GENERAL DISCUSSION OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

About the Company

NLV Financial Corporation ("NLVF") through its subsidiaries (collectively, the "Company", "we", "our") offers life insurance policies, annuity contracts and investment products and services. The Company's principal insurance product lines include whole life, term life, universal life, indexed universal life, variable universal life, fixed annuities, indexed annuities and variable annuities. The Company also offers mutual funds and investment brokerage services.

In 1999, National Life Insurance Company ("NLIC") reorganized from a mutual to a stock insurance company as part of a reorganization into a mutual insurance holding company structure in order, among other things, 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 of life insurance and annuity policies to provide reasonable assurance to owners of policies in the Closed Block that assets will be available to provide for the continuation of dividend payments following the reorganization. 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, Sentinel Asset Management, Inc., and certain other subsidiaries and indirectly owns 100% of the outstanding common stock of Life Insurance Company of the Southwest ("LSW"), which is wholly owned by NLIC.

As of December 31, 2013, the Company had $30.4 billion of assets under management and served in excess of 786,000 customers. Of these totals, about $16.1 billion was attributable to life insurance policy and annuity contract values under management with more than 642,000 policy and contract holders. Approximately $7.4 billion was attributable to mutual fund and other client-managed assets representing approximately 144,000 customers. The remainder is attributable to the corporate segment, including fair value for the investment portfolio, the disability income business, closed block business and Company-sponsored pension plans.

Distribution

Our target market is small business owners, professionals and middle to upper income individuals, including a strong presence in the 403(b) qualified tax deferred retirement savings market, with a particular emphasis on the K-12 teacher segment of the market. The Company markets and distributes its products throughout the United States through three principal channels: Affiliated, Independent, and Sentinel Investments.

- ***Affiliated***: The Affiliated channel consists of approximately 2,000 agents and general agents/managers who specialize in selling products to professionals, business owners and other affluent individuals for financial and business planning purposes.

- ***Independent:*** The Independent channel consists of approximately 16,290 agents. While the agents have access to all products, approximately 5,690 of the agents primarily 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. All other agents primarily offer life insurance, annuity and mutual fund products to middle to upper income customers for purposes of providing for the financial consequences of specific life events, such as death, retirement, college funding, disability and chronic or long term illness.

- ***Sentinel Investments*:** Sentinel Investments consists of wholesale mutual fund distribution through wire-houses and independent financial advisors, mutual fund and sub-advisory investment management services provided to institutional, investment-only retirement, registered investment advisory, bank trust channels, and investment advisory services provided to the Company.

Overview of Financial Results

The following discussion provides an overview of the consolidated financial position and results of operations of the Company for the years ended December 31, 2013 and 2012, and, where applicable, factors that may affect the Company's future financial performance. This discussion and analysis is based on, should be read in conjunction with, and is qualified in its entirety by reference to, the Company's consolidated financial statements as of December 31, 2013 and 2012 and for each of the years in the three-year period ended December 31, 2013, which have been audited by PricewaterhouseCoopers LLP. This discussion provides a general overview of, and is not intended to provide a detailed analysis of, the operations, financial results or financial condition of the Company. The Company's consolidated financial statements, unless otherwise noted, have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Our fixed indexed life and annuity products may experience significant period to period income statement volatility due to changes in external market-related factors that are not aligned with the long-term results of these products. In addition to net income, we use core earnings and pre-tax operating income, both non-GAAP financial measures, to evaluate our financial performance. Pre-tax operating income equals net income before taxes and net realized gains (losses) on investments. Core earnings equal pre-tax operating income before changes in the fair value of derivatives and embedded derivatives. Because these items fluctuate from period to period in a manner unrelated to core operations, we believe measures excluding their impact are useful in analyzing operating trends. We believe the combined presentation and discussion of pre-tax operating income and core earnings together with net income, provides information that will enhance readers' understanding of our underlying results, operating trends and profitability.

RESULTS OF OPERATIONS

The following tables present the Company's summary consolidated financial and other data for the years ended December 31, 2013, and 2012. The selected consolidated financial data has been derived from the Company's consolidated financial statements.

Core earnings increased $9.4 million, or 6.0%, to $166.2 million in 2013 from $156.8 million in 2012. Net income increased $17.8 million to $142.4 million in 2013 from $124.6 million in 2012. The increase in both core earnings and net income was driven by increased revenues due to strong sales of indexed universal life products and increased investment income related to strong investment performance, offset by an increase in operating expenses due to increased costs to support the growth in business. The Company recognized $24.1 million in other-than-temporary impairments on debt and equity securities, mortgages, real estate and partnerships for the year ended December 31, 2013 compared to $26.5 million for the year ended December 31, 2012. Included in these results are the positive market related impacts on our product related embedded derivatives of $25.9 million and $14.6 million in 2013 and 2012, respectively.

	For the Year Ended December 31,	
	2013	2012
	(In thousands)	
Income Statement Data		
Revenues:		
Insurance premiums	$ 256,567	$ 276,743
Policy and contract charges	346,338	305,657
Mutual fund commissions, fees and other income	125,033	138,482
Net investment income	951,534	935,003
Change in value of trading equity securities	2,360	730
Total revenues	1,681,832	1,656,615
Benefits and expenses:		
Policy liabilities	$ (11,834)	$ 32,447
Policy benefits	457,809	410,064
Policyholders' dividends and dividend obligations	79,424	94,980
Interest credited to policyholder account liabilities	435,188	414,975
Operating expenses	243,260	219,122
Interest expense	41,610	41,702
Policy acquisition expenses and amortization of present value of future profits, net	270,173	286,509
Total benefits and expenses	1,515,630	1,499,799
Core Earnings	$ 166,202	$ 156,816

Insurance Premiums

Insurance premiums include premiums from whole life insurance, term life insurance, disability income insurance and immediate annuity policies. Total insurance premiums for 2013 were $256.6 million as compared to $276.7 million in 2012. This decline was related to a decrease in single premiums on traditional life products within the Closed Block as a result of a lower dividend paid to those shareholders in 2013.

Policy and Contract Charges

Policy and contract charges for indexed, fixed, and variable universal life and annuity policies consist of costs of insurance, expense loads, surrender charges and other related fees. Policy and contract charges increased $40.6 million, or 13.3%, to $346.3 million in 2013 from $305.7 million in 2012. The increase is primarily due to continued growth in

the Company's indexed universal life business and an increase in rider charges associated with the Company's fees on indexed annuities.

Mutual Fund Commissions, Fees and Other Income

Mutual fund commissions consist of dealer concessions earned by the Company's affiliated broker-dealers, Equity Services, Inc. and Sentinel Financial Services Company. Mutual fund fees consist primarily of mutual fund administration and asset management fees earned by the Company's affiliated investment advisors, Sentinel Administrative Services, Inc. and Sentinel Asset Management, Inc.

Revenues from mutual fund commissions, fees and other income decreased $13.5 million, or 9.7%, to $125.0 million in 2013 as compared with $138.5 million in 2012. This decrease is primarily related to a decline in assets under management from redemptions in certain funds and lower sales.

Net Investment Income

The table below provides a breakdown of the components of net investment income:

	For the Year Ended December 31,	
	2013	2012
Net Investment Income	(In thousands)	
Debt securities interest	$ 766,757	$ 773,313
Equity securities dividends	5,329	4,225
Mortgage loan interest	130,576	122,749
Policy loan interest	40,010	40,266
Real estate income	6,750	7,841
Other investment income	11,020	7,727
Gross investment income	960,442	956,121
Less: investment expenses	(20,960)	(20,098)
Less: change in valuation allowance on mortgage loans	12,052	(1,020)
Net investment income	$ 951,534	$ 935,003

Net investment income includes income earned on our investment portfolio including interest income on bonds, mortgage loans, contract loans and short term investments along with bond premium/discount amortization, dividends on preferred and common stock and partnership income. Net investment income increased $16.5 million, or 1.8%, to $951.5 million in 2013 from $935.0 million in 2012. The increase was driven by a reduction of the valuation allowance on mortgage loans due to strong performance in the portfolio and large partnership distributions in the first quarter of 2013.

Policy Liabilities

Policy liabilities consists primarily of changes in reserves for life insurance, disability income insurance and the additional reserves held on certain annuities. Policy liability expense decreased $44.3 million to $(11.8) million in 2013 as compared with $32.5 million in 2012. This decrease is a result of a release in reserves due to an increase in mortality and lapse experience in 2013.

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 increased $47.7 million, or 11.6%, to $457.8 million in 2013 as compared with $410.1 million in 2012. The increase was primarily driven by an increase in mortality and lapse experience on traditional life policies.

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") arising from the Closed Block. Dividends are based on a scale that seeks to reflect the relative contribution of each group of policies to the Company's overall operating results. The Closed Block dividend scales are approved annually by National Life Insurance Company's Board of Directors. The total policyholder dividend expense decreased $15.6 million, or 16.4%, to $79.4 million in 2013 compared to $95.0 million in 2012. The decrease in 2013 was the result of a full review performed at December 31, 2012 to more closely reflect the current Closed Block experience. An additional review was performed at December 31, 2013 that further reduced the declared dividends.

Interest Credited to Policyholder Account Liabilities

Interest credited to policyholder account liabilities consists of interest credited to universal life insurance, fixed deferred annuities and indexed products. Interest credited increased $20.2 million to $435.2 million in 2013 from $415.0 million in 2012. The increase was driven by growth of existing policyholder account values of the in-force business combined with additional account values as a result of strong sales.

Operating Expenses

Operating expenses consist primarily of administrative and maintenance expenses related to servicing the business and overhead needs of the Company's operations. Operating expenses increased $24.2 million, or 11.0%, to $243.3 million in 2013 from $219.1 million in 2012. The increase is driven by increased costs to support the growth of the business, certain personnel expenses, and expenditures to improve the technology infrastructure of the Company.

Interest Expense

Interest expense consists of interest paid on the Company's surplus notes, senior notes, and trust preferred securities. Interest expense remained relatively constant and totaled $41.6 million in 2013 and $41.7 million in 2012.

Policy Acquisition Expenses and Amortization of Present Value of Future Profits, Net

Policy acquisition expenses include commissions and other costs that are directly related to the successful acquisition of new or renewal business. Policy acquisition expenses are net of amounts deferred on life and annuity sales and include the amortization of amounts previously deferred.

Policy acquisition expenses decreased $16.3 million, or 5.7%, to $270.2 million in 2013 as compared with $286.5 million in 2012. This decrease is primarily related to lower Sentinel sales commissions.

Net Income Reconciliation

A reconciliation of net income to pre-tax operating income and core earnings is as follows:

	For the Year Ended December 31,	
	2013	2012
	(In thousands)	
Net Income	$ 142,445	$ 124,601
Net realized losses, net of policy acquisition, policyholder dividend obligation, and income tax effects	2,867	4,718
Income tax on operations	46,741	42,063
Pre-Tax Operating Income	$ 192,053	$ 171,382
Net effect of derivatives, embedded derivatives, and other market effects	(25,851)	(14,566)
Core Earnings	$ 166,202	$ 156,816

Net Realized Losses on Investments, net of Offsets

Net realized losses were $2.9 million in 2013 compared to $4.7 million in 2012. This decrease in unrealized losses was due to net gains in both the bond and equity portfolios offset by impairments on real estate.

	For the Year Ended December 31,	
	2013	2012
	(In thousands)	
Debt securities	$ 5,248	$ (2,844)
Equity securities	5,109	751
Mortgage loans	(5,598)	(4,188)
Partnerships	(3,595)	(2,068)
Other invested assets	(1,478)	285
Real estate	(4,429)	752
Net realized investment losses	$ (4,743)	$ (7,312)
DAC Amortization	331	(116)
Income Taxes	1,545	2,710
Net realized losses, net of offsets	$ (2,867)	$ (4,718)

Income Tax on Operations

The federal income tax expense for 2013 was $46.7 million, which represents an effective tax rate of 24.1% compared to $42.1 million in 2012 with an effective tax rate of 24.0%. The Company's effective tax rate is less than the nominal income tax rate of 35% primarily due to credits generated from investments in qualified affordable housing projects, non-taxable earnings related to the Company's corporate-owned life insurance investments, and the dividends received deduction.

Net Effect of Derivatives, Embedded Derivatives, and Other Market Effects

Net effect of derivatives, embedded derivatives, and other market effects was $25.9 million in 2013 compared to $14.6 million in 2012. Changes are due to the impact from the change in the interest rates that influence the values of the embedded derivatives and related options.

SUMMARY OF FINANCIAL POSITION

The following table provides a summary of balance sheet data:

	As of December 31,	
	2013	2012
	(In thousands)	
Balance Sheet Data		
Cash and investments	$ 20,560,056	$ 19,883,558
Other general account assets	1,757,825	1,376,109
Separate account assets	774,181	688,503
Total assets	$ 23,092,062	$ 21,948,170
Total liabilities	$ 20,837,269	$ 19,604,021
Common stock, additional paid-in capital and retained earnings	1,992,921	1,850,476
Accumulated other comprehensive income	261,872	493,673
Total stockholder's equity	2,254,793	2,344,149
Total liabilities and stockholder's equity	$ 23,092,062	$ 21,948,170

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

	For the Year Ended December 31,	
	2013	2012
	(In thousands)	
Cash Flow Data		
Net cash provided by operating activities	$ 163,300	$ 247,293
Net cash used in investing activities	(592,437)	(1,027,992)
Net cash provided by financing activities	565,541	771,062
Net Increase (Decrease) in Cash	$ 136,404	$ (9,637)

	As of December 31,		
	2013	2012	Change
		(In thousands)	
Other Selected Data			
Life insurance in force (before reinsurance ceded)	$ 74,975,900	$ 68,458,000	$ 6,517,900
Total assets under management	$ 30,393,000	$ 29,957,700	$ 435,300
New Annualized Premium (NAP)			
Life	$ 249,475	$ 193,106	$ 56,369
Annuity	769,227	776,560	(7,333)
Mutual Funds	1,405,249	2,572,650	(1,167,401)
Total NAP	$ 2,423,951	$ 3,542,316	$(1,118,365)

CRITICAL ACCOUNTING 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:

- actuarial assumptions affecting policyholder reserves and estimated gross profits;
- policy liabilities;
- valuation of derivatives;
- valuation of mortgages;
- pension and other postretirement employee benefits
- evaluation of other-than-temporary impairments on available-for-sale securities; and
- goodwill and intangibles impairment.

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 consolidated financial statements.

Actuarial Assumptions Affecting Policyholder Reserves and Estimated Gross Profits

Commissions and other costs that are directly related to the successful acquisition of new or renewal insurance contracts are generally 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. Future gross profits may be revised due to changes in projected investment rates, mortality assumptions, expenses, contract lapses, withdrawals, and surrenders. Deferred policy acquisition costs for these products are adjusted for related unrealized (losses) gains on available-for-sale debt and equity securities (after deducting any related policyholder dividend obligations) through Other Comprehensive Income, net of related deferred income taxes.

DAC for non-participating term life insurance and disability income insurance is amortized in relation to premium income using assumptions consistent with those used in computing policy benefit liabilities.

Annually, the Company reviews the assumptions underlying the projections of estimated gross profits and its calculation of the recoverability of DAC balances. These assumptions include investment returns, policyholder dividend scales, interest crediting rates, mortality, persistency, and administrative expenses.

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 5.35% and 5.65% as of December 31, 2013 and 2012, 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 life insurance (universal life products) and investment-type annuities represent amounts that inure to the benefit of the policyholders before surrender charges. Policyholder account balances

for indexed life insurance and annuity liabilities consist of a combination of underlying account value and embedded derivative values. The underlying account value is primarily based on the initial deposit plus any interest credited. The embedded derivative component is based on the fair value of the contract's expected participation in future increases in the S&P 500 or Russell 2000 indices. 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, the level and limits on contract participation in any future increases in the S&P 500 or Russell 2000 indexes, and an explicit risk margin for variance of policyholder behavior along with the associated impact the Company's own credit rating would have in the view of a market participant.

Valuation of Derivatives

Derivatives include long options, short options, swaptions, and futures contracts which are carried at fair value. The fair value of derivatives is based on publicly available data. When that data is not available, the Company uses independent broker pricing quotes. Changes in fair value are reflected in the Consolidated Statements of Comprehensive Income as a component of net investment income.

Valuation of Mortgages

Mortgage loans on 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 borrower's 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 income. In 2013 the Company updated its assumptions within the calculation of the allowance to reflect additional observable data regarding potential credit losses within the mortgage portfolio.

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

Mortgage loans and related valuation allowances at December 31 were as follows:

	As of December 31,	
	2013	2012
	(In thousands)	
Commercial loans	$2,271,603	$2,094,757
Related valuation allowances	(2,504)	(14,556)
Impaired loans	(7,966)	(4,139)
Total	$2,261,133	$2,076,062

Pension and Other Postretirement Employee Benefits

The Company sponsors a qualified defined benefit pension plan covering substantially all employees. The plan is non-contributory, with benefits for NLIC employees hired prior to July 1, 2001, based on an employee's retirement age, years of service, and compensation near retirement. Benefits for NLIC 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, increased at a specified rate of interest. The Company also sponsors a non-contributory qualified defined benefit plan for full-time employees of the general agents. 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 was no benefit increase after December 31, 2003 for current participants. These pension plans are

separately funded. Plan assets are primarily bonds and common stocks held in a Company separate account and funds invested in a general account group annuity contract issued by NLIC. None of the securities held in the Company's separate account were issued by the Company, but some investments are advised by an affiliate.

The Company also sponsors other pension plans, including a non-contributory defined benefit plan for NLIC career general agents contracted prior to July 1, 2001 that provides benefits based on years of service and sales levels 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 post-retirement plans that provide medical and life insurance benefits to certain retired employees, agency staff, agents and general agents. Spouses of participants and dependents generally qualify for the medical coverage and dental plans. Substantially all employees who began service prior to July 1, 2001 may be eligible for medical and life insurance retiree benefits if they are employed until retirement age and meet certain minimum service requirements while working for the Company. Substantially all employees beginning service prior to January 1, 2005 may be eligible for life insurance retiree benefits if they reach retirement age and meet certain minimum service requirements while working for the Company.

Evaluation of Other-Than-Temporary Impairments on Available-For-Sale Securities

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

Goodwill and Intangibles Impairment

Goodwill and other intangible assets with indefinite useful lives are reviewed for impairment in accordance with ASC 350 on an annual basis, or more frequently if circumstances indicate that a possible impairment has occurred. The assessment for impairment begins with a qualitative determination of factors that could indicate that an impairment is more likely than not to exist. If it is deemed that an impairment is more likely than not to exist then a quantitative assessment is completed. The quantitative impairment testing is performed using the fair value approach, which requires the use of estimates and judgment, at the reporting unit or intangible asset level. The determination of a reporting unit's fair value is based on management's best estimate, which generally considers a discounted cash flow analysis as well as market-based earnings and revenue multiples of the unit's peer companies. If the carrying value of a reporting unit or intangible asset exceeds its fair value, an impairment is recognized as a charge against income equal to the excess of the carrying value of goodwill or intangible asset over its fair value. The goodwill and intangible balances represent the Company's acquisition of partnership interests and other mutual funds to enhance its asset management business. In 2013 and 2012, there were no impairments or other reductions recorded.

STATUTORY INFORMATION

Statutory income and surplus amounts may increase or decrease in any period depending upon a variety of factors and may be compounded in extreme scenarios or if multiple factors occur at the same time.

The table below sets forth statutory income and statutory surplus for NLIC and LSW. The statutory surplus amount as of December 31, 2013 and December 31, 2012 in the table below are based on actual statutory filings with the applicable U.S. regulatory authorities.

National Life Insurance Company

	Net Income	Surplus
2013	$88.5 million	$1,413.1 million
2012	$64.6 million	$1,287.1 million

Life Insurance Company of the Southwest

	Net Income	Surplus
2013	$142.5 million	$720.2 million
2012	$98.7 million	$625.2 million

The following table summarizes the Company's financial ratings from the major independent rating organizations:

A.M. Best	Standard & Poor's	Moody's
A (Excellent)	A (Strong)	A2 (Good)

These ratings are not a recommendation to buy or hold any of the Company's debt securities and they may be revised or revoked at any time at the sole discretion of the rating organization.

PROSPECTIVE INFORMATION

Forward–looking statements contained in the following discussion are not guarantees of future performance and involve risks and uncertainties, and 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 some that are relatively illiquid;
- Subjectivity in determining the amount of allowances and impairments taken on certain Company investments;
- Defaults on commercial mortgages held by the Company;
- Exposure to mortgage-backed securities;
- Impairments of other institutions;

- Changes in interest rates;
- Effectiveness of the Company's hedging strategies;
- 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;
- Effectiveness of the Company's risk management policies and procedures;
- Availability of reinsurance;
- Failure of counterparties to perform under reinsurance agreements and 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 the Company's 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 career agents, independent 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 and 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 are to grow and improve our life insurance, annuity, and asset management businesses by continuing responsible growth in life insurance and flow annuity business and improve the efficiency and effectiveness of the overall organization. The Company will drive production by continuing to deliver new and innovative products and riders. We will also continue to seek efficiencies throughout our operations and invest in our technology infrastructure to improve services for our business, producers, customers and employees.

We will continue to effectively manage our investment portfolio to maximize risk-adjusted returns and to maintain duration matching of our product obligations and their related investments.

Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements of NLVF have been prepared in conformity with U.S. GAAP. The preparation of financial statements in conformity with U.S. GAAP requires the Company to make estimates and assumptions that affect the reported amounts and related disclosures. As a result, these financial statements should be read in conjunction with the related footnotes. Actual results could differ 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
Consolidated Balance Sheets
As of December 31,

(in thousands)		2013		2012
Assets:				
Cash and investments:				
Available-for-sale debt securities	**$**	**15,469,157**	$	15,697,945
Available-for-sale equity securities		**90,534**		87,117
Trading equity securities		**18,860**		17,317
Mortgage loans		**2,261,133**		2,076,062
Policy loans		**786,971**		767,330
Real estate investments		**46,839**		49,958
Derivatives		**874,586**		372,741
Other invested assets		**341,605**		343,550
Short term investments		**345,300**		282,871
Cash and restricted cash		**325,071**		188,667
Total cash and investments		**20,560,056**		19,883,558
Deferred policy acquisition costs		**927,742**		546,864
Accrued investment income		**177,539**		177,890
Premiums and fees receivable		**21,889**		21,809
Federal income tax recoverable		**6,682**		4,185
Amounts recoverable from reinsurers		**135,780**		163,829
Present value of future profits of insurance acquired		**17,163**		21,580
Property and equipment, net		**119,608**		94,600
Corporate owned life insurance		**236,326**		227,694
Other assets		**115,096**		117,658
Separate account assets		**774,181**		688,503
Total assets	**$**	**23,092,062**	$	21,948,170
Liabilities:				
Policy liabilities:				
Policy benefit liabilities	**$**	**4,598,741**	$	4,681,430
Policyholder account liabilities		**13,246,553**		12,191,323
Policyholders' deposits		**73,198**		69,927
Policy claims payable		**72,329**		53,612
Policyholders' dividends		**170,893**		336,956
Total policy liabilities		**18,161,714**		17,333,248
Amounts payable to reinsurers		**22,376**		11,775
Derivatives		**529,695**		168,230
Other liabilities and accrued expenses		**494,062**		394,894
Pension and other post-retirement benefit obligations		**164,160**		227,277
Deferred income taxes		**203,114**		292,159
Debt		**487,967**		487,935
Separate account liabilities		**774,181**		688,503
Total liabilities	**$**	**20,837,269**	$	19,604,021
Stockholder's Equity:				
Class A common stock, 2,000 shares authorized, no shares issued and outstanding	**$**	**-**	$	-
Class B common stock, par value of $0.01, 1,001 shares authorized, 100 shares issued and outstanding		**-**		-
Preferred stock, 500 shares authorized, no shares issued and outstanding		**-**		-
Retained earnings		**1,992,921**		1,850,476
Accumulated other comprehensive income		**261,872**		493,673
Total stockholder's equity	**$**	**2,254,793**	$	2,344,149
Total liabilities and stockholder's equity	**$**	**23,092,062**	$	21,948,170

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

(in thousands)	**2013**	**2012**	**2011**
Revenues:			
Insurance premiums	**$ 256,567**	$ 276,743	$ 297,726
Policy and contract charges	**346,338**	305,657	276,758
Mutual fund commissions and fee income	**109,839**	121,545	127,039
Net investment income	**1,285,875**	1,048,336	871,630
Net realized investment (losses) gains	**(4,743)**	(7,312)	8,047
Change in value of trading equity securities	**2,360**	730	(389)
Other income	**15,194**	16,937	16,995
Total revenues	**2,011,430**	1,762,636	1,597,806
Benefits and Expenses:			
Increase (decrease) in policy liabilities	**(11,834)**	32,447	29,690
Policy benefits	**457,809**	410,064	428,412
Policyholders' dividends and dividend obligations	**79,424**	94,980	101,847
Interest credited to policyholder account liabilities	**743,522**	492,962	351,797
Operating expenses	**243,260**	219,122	207,527
Interest expense	**41,610**	41,702	41,633
Policy acquisition expenses and amortization of present value of future profits, net	**269,997**	307,405	266,725
Total benefits and expenses	**1,823,788**	1,598,682	1,427,631
Income before income taxes	**187,642**	163,954	170,175
Income tax expense	**45,197**	39,353	47,795
Net income	**$ 142,445**	$ 124,601	$ 122,380
Other comprehensive income, net of tax:			
Unrealized (losses) gains on available-for-sale securities	**(267,301)**	200,237	129,355
Cash flow hedge on debt issuance	**34**	34	34
Change in funded status of retirement plans	**35,466**	(13,504)	(19,837)
Other comprehensive income	**(231,801)**	186,767	109,552
Comprehensive income	**$ (89,356)**	$ 311,368	$ 231,932

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

(in thousands)	2013	2012	2011
Cash Flows from Operating Activities:			
Net income	**$ 142,445**	$ 124,601	$ 122,380
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for deferred income taxes	**35,770**	20,837	50,398
Interest credited to policyholder account liabilities	**743,522**	492,962	351,797
Amortization of deferred policy acquisition costs	**170,741**	213,162	165,188
Policy and contract charges	**(346,338)**	(305,657)	(276,758)
Net realized investment losses (gains)	**4,743**	7,312	(8,047)
Net option (gains) losses	**(334,341)**	(113,333)	37,534
Change on corporate owned life insurance policies	**(8,632)**	(9,331)	(7,124)
Amortization of present value of future profits of insurance acquired	**4,416**	4,910	4,990
Depreciation	**14,108**	13,034	11,188
Allowance for doubtful mortgages	**(11,385)**	1,020	3,070
Other	**6,220**	(1,468)	(6,778)
Changes in assets and liabilities:			
Accrued investment income	**351**	(5,173)	(5,019)
Deferred policy acquisition costs	**(259,080)**	(240,045)	(198,030)
Policy liabilities	**1,399**	44,815	37,001
Other assets and liabilities	**(639)**	(353)	(23,983)
Net cash provided by operating activities	**163,300**	247,293	257,807
Cash Flows from Investing Activities:			
Proceeds from sales, maturities and repayments of investments	**2,326,530**	2,169,532	3,162,281
Cost of investments acquired	**(2,951,453)**	(3,101,806)	(4,141,108)
Property and equipment additions	**(41,051)**	(34,261)	(20,969)
Cost of corporate owned life insurance acquired	**-**	-	(50,472)
Change in policy loans	**(19,641)**	(17,720)	(13,772)
Change in short term investments	**(62,429)**	(91,996)	166,995
Change in short term broker collateral	**155,903**	49,630	(90,770)
Other	**(296)**	(1,371)	(10,554)
Net cash used by investing activities	**(592,437)**	(1,027,992)	(998,369)
Cash Flows from Financing Activities:			
Policyholders' deposits	**1,565,731**	1,600,019	1,445,747
Policyholders' withdrawals	**(972,223)**	(851,954)	(805,850)
Advance from Federal Home Loan Bank	**-**	-	100,000
Change in other deposits	**(27,967)**	22,997	(10,195)
Net cash provided by financing activities	**565,541**	771,062	729,702
Net Decrease in Cash	**136,404**	(9,637)	(10,860)
Cash and Restricted Cash:			
Beginning of year	**188,667**	198,304	209,164
End of year	**$ 325,071**	$ 188,667	$ 198,304
Supplemental disclosure of cash flow information:			
Interest paid	**$ 41,744**	$ 41,837	$ 41,768
Income taxes paid	**$ 11,924**	$ 175	$ 28,492