Believe in tomorrow

2018 Annual Report

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<table>
<thead>
<tr>
<th>Category</th>
<th>2018</th>
<th>2017</th>
<th>Increase/Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$2,741,935</td>
<td>$2,093,111</td>
<td>$648,824</td>
</tr>
<tr>
<td>Deferred Annuities</td>
<td>$362,042</td>
<td>$273,755</td>
<td>$88,287</td>
</tr>
<tr>
<td>Single Premium Policy and contract charges</td>
<td>$564,064</td>
<td>$488,395</td>
<td>$75,669</td>
</tr>
<tr>
<td>Mutual fund commissions and fee income</td>
<td>$85,453</td>
<td>$51,571</td>
<td>$33,882</td>
</tr>
<tr>
<td>Decrease in policy liabilities</td>
<td>$(83,762)</td>
<td>$(21,468)</td>
<td>$(62,294)</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>$322,770</td>
<td>$316,377</td>
<td>$6,393</td>
</tr>
</tbody>
</table>

Other revenues and gains: $284,594, $284,594

Total revenues and gains: $94,611, $94,611

Total expenses and losses: $(23,457), $(23,457)

Total net income: $71,154, $71,154

Total common shareholders’ equity: $24,465, $24,465

Total cash and investments: $960,415, $960,415

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**Ratings**

- Financial strength rating: 5
- Sales out of all reporting U.S. life insurance companies: 6
- Life insurance weighted net annual premium (WNAP): $55M (NLIC only)
- Annuity weighted net annual premium (WNAP): $5M

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**Board of Directors**

- Carol Carlson: Chairman, Chief Executive Officer & President, Zions Bank, Salt Lake City, Utah
- Thomas H. MacLeay: Retired Partner, KPMG, Colchester, Vermont
- David R. Coates: Director, Executive Assistant to the President, Zions Bank, Salt Lake City, Utah
- Linda Harrell-Davis: Director, Senior Vice President & Chief People Officer, National Life Group
- Michael R. Johnson: Director
- Robert S. Menn: Director, Former Chief Executive Officer, National Life Group
- John D. Rainey: Director, Retired President, International Bank of Commerce
- Andrew A. Sater: Director, Former Chief Executive Officer, National Life Group

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**2018 Financial Highlights**

- Total assets: $8.2B
- Cash and invested assets: $8.2B
- Admitted assets: $9.5B
- Liabilities and reserves: $7.4B
- Policyholder reserves: $6.1B
- Policyholder account balances: $5.4B
- Policyholder accounts: 11.8M
- Premiums in force: $139B
- Life insurance premiums in force: $139B
- Life insurance in force: $139B
- Annuity contracts in force: 1.9M
- Annuity deposits: $139B
- Segregated fund assets: $5B
- Separate account assets: $11B
- Separate account liabilities: $7B
- Securities: $2B
- Cash and investments: $8.2B
- Invested assets: $8.2B
- Invested assets: $8.2B
- Invested assets: $8.2B

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**Company Mission**

We are not just a company. We are a cause. We remain, as were our founders, purpose-driven, performance-oriented and principles-led.

**Company Culture**

We are a community of colleagues, thinkers and doers who thrive on the power of possibility. We are committed to helping our customers and each other "lean in to the possibilities of tomorrow." Every hour of every day, we make a difference in people’s lives. We are not just a company. We are a cause.

**Company Values**

- Be good
- Make good
- Do good

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**Guarantees**

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

**Employee Engagement**

We are committed to creating a workplace where our people can thrive and deliver for our customers. In 2018, we enjoyed our most successful year ever. Our employees are passionate about our mission to bring peace of mind to everyone we touch. Our teammates used their 40 hours of paid volunteer time to give back to our communities. We also enjoyed our most successful year ever.

**Leadership**

Former Chief Executive Officer, National Life Group, said four criteria were used in determining which companies to include: 1) having a strong financial position, 2) having a long-term perspective, 3) having a strong impact on society, and 4) having a strong commitment to sustainability.

**Impact**

We are committed to making a positive impact in our communities. In 2018, we donated $36,000 to the Branches of Hope cancer patient assistance fund through our annual special event, "A Night in the Garden." Our teammates used their 40 hours of paid volunteer time to give back to our communities. We also enjoyed our most successful year ever.
**Letter from Our Chairman — 2018**

In 2018 we celebrated the 170th anniversary of National Life. We also enjoyed our most successful year ever.

That’s not a coincidence.

We remain one of the fastest growing life insurance companies in America.¹ Our life sales have grown 351 percent in the past decade – from $88 million in 2008 to $309 million in 2018.

In 2018, we ranked number 12 in an industry-wide survey of life sales. A decade ago we were number 33.² That’s extraordinary but no accident.

Our founders were visionaries: In 1848, when our country was still so young, they had a vision to create a life insurance company in the United States with a national mission. They established the company under a mutual structure, which meant it was owned by its policyholders, and thus focused entirely on helping people protect their families and their futures.

We remain today what our founders created: Visionary, independent, responsible, and focused on the needs of our policyholders. We serve the nation. Year after year and decade after decade – for 170 years – those decisions made in 1848 have stood the test of time.

In 2018:

- We paid $2.5 billion in policyholder benefits;¹⁰
- Our total adjusted capital, which is an indicator of our future ability to keep our promises—reached a record $2.35 billion, up 6 percent over 2017;
- Our total assets were $31 billion, up 4 percent over 2017, against total liabilities of $28 billion;⁹
- Our total life insurance in force hit a record $139 billion, a number that has more than doubled since 2012.³

In 2019, we remain focused on ensuring strong discipline across product pricing, in-force management, expense management, and risk management. We have faced numerous challenges over the last 170 years, and going forward we will continue to focus on diligent planning and execution.

It was especially fitting that in our 170th year we were recognized as one of “America’s Magnificent Eight Exceptional Companies” by CEO Forum, which highlights the innovative work of companies around the country.

Robert Reiss, the CEO of CEO Forum, said four criteria were used in determining which companies to include: An incredible and aligned culture; exceptional customer experience; strong financials; and a higher purpose.

In his announcement of the eight, Mr. Reiss said, “Through all my research, there are few companies who have all of these elements to the degree National Life does. I was frankly blown away by the remarkable caring and focused culture. And not just one person. Every person I met had that same passion.”

That endorsement was one of the best birthday presents possible for this 170-year-old company.

We remain, as were our founders, purpose-driven, performance-oriented and principles-led. We understand the importance of our work to individuals, families, businesses and to our nation.

We are not just a company. We are a cause.

We dream it. We plan it. We execute it.

And we’re here to help you believe in tomorrow.

Mehran Assadi
Chairman, CEO & President

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¹ Life Insurance Company of the Southwest is not an authorized insurer in New York and does not conduct insurance business in New York.

² See disclosures 15 and 16 for separate financial information pertaining which include National Life Insurance Company (NLIC), Life Insurance Company of the Southwest (LSW), Sentinel Asset Management, Inc., and Equity Services, Inc.

³ Gross premiums written in total liabilities in promises kept in total assets.

⁴ A2 (Good)

⁵ Financial strength rating.

⁶ A.M. Best and commercial mortgage loans.

⁷ Wink’s Sales & Market Report, 4Q2018

⁸ Over 95% of rated fixed income securities are NAIC 1 or 2.

⁹ Statutory basis financial figures for NLIC only: Admitted assets $9.5B, Liabilities and Reserves $7.4B, Policyholder reserves $4.5B.

¹⁰ 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.
Our strength, growth, and culture elevated us to the Fortune 1000, Ward’s 50, and America’s Magnificent 8. And Moody’s Investors Service listed our ratings outlook as positive.
2018 was a busy year! Our Foundation’s budget doubled to $2 million. Our teammates used their 40 hours of paid volunteer time to do almost 7,200 hours of good. They donated more than $250,000 through our Share the Good campaign in which their charitable contributions were matched, resulting in $500,000 supporting hundreds of nonprofits. The Do Good Fest benefit concert raised $36,000 for the Branches of Hope cancer patient fund, bringing our total to more than $135,000 donated over the past five years. Our LifeChanger of the Year program honored 830 school employees nationwide with more than $78,000 in awards. We also celebrated four of our agents through the Agent Do Good Award with donations to the causes they support. These are just some of the ways we live our values, every day.
Every hour of 2018, our team served customers through 490 phone calls, 360 payments, 350 mailings, 120 applications, 53 underwriting cases, and 2 claims.

Every day we are building a learning organization of servant leaders ready to lean in to the possibilities of tomorrow.
# Consolidated Balance Sheet

As of December 31, in thousands

<table>
<thead>
<tr>
<th>Assets:</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and investments:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Available-for-sale debt securities</td>
<td>$20,122,717</td>
<td>$20,048,333</td>
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<tr>
<td>Available-for-sale equity securities</td>
<td>30,978</td>
<td>35,839</td>
</tr>
<tr>
<td>Trading debt securities</td>
<td>19,082</td>
<td>—</td>
</tr>
<tr>
<td>Trading equity securities</td>
<td>24,382</td>
<td>19,812</td>
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<tr>
<td>Mortgage loans</td>
<td>3,674,383</td>
<td>3,350,570</td>
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<tr>
<td>Policy loans</td>
<td>921,516</td>
<td>877,927</td>
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<tr>
<td>Real estate investments</td>
<td>16,210</td>
<td>24,465</td>
</tr>
<tr>
<td>Derivative assets</td>
<td>231,174</td>
<td>993,249</td>
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<tr>
<td>Other invested assets</td>
<td>932,402</td>
<td>960,415</td>
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<tr>
<td>Short term investments</td>
<td>264,750</td>
<td>228,480</td>
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<tr>
<td>Cash and restricted cash</td>
<td>157,586</td>
<td>284,070</td>
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<tr>
<td>Total cash and investments</td>
<td>26,395,180</td>
<td>26,823,160</td>
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<tr>
<td>Deferred policy acquisition costs</td>
<td>2,093,111</td>
<td>1,539,129</td>
</tr>
<tr>
<td>Accrued investment income</td>
<td>232,368</td>
<td>217,982</td>
</tr>
<tr>
<td>Premiums and fees receivable</td>
<td>22,639</td>
<td>22,577</td>
</tr>
<tr>
<td>Amounts recoverable from reinsurers</td>
<td>132,164</td>
<td>122,889</td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>165,934</td>
<td>153,110</td>
</tr>
<tr>
<td>Corporate owned life insurance</td>
<td>493,679</td>
<td>—</td>
</tr>
<tr>
<td>Federal income tax recoverable</td>
<td>31,306</td>
<td>—</td>
</tr>
<tr>
<td>Other assets</td>
<td>100,784</td>
<td>94,611</td>
</tr>
<tr>
<td>Separate account liabilities</td>
<td>769,763</td>
<td>814,928</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$30,436,928</strong></td>
<td><strong>$30,208,455</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Policy benefit liabilities</td>
<td>$4,159,561</td>
<td>$4,408,663</td>
</tr>
<tr>
<td>Policyholder account liabilities</td>
<td>21,115,895</td>
<td>19,485,437</td>
</tr>
<tr>
<td>Policyholders’ deposits</td>
<td>90,082</td>
<td>97,900</td>
</tr>
<tr>
<td>Policy claims payable</td>
<td>95,698</td>
<td>68,645</td>
</tr>
<tr>
<td>Policyholders’ dividends and dividend obligations</td>
<td>62,342</td>
<td>184,931</td>
</tr>
<tr>
<td><strong>Total policy liabilities</strong></td>
<td><strong>25,523,578</strong></td>
<td><strong>24,245,576</strong></td>
</tr>
<tr>
<td>Amounts payable to reinsurers</td>
<td>38,734</td>
<td>23,457</td>
</tr>
<tr>
<td>Derivative liabilities</td>
<td>102,391</td>
<td>566,986</td>
</tr>
<tr>
<td>Other liabilities and accrued expenses</td>
<td>309,911</td>
<td>682,703</td>
</tr>
<tr>
<td>Pension and other post-retirement benefit obligations</td>
<td>149,422</td>
<td>194,257</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>91,253</td>
<td>181,517</td>
</tr>
<tr>
<td>Federal income tax payable</td>
<td>—</td>
<td>66,109</td>
</tr>
<tr>
<td>Debt</td>
<td>790,866</td>
<td>452,638</td>
</tr>
<tr>
<td>Separate account liabilities</td>
<td>769,763</td>
<td>814,928</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>$27,775,918</strong></td>
<td><strong>$27,228,171</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Stockholder’s equity:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Class A common stock, 2,000 shares authorized, no shares issued and outstanding</td>
<td>$—</td>
<td>$—</td>
</tr>
<tr>
<td>Class B common stock, par value of $0.01, 1,001 shares authorized, 100 shares issued and outstanding</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Preferred stock, 500 shares authorized, no shares issued and outstanding</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>2,741,935</td>
<td>2,591,881</td>
</tr>
<tr>
<td>Accumulated other comprehensive income</td>
<td>(80,925)</td>
<td>388,403</td>
</tr>
<tr>
<td><strong>Total stockholder’s equity</strong></td>
<td><strong>2,661,010</strong></td>
<td><strong>2,980,284</strong></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Total liabilities and stockholder’s equity</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total liabilities and stockholder’s equity</strong></td>
<td><strong>$30,436,928</strong></td>
<td><strong>$30,208,455</strong></td>
</tr>
</tbody>
</table>
on our promises.
For 170 years, families and businesses have trusted National Life.
Everything we do is ultimately driven by our mission of keeping our promises.

At National Life Group the strength of our balance sheet is imperative. We manage $26.4 billion in invested assets so that we may keep every promise we make. Our portfolio is diversified and comprised primarily of corporate bonds, mortgage-backed securities and commercial mortgage loans. Over 95 percent of our invested assets are rated AAA/Aaa or BBB/Baa. Performance in 2018 was strong during a time of continued market volatility and low interest rates. New money yields exceeded the portfolio book yield in 2018, while we continued to reduce risk with greater allocation to highly rated securities.

At National Life Group we are committed to making a difference in the lives of our customers and in the communities we serve.

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We have a strong commitment to our values:
- **Do Good**
- **Support**
- **Strive**
- **Grow**
- **Solve**
- **Lead**
- **Build**
- **Believe**

Some of the ways we live our values, every day:
- Supporting hundreds of nonprofits. The Do Good Fest benefit of $250,000 through our Share the Good campaign in which their 10% is a trade name of National Life Insurance Company, founded in Montpelier, VT in 1848, Life Insurance Company reached a record $2.35 billion, up 6 percent over 2017; We also enjoyed our most successful year ever.
- We also enjoyed our most successful year ever.
- That's not a coincidence.
- We dream it. We plan it. We execute it.
- Our portfolios have grown from $1.8 billion to $26.4 billion in assets over the last 170 years.
- Our team served 360 payments, 350 mailings, 120 of 2018, our team served.
- We will continue to focus on diligent planning and execution.
- A.M. Best, Standard & Poor's and Moody's Investors Service have praised National Life Group.
- An incredible and aligned culture; exceptional customer experience; strong financials; and a higher purpose.
- That endorsement was one of the best birthday presents possible for this 170-year-old company.
- We've been keeping our promises since 1848.
- For 170 years, families and businesses have trusted National Life.
- Everything we do is ultimately driven by our mission of keeping our promises.

**Consolidated Statement of Operations**

For the years ended December 31, in thousands

<table>
<thead>
<tr>
<th>Revenues:</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance premiums</td>
<td>$217,241</td>
<td>$220,629</td>
</tr>
<tr>
<td>Policy and contract charges</td>
<td>648,395</td>
<td>564,064</td>
</tr>
<tr>
<td>Mutual fund commissions and fee income</td>
<td>51,771</td>
<td>85,453</td>
</tr>
<tr>
<td>Net investment income</td>
<td>980,790</td>
<td>1,415,211</td>
</tr>
<tr>
<td>Net realized capital losses</td>
<td>(23,480)</td>
<td>(36,303)</td>
</tr>
<tr>
<td>Other income</td>
<td>30,882</td>
<td>25,844</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>$1,905,399</td>
<td>$2,274,898</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Benefits and expenses:</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decrease in policy liabilities</td>
<td>$(83,762)</td>
<td>$(21,468)</td>
</tr>
<tr>
<td>Policy benefits</td>
<td>536,813</td>
<td>474,918</td>
</tr>
<tr>
<td>Policyholders’ dividends and dividend obligations</td>
<td>40,224</td>
<td>57,144</td>
</tr>
<tr>
<td>Interest credited to policyholder account liabilities</td>
<td>504,945</td>
<td>819,837</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>322,770</td>
<td>316,377</td>
</tr>
<tr>
<td>Interest expense</td>
<td>49,286</td>
<td>39,620</td>
</tr>
<tr>
<td>Policy acquisition expenses and amortization of present value of future profits, net</td>
<td>361,509</td>
<td>378,714</td>
</tr>
<tr>
<td><strong>Total benefits and expenses</strong></td>
<td>1,731,785</td>
<td>2,065,142</td>
</tr>
</tbody>
</table>

| Income before income taxes | 173,614 | 209,756 |
| Income tax expense (benefit) | 23,560 | (50,182) |
| **Net income** | $150,054 | $259,938 |


15 Statutory basis financial information for NLIC only: Admitted assets $9.5B, Liabilities and reserves $7.4B, Policyholder reserves $3.3B and Surplus to policyholders $2.1B.

16 Statutory basis financial information for NLIC only: Cash and Invested Assets: $8.2B

17 Other includes Housing Credits, Policy Loans, Derivatives, Unaffiliated Corporate Stock, and Real Estate.

18 Statutory basis financial information for NLIC only: Total Income $671M, Benefits and Expenses $673M and Net Loss $23M.
National Life is here to bring you peace of mind. We’ve been keeping our promises since 1848. Believe in tomorrow, do good today.