Moody's Investors Service

Announcement: **Moody's affirms NLV Financial's Baa2 sr. debt rating; stable outlook**

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New York, September 11, 2009 -- Moody's Investors Service affirmed the Baa2 senior debt rating of NLV Financial Corporation (NLV) and the A2 insurance financial strength (IFS) rating of its life insurance companies, which are led by National Life Insurance Company (National Life). The outlook on the group's ratings remains stable.

Moody's said that National Life's A2 IFS rating is based upon the company's diversified retail product lines and distribution, as well as its strong and resilient capitalization, ample liquidity, excellent investment portfolio quality, and stable closed block of participating life insurance. In recent years, National Life has also substantially expanded both its distribution and market presence, causing its sales growth to outpace the industry as a whole, and which is expected to be accretive to earnings over time.

Vice President Arthur Fliegelman commented: "NLV has performed well in a very difficult economic environment, particularly with respect to its investment portfolio, which is expected to produce relatively better credit loss experience than many of its peers during a period of considerable economic stress. The company's investment results have especially benefited from the absence of exposure to non-agency residential mortgage-backed investments, which have caused significant losses for numerous other insurers. The only other material investments in structured securities are commercial mortgage-backed securities (CMBS), most of which the company acquired at a steep discount to par, which should provide ample protection against credit losses."

The rating agency noted that although NLV's consolidated statutory capitalization and NAIC company action risk-based capital ratio have declined somewhat over the past 1-2 years, driven by elevated investment losses and capital strain from rapid sales growth, the company is expected to restore its capital position to historically strong levels over time. Notably, statutory pre-tax operating income has shown strong improvement in the first half of 2009--$100 million year-to-date versus an average annual level of about $140 million over the 2006-2007 period--and organic capital generation is expected to resume this year, albeit at a slower pace than previous years while investment losses remain elevated.

Moody's added that NLV's capital adequacy and financial flexibility also benefit from approximately $120 million (equivalent to about five years' holding company interest expenses) of holding company liquid assets, which is available as contingent capital for the life companies if such a need arises. The first debt maturity is not until 2033.

The rating agency noted that these credit positives are somewhat offset, however, by intense competition in NLV's core business segments, where its competitors often benefit from more favorable name recognition and greater scale. Additionally, a significant portion of NLV sales are of fixed indexed annuities, a product that has been under intense scrutiny by the Securities and Exchange Commission, and which can be subject to market conduct issues.

According to Moody's, given NLV's limited scale, market presence and brand, and concentration in fixed indexed annuities and life insurance, upward rating pressure will be difficult to achieve. However, Moody's said that the ratings could be upgraded if the following occurred: (a) GAAP ROE exceeds 8% on a sustained basis; (b) achievement of significant diversification away from fixed indexed products; (c) consistent earnings coverage of seven or more times; and (d) steady cash flow coverage of five or more times.

Moody's added that a downgrade of NLV's ratings could result from the following factors: (a) the company's NAIC company action-level risk-based capital ratio declines to below 300%; (b) earnings coverage falls to less than four times; (c) cash flow coverage declines to under three times; (d) adjusted financial leverage (including adjustments for pension obligations) expands to greater than 35%; or (e) major changes are implemented in the regulation of index annuities -- alterations that disrupt its ability to successfully market its products.

The following ratings were affirmed, with a stable outlook:

NLV Financial Corporation -- senior unsecured debt at Baa2;

National Life Insurance Company -- insurance financial strength at A2;

Life Insurance Company of the Southwest -- insurance financial strength at A2.

NLV is an insurance and asset management organization headquartered in Montpelier, Vermont. As of June 30, 2009, NLV reported total assets of about $16.3 billion and stockholder's equity of approximately $1.3 billion. NLV has approximately $22 billion in assets under management.

The last rating action on NLV and its subsidiaries was taken on October 17, 2007, when the senior debt rating of NLV was raised to Baa2 (stable outlook) from Baa3 and the IFS rating on the life operating companies was raised to A2 (stable outlook) from A3.

The principal methodology used in rating NLV was Moody's Global Rating Methodology for Life Insurers, published in September 2006 and available on www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

Moody's insurance financial strength ratings are opinions of the ability of insurance companies to pay punctually senior policyholder claims and obligations. For more information, visit our website at www.moodys.com/insurance.

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