

# **NLV Financial Corporation and Subsidiaries**

**Financial Results and Commentary  
Second Quarter 2009**

**NLV FINANCIAL CORPORATION AND SUBSIDIARIES**

**Index**

**June 30, 2009 and 2008**

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**COMMENTARY ON FINANCIAL RESULTS  
NLV FINANCIAL CORPORATION AND SUBSIDIARIES  
SIX MONTHS ENDED JUNE 30, 2009 AND 2008**

The NLV Financial Corporation (the “Company”) reported net income of \$40.6 million through the six months of 2009, versus \$40.2 million in the first six months of 2008. The Company also reported pretax operating income of \$60.0 million for the six months ended June 30, 2009, an increase of \$2.4 million, or 4.2%, as compared to \$57.6 million for the six months ended June 30, 2008. This increase was primarily related to \$13.2 million of increased pre tax operating income from our equity indexed products as a result of favorable market conditions, increased assets under management related to growth of the Equity indexed product in-force block and improved crediting spreads. This increase was partially offset by a decrease in net investment income related to a decrease in investment prepayments, a decrease in income from our broker dealer and asset management businesses related to a decrease in assets under management primarily related to market declines from the first six months of 2008 as compared to the first six months of 2009 and an increase in operating expenses primarily related to market performance of the assets backing our pension obligations.

Total revenues increased \$142.1 million, or 24.8%, to \$715.6 million for the first six months of 2009, from \$573.5 million in the first six months of 2008. The increase was primarily attributable to an increase in net investment income of \$138.9 million, driven by income from options used to hedge our equity indexed products and an increase in realized gains for the year to date. In the first six months of 2009 gross realized gains of \$84.6 million were offset by gross realized losses of \$31.7 million and impairments of \$41.9 million.

Total benefits and expenses increased \$142.1 million to \$657.5 million for the first six months of 2009, from \$515.5 million in the first six months of 2008. The increase was primarily attributable to a \$121.4 million increase in the interest credited on the Company’s indexed annuity products. Policyholder benefits also increased \$42.0 million to \$224.2 million for the first six months of 2009, from \$182.2 million in the first six months of 2008, primarily related to increased benefit and surrender costs. These increases were partially offset by a related to a favorable change in policy liabilities.

Total reported assets were \$16.3 billion at June 30, 2009 compared to \$15.2 billion as of December 31, 2008.

Retained earnings increased 2.7% to \$1.52 billion over the first six months of 2009, from \$1.48 billion at December 31, 2008. The increase is attributable to the positive earnings generated by the Company year to date.

**SELECTED CONSOLIDATED FINANCIAL INFORMATION**  
**NLV FINANCIAL CORPORATION AND SUBSIDIARIES**  
**SIX MONTHS ENDED JUNE 30, 2009 AND 2008**

The following table presents summary unaudited consolidated financial results for each of the six-month periods ending June 30, 2009 and 2008. The summary financial results have been derived from unaudited consolidated financial statements for each of the six-month periods ended June 30, 2009 and 2008, which have been prepared in accordance with generally accepted accounting principles. The selected financial data should be read in conjunction with the unaudited consolidated financial statements and with the December 31, 2008 and 2007 audited financial statements.

	<b>For the Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2009</b>	<b>2008</b>
	<b>(in Thousands)</b>	
<b>Revenues:</b>		
Insurance premiums	\$134,284	\$140,842
Policy and contract charges	112,273	101,669
Net investment income	410,729	271,781
Net realized gains (losses) and change in value of trading equity securities	11,951	(336)
Mutual fund commissions, fees, and other income	46,332	59,590
<b>Total revenues</b>	<b>715,569</b>	<b>573,546</b>
<b>Benefits and expenses:</b>		
(Decrease) increase in policy liabilities	(27,598)	8,927
Policy benefits	224,220	182,244
Policyholders' dividends	70,762	62,996
Interest credited	157,650	36,231
Operating expenses and debt service	100,107	100,310
Policy acquisition expenses, net	132,385	124,753
<b>Total benefits and expenses</b>	<b>657,526</b>	<b>515,461</b>
Income before income taxes	58,043	58,085
Income tax expense	17,413	17,889
<b>Net income</b>	<b>\$40,630</b>	<b>\$40,196</b>
<b>Net Income</b>	<b>\$40,630</b>	<b>\$40,196</b>
Net realized losses (gains), net of policy acquisition, policyholder dividend obligation, and income tax effects	195	(316)
Income tax on operations	19,211	17,719
<b>Pre-tax operating income</b>	<b>\$60,036</b>	<b>\$ 57,599</b>
<b>Assets Under Management</b>	<b>\$21,586,900</b>	<b>\$20,935,000</b>

*These financial statements do not include the proper disclosures to be in compliance with GAAP.*

**CONSOLIDATED BALANCE SHEETS**  
**NLV FINANCIAL CORPORATION AND SUBSIDIARIES**

<i>(In Thousands)</i>	As of June 30, 2009	As of December 31, 2008
<b>Assets:</b>	<b>(Unaudited)</b>	
Cash and investments:		
Available-for-sale debt securities	\$ 10,121,197	\$ 9,036,202
Available-for-sale debt securities on loan	135,279	119,254
Total available-for-sale debt securities	10,257,250	9,155,456
Available-for-sale equity securities	87,740	86,908
Trading equity securities	16,337	15,714
Mortgage loans on real estate	1,623,093	1,676,877
Policy loans	711,900	719,251
Real estate investments	25,003	15,653
Securities lending invested collateral	63,103	81,440
Other invested assets	509,163	367,900
Cash and cash equivalents	338,880	147,987
Total cash and investments	13,632,469	12,267,186
Deferred policy acquisition costs	1,252,499	1,414,078
Accrued investment income	161,281	147,640
Premiums and fees receivable	9,352	23,774
Deferred income taxes	133,366	229,216
Amounts recoverable from reinsurers	159,573	142,775
Present value of future profits of insurance acquired	34,415	37,775
Property and equipment, net	50,492	50,912
Federal income tax recoverable	-	31,324
Other assets	199,716	199,715
Goodwill and intangibles	56,178	56,178
Separate account assets	618,985	609,236
<b>Total assets</b>	<b>\$ 16,308,326</b>	<b>\$ 15,209,809</b>
<b>Liabilities:</b>		
Policy liabilities:		
Policy benefit liabilities	\$ 4,627,162	\$ 4,670,993
Policyholder account liabilities	8,413,768	7,817,806
Policyholders' deposits	76,606	65,321
Policy claims payable	56,275	47,269
Policyholders' dividends	81,249	51,352
Total policy liabilities	13,255,060	12,652,741
Amounts payable to reinsurers	25,423	17,419
Securities lending payable	138,008	121,695
Other liabilities and accrued expenses	456,617	236,002
Federal income tax payable	4,451	-
Pension and other post-retirement benefit obligations	211,178	217,421
Debt	287,821	294,747
Separate account liabilities	618,985	609,236
<b>Total liabilities</b>	<b>14,997,543</b>	<b>14,149,261</b>
<b>Stockholder's Equity:</b>		
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	1,524,510	1,483,880
Accumulated other comprehensive income (deficit)	(213,727)	(423,332)
<b>Total stockholder's equity</b>	<b>1,310,783</b>	<b>1,060,548</b>
<b>Total liabilities and stockholder's equity</b>	<b>\$ 16,308,326</b>	<b>\$ 15,209,809</b>

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**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**NLV FINANCIAL CORPORATION AND SUBSIDIARIES**  
**(UNAUDITED)**

**For the six months ended June 30,**

*(In Thousands)*

	<b>2009</b>	<b>2008</b>
<b>Revenues:</b>		
Insurance premiums	\$ 134,284	\$ 140,842
Policy and contract charges	112,273	101,669
Net investment income	410,729	271,782
Net realized investment gains	10,955	1,398
Change in value of trading equity securities	996	(1,734)
Mutual fund commissions and fee income	37,674	50,310
Other income	8,658	9,279
<b>Total revenues</b>	<b>715,569</b>	<b>573,546</b>
<b>Benefits and Expenses:</b>		
(Decrease) increase in policy liabilities	(27,598)	8,927
Policy benefits	224,220	182,244
Policyholders' dividends and dividend obligations	70,762	62,996
Interest credited to policyholder account liabilities	157,650	36,231
Operating expenses	89,330	89,387
Interest expense on debt	10,777	10,923
Policy acquisition expenses and amortization of present value of future profits, net	132,385	124,753
<b>Total benefits and expenses</b>	<b>657,526</b>	<b>515,461</b>
<b>Income before income taxes</b>	<b>58,043</b>	<b>58,085</b>
Income tax expense	17,413	17,889
<b>Net Income</b>	<b>\$ 40,630</b>	<b>\$ 40,196</b>

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**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY**  
**NLV FINANCIAL CORPORATION AND SUBSIDIARIES**  
**(UNAUDITED)**

<i>(In Thousands)</i>	Class A Common Stock	Class B Common Stock	Preferred Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
January 1, 2008	\$-	\$-	\$-	1,470,504	17,814	1,488,318
Comprehensive income:						
Net income	-	-	-	40,196	-	40,196
Change in unrealized gains on available- for-sale securities, net	-	-	-	-	(86,999)	(86,999)
Change in cash flow hedge on debt issuance, net	-	-	-	-	17	17
Change in additional minimum pension liability, net	-	-	-	-	99	99
Total comprehensive loss						(46,687)
June 30, 2008	\$-	\$-	\$-	\$1,510,700	\$(69,069)	\$1,441,631

<i>(In Thousands)</i>	Class A Common Stock	Class B Common Stock	Preferred Stock	Retained Earnings	Accumulated Other Comprehensive Income (Deficit)	Total
January 1, 2009	\$-	\$-	\$-	\$1,483,880	\$(423,332)	\$1,060,548
Comprehensive income:						
Net income	-	-	-	40,630	-	40,630
Change in unrealized gains on available- for-sale securities, net	-	-	-	-	207,531	207,531
Change in cash flow hedge on debt issuance, net	-	-	-	-	15	15
Change in additional minimum pension liability, net	-	-	-	-	2,059	2,059
Total comprehensive loss						
June 30, 2009	\$-	\$-	\$-	\$1,524,510	\$(213,727)	\$1,310,783

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**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**NLV FINANCIAL CORPORATION AND SUBSIDIARIES**  
**(UNAUDITED)**

**For the six months ended June 30,**

<i>(In Thousands)</i>	<b>2009</b>	<b>2008</b>
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 40,630	\$ 40,196
Adjustments to reconcile net income to net cash provided by operating activities:		
Changes in assets and liabilities:		
Accrued investment income	(13,641)	(4,271)
Policy acquisition costs	(21,381)	(44,766)
Policy benefit liabilities	(12,771)	4,043
Interest credited to policyholder account liabilities	(157,650)	51,278
Policy and contract charges	230,431	(70,443)
Other assets and liabilities	245,464	41,052
Provision for deferred income taxes	(17,015)	5,122
Net realized investment (gains) losses	(10,955)	(1,398)
Net options (gains) losses	60,194	108,791
Net corporate owned life insurance gains	(1,351)	(1,542)
Change in present value of future profits of insurance acquired	3,360	3,071
Depreciation	4,396	3,786
Other	(7,600)	(9,403)
Net cash provided by operating activities	342,111	125,516
<b>Cash Flows from Investing Activities:</b>		
Proceeds from sales, maturities and repayments of investments	4,350,065	975,330
Cost of investments acquired	(5,059,565)	(1,370,507)
Change in policy loans	7,351	2,394
Change in security lending investment collateral	18,337	104,659
Other	-	(24,619)
Net cash used by investing activities	(683,812)	(312,743)
<b>Cash Flows from Financing Activities:</b>		
Policyholders' deposits	925,002	691,499
Policyholders' withdrawals	(401,821)	(387,655)
Net change in collateral held on loaned securities	16,313	(37,145)
Debt retirement	(6,900)	-
Net cash provided by financing activities	532,594	266,699
<b>Net Increase in Cash and Cash Equivalents</b>	<b>190,893</b>	<b>79,472</b>
<b>Cash and Cash Equivalents:</b>		
Beginning of period	147,987	179,405
End of period	\$ 338,330	\$ 258,877

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