST
PRESENTED BY **The point**
Independent Radio

And we welcomed more than **10,000** music festival attendees to our Vermont campus and have raised almost **\$200,000** over the past six years for cancer patients.

Because performance matters

A.M. Best
financial strength rating⁷
A (Excellent)
Third highest of 16

Standard & Poor's
financial strength rating⁷
A+ (Strong)
Fifth highest of 21

Moody's
financial strength rating⁷
A2 (Good)
Sixth highest of 21

#1

for Fixed Indexed
Annuities in Employer
Sponsored Plans⁸

#2

for Indexed
Universal Life
Insurance Sales⁹

#9

for individual life insurance
sales out of all reporting U.S.
life insurance companies¹⁰

\$34_B

in total assets¹¹

\$32_B

in total liabilities¹¹

\$3.3_B

in total benefits equals
promises kept³

\$361_M

in life insurance weighted
net asset premium,
up 17% over 2018⁴

\$161_M

in annuity weighted new
annualized premium,
up 13% over 2018⁴

\$996_M

in Single Premium
Deferred Annuities,
up 21% over 2018⁴

Because *a promise* matters

NLV Financial Corporation and Subsidiaries¹²

Consolidated Balance Sheets¹³

As of December 31, in thousands

Assets:	2019	2018
Cash and investments:		
Available-for-sale debt securities	\$ 23,700,099	\$ 20,122,717
Equity securities	62,882	55,360
Trading debt securities	136,630	19,082
Mortgage loans	3,718,391	3,674,383
Policy loans	959,969	921,516
Real estate investments	11,806	16,210
Derivative assets	1,409,070	231,174
Other invested assets	1,236,434	932,402
Short term investments	161,450	264,750
Cash and restricted cash	453,075	157,586
Total cash and investments	31,849,806	26,395,180
Deferred policy acquisition costs	1,856,701	2,093,111
Accrued investment income	248,668	232,368
Premiums and fees receivable	22,109	22,639
Amounts recoverable from reinsurers	108,588	132,164
Property and equipment, net	173,100	165,934
Corporate owned life insurance	507,237	493,679
Federal income tax recoverable	—	31,306
Other assets	118,108	100,784
Separate account assets	881,791	769,763
Total assets	\$ 35,766,108	\$ 30,436,928
Liabilities:		
Policy liabilities:		
Policy benefit liabilities	\$ 4,255,302	\$ 4,159,561
Policyholder account liabilities	23,565,407	21,115,895
Policyholders' deposits	99,692	90,082
Policy claims payable	76,447	95,698
Policyholders' dividends and dividend obligations	233,491	62,342
Total policy liabilities	28,230,339	25,523,578
Amounts payable to reinsurers	36,509	38,734
Derivative liabilities	881,670	102,391
Other liabilities and accrued expenses	715,966	309,911
Pension and other post-retirement benefit obligations	165,753	149,422
Deferred income taxes	257,671	91,253
Federal income tax payable	35,362	—
Debt	914,680	790,866
Separate account liabilities	881,791	769,763
Total liabilities	\$ 32,119,741	\$ 27,775,918
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	3,011,282	2,741,935
Accumulated other comprehensive income	635,085	(80,925)
Total stockholder's equity	3,646,367	2,661,010
Total liabilities and stockholder's equity	\$ 35,766,108	\$ 30,436,928

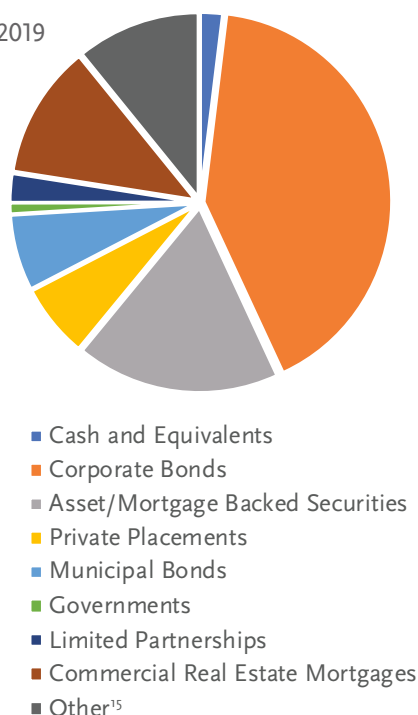
Consolidated Statement of Operations¹⁴

For the years ended December 31, in thousands

	2019	2018
Revenues:		
Insurance premiums	\$ 233,256	\$ 217,241
Policy and contract charges	759,027	648,395
Mutual fund commissions and fee income	53,230	51,571
Net investment income	1,740,859	980,790
Net losses	(38,858)	(23,480)
Other income	24,586	30,882
Total revenues	\$ 2,772,100	\$ 1,905,399
Benefits and expenses:		
Decrease in policy liabilities	(12,695)	(83,762)
Policy benefits	486,941	536,813
Policyholders' dividends and dividend obligations	46,499	40,224
Interest credited to policyholder account liabilities	1,082,820	504,945
Operating expenses	359,056	322,770
Interest expense	63,360	49,286
Policy acquisition expenses	466,075	361,509
Total benefits and expenses	2,492,056	1,731,785
Income before income taxes	280,044	173,614
Income tax expense	56,501	23,560
Net income	\$ 223,543	\$ 150,054

Asset Allocation

As of December 31, 2019



At National Life Group, the strength of our balance sheet is our primary focus. We manage \$31.9 billion in invested assets with the objective of keeping our promises. Our portfolio is well diversified and comprised primarily of corporate bonds, mortgage-backed securities and commercial mortgage loans. We maintain strong portfolio credit quality, with over 96 percent of invested assets rated BBB quality or higher. In 2019, our portfolio delivered strong investment performance within a challenging low interest rate environment. Against this backdrop, we continued to reduce risk with greater emphasis on higher quality securities. As a result, our portfolio remains well-positioned for continuing market uncertainty.

Because *why* matters

National Life is here to bring you peace of mind.
We've been keeping our promises since 1848.
Believe in tomorrow. Do good today.®

For more detail on the information provided in this Annual Report, please visit www.nationallife.com.

No bank or credit union guarantee	Not a deposit
Not FDIC/NCUA insured	May lose value
Not insured by any federal or state government agency	

Guarantees are dependent on the claims-paying ability of the issuing company.

1 Among all reporting life insurance companies from 2014–2019 with individual life sales of at least \$50M in 2014 — LIMRA Sales Reporting, 2019.

2 LIMRA Sales Rankings, 4Q2019.

3 Statutory basis benefits provided based on consolidated results of National Life Insurance Company (NLIC) and Life Insurance Company of the Southwest (LSW) for 2019. For NLIC only \$401M.

4 Based on the consolidated results of NLIC and LSW for 2019. For NLIC only life insurance weighted new annualized premium \$53M, annuity weighted new annualized premium \$9M, and single premium deferred annuities \$1M.

5 Based on consolidated results of NLIC and LSW. For NLIC only \$50B.

6 Based on consolidated results of all National Life Group (NLG) companies. This measurement only exists on a consolidated GAAP basis.

7 Financial strength ratings for NLIC and LSW as of February 10, 2020. Ratings are subject to change.

8 LIMRA US Individual Annuity Industry Sales Report, 4Q2019.

9 Wink's Sales and Market Report, 4Q2019.

10 LIMRA Sales Rankings, 4Q2019.

11 Based on consolidated results of all National Life Group (NLG) companies, and stated on a GAAP accounting basis excluding bond unrealized gains and losses. Statutory basis financial figures: NLG consolidated: Admitted Assets \$35.6B and Liabilities \$33.2B; NLIC only: Admitted Assets \$10.1B and Liabilities \$7.8B.

12 Consolidated financial information on a GAAP basis for NLV Financial Corporation and its subsidiaries which include NLIC, LSW, Sentinel Asset Management, Inc., and Equity Services, Inc. See disclosures 13 and 14 for separate financial information pertaining to NLIC.

13 Statutory basis financial information for NLIC only: Admitted Assets \$10.1B, Cash & Invested Assets \$8.7B, Liabilities & Reserves \$7.8B, Policyholder Reserves \$3.5B and Surplus to Policyholders \$2.3B.

14 Statutory basis financial information for NLIC only: Total Income \$692M, Benefits & Expenses \$645M and Net Income \$40M.

15 Other includes Policy Loans, Derivatives, Unaffiliated Common Stock, Real Estate, and Housing Tax Credits.

This annual report summary of National Life Group (NLG) includes the consolidated results of NLV Financial Corporation and Subsidiaries, including National Life Insurance Company (NLIC), Life Insurance Company of the Southwest (LSW), Sentinel Asset Management, Inc., and Equity Services, Inc. Equity Services, Inc., Member [FINRA/SIPC](http://www.finra.org), is a Broker/Dealer and Registered Investment Adviser affiliate of National Life Insurance Company. In CO, MO, NH and WI, Equity Services, Inc. operates as Vermont Equity Services, Inc.

To obtain a full version of the audited financial statements of NLV Financial Corporation and Subsidiaries, please send an e-mail to lifecustomerservice@nationallife.com or call our toll free number at (800) 732-8939. You can also visit our website and download a pdf version online at nationallife.com.