

CONSOLIDATED STATEMENT OF FINANCIAL  
CONDITION

PRIMEVEST<sup>®</sup> Financial Services, Inc. and Subsidiaries  
*December 31, 2008*

*with Report of Independent Registered Public Accounting Firm*

**PRIMEVEST<sup>®</sup> Financial Services, Inc. and Subsidiaries**  
**Consolidated Statement of Financial Condition**  
**December 31, 2008**

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## Report of Independent Registered Public Accounting Firm

Stockholder and Board of Directors  
PRIMEVEST<sup>®</sup> Financial Services, Inc.

We have audited the accompanying consolidated statement of financial condition of PRIMEVEST<sup>®</sup> Financial Services, Inc. and Subsidiaries (the Company, a wholly-owned subsidiary of Lion Connecticut Holdings, Inc., which is a wholly-owned subsidiary of ING America Insurance Holdings, Inc.) as of December 31, 2008. This consolidated statement of financial condition is the responsibility of the Company's management. Our responsibility is to express an opinion on this statement of financial condition based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition, assessing the accounting principles used and significant estimates made by management, and evaluating the overall statement of financial condition presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the statement of financial condition, referred to above presents fairly, in all material respects, the consolidated financial position of PRIMEVEST<sup>®</sup> Financial Services, Inc. and Subsidiaries as of December 31, 2008, in conformity with U.S. generally accepted accounting principles.

*Ernst & Young LLP*

Atlanta, Georgia  
February 23, 2009

**PRIMEVEST<sup>®</sup> Financial Services, Inc. and Subsidiaries**  
**Consolidated Statement of Financial Condition**  
**December 31, 2008**

**Assets**

Cash and cash equivalents	\$ 54,842,862
Cash and securities segregated for regulatory purposes	8,452,406
Receivable from brokers, dealers, and clearing organizations	327,923
Receivable from customers, net of allowance for doubtful accounts of \$445,209	21,339,689
Securities owned, at market value	1,515,839
Commissions receivable	4,813,509
Due from affiliates, including \$379,040 under tax allocation agreement	572,425
Deferred tax asset	3,220,757
Other assets	10,629,270
Total assets	<u>\$ 105,714,680</u>

**Liabilities and stockholder's equity**

Liabilities:

Payable to brokers, dealers, and clearing organizations	\$ 685,523
Payable to customers	35,916,702
Commissions payable	13,319,507
Due to affiliates	4,442,539
Other liabilities	7,437,719
Total liabilities	<u>61,801,990</u>

Stockholder's equity:

Common stock (\$10 par value; 1,000,000 shares authorized; 81,468 shares issued and outstanding)	814,680
Additional paid-in capital	20,505,201
Retained earnings	22,592,809
Total stockholder's equity	<u>43,912,690</u>
Total liabilities and stockholder's equity	<u>\$ 105,714,680</u>

*The accompanying notes are an integral part of this financial statement.*

# **PRIMEVEST<sup>®</sup> Financial Services, Inc. and Subsidiaries**

## **Notes to Consolidated Financial Statement**

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### **1. Nature of Business and Ownership**

PRIMEVEST<sup>®</sup> Financial Services, Inc. and Subsidiaries (the Company) is a broker-dealer registered under the Securities Exchange Act of 1934, a registered investment advisor and a member of the Financial Industry Regulatory Authority. The Company provides brokerage, insurance, and investment advisory services to customers through financial institutions and correspondent clearing services to affiliated and unaffiliated introducing broker-dealers. The Company is a wholly owned subsidiary of Lion Connecticut Holdings, Inc. (LCH or Parent). LCH is a wholly owned subsidiary of ING America Insurance Holdings, Inc. (ING AIH). ING AIH is a wholly owned subsidiary of ING Group N.V. (ING), a global financial services holding company based in the Netherlands.

The consolidated financial statements include the accounts of PRIMEVEST<sup>®</sup> Financial Services, Inc. and its wholly owned subsidiaries: Compulife Inc., Compulife Investor Services, Inc., Compulife Agency, Bancnorth Investment Group, Inc. (Bancnorth), Guaranty Brokerage Services, Inc. (Guaranty), PRIMEVEST<sup>®</sup> Insurance Agency of Texas, Inc., PRIMEVEST<sup>®</sup> Insurance Agency of New Mexico, Inc., PRIMEVEST<sup>®</sup> Insurance Agency of Oklahoma, Inc., PRIMEVEST<sup>®</sup> Insurance Agency of Ohio, Inc., PRIMEVEST<sup>®</sup> Insurance Agency of Alabama, Inc., PRIMEVEST<sup>®</sup> Insurance Agency of Nevada, Inc., PRIMEVEST<sup>®</sup> Insurance Agency of Wyoming, Inc. and Branson Insurance Agency, Inc. Bancnorth and Guaranty are introducing securities brokers established for the purpose of providing securities brokerage and insurance services to customers through financial institutions. The PRIMEVEST<sup>®</sup> insurance agencies were incorporated in their respective states for the purpose of providing the Company's customers with insurance products. All significant intercompany balances and transactions have been eliminated in consolidation.

### **2. Summary of Significant Accounting Policies**

#### *General*

The preparation of the statement of financial condition in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the statement of financial condition and accompanying notes. Management believes that the estimates utilized in preparing its statement of financial condition are reasonable and prudent. Actual results could differ from those estimates.

#### *Cash and Cash Equivalents*

The Company considers deposits that can be redeemed on demand and highly liquid investments that have original maturities of three months or less, when purchased, to be cash and cash equivalents. Cash equivalents are not held for sale in the ordinary course of business.

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*Securities Owned*

Securities owned are stated at fair value. Fair value generally is based on published market prices or other relevant factors, including dealer price quotations and valuation pricing models which take into account time value and volatility factors underlying the securities.

*Receivable from Customers*

Receivables from customers are reported in the statement of financial condition at net realizable value. Based on management's assessment, the Company provides for estimated uncollectible amounts through a charge to expense and a credit to a valuation allowance in the period that the receivable is determined to be uncollectible.

*Liabilities Subordinated to the Claims of General Creditors*

At December 31, 2008, the Company had no liabilities subordinated to the claims of general creditors.

*Income Taxes*

Deferred income tax assets and liabilities result from temporary differences between the tax bases of assets and liabilities and their reported amounts in the consolidated financial statements that will result in taxable or deductible amounts in future years.

*Revenue Recognition*

Commission revenue and expense are recognized on a settlement-date basis, which is not materially different from trade-date basis.

**3. Income Taxes**

The results of the Company's operations are included in the consolidated tax return of ING AIH. ING AIH and its subsidiaries each report current income tax expense as allocated under a consolidated tax allocation agreement. Generally, this allocation results in profitable companies recognizing a tax provision as if the individual company filed a separate return and loss companies recognizing benefits to the extent of their losses.

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Deferred income taxes have been established by each member of the consolidated group based upon the temporary differences within each entity. The Company did not have any deferred tax liabilities at December 31, 2008. Significant components of the Company's deferred tax asset at December 31, 2008 are as follows:

Deferred tax asset:	
Pension	\$ 2,017,403
Amortization	281,076
Deferred compensation	280,329
Allowance for doubtful accounts	155,823
Legal fees	132,535
Fixed assets	246,276
Other	<u>107,315</u>
Total deferred tax asset	<u><u>\$ 3,220,757</u></u>

Management has evaluated the need for a valuation allowance for the deferred tax asset and believes that the deferred tax asset will more likely than not be realized. Accordingly, no valuation allowance has been recognized.

The Company has reviewed and evaluated the relevant technical merits of each of its tax positions in accordance with FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48), and determined that there are no uncertain tax positions that would have a material impact on the financial statements of the Company.

The Internal Revenue Service is currently examining ING AIH's tax returns for the years 2004 through 2008. Management is not aware of any adjustments as a result of this examination that would have a material impact on the consolidated financial statements of the Company.

**4. Employee Benefits**

*401(k), Pension and Deferred Compensation Plans for Employees*

The employees of the Company are covered by a variety of employee benefit plans (401(k), pension and deferred compensation) that are administered by affiliates. The different plans have various eligibility standards, vesting requirements, and guidelines for matching. The Company had no separate employee benefit plan in 2008 and relied on its affiliated companies to cover all eligible employees. All benefits that were paid by these affiliates were charged back to the Company for reimbursement.

**5. Contingencies**

The Company is party to a number of claims, lawsuits, and arbitrations arising in the course of its normal business activities. While it is not possible to forecast the outcome of such lawsuits/arbitrations, in light of the existing insurance and established reserves, it is the opinion of management that the disposition of such lawsuits/arbitrations will not have a materially adverse effect on the Company's operations or financial position.

As with many financial services companies, the Company and certain of its affiliates have received informal and formal requests for information from various state and federal governmental agencies and self-regulatory organizations in connection with inquiries and investigations of the products and practices of the financial services industry. In each case, the Company believes full cooperation has been and is being provided.

Regulators are also conducting other broad investigations involving the financial services industry. These initiatives currently focus on, among other things, compensation and other sales incentives, conflicts of interest, anti-competitive activity, marketing practices, and disclosure. It is possible that the scope of these investigations will further broaden before the investigations are concluded. Like other financial services companies, U.S. affiliates of ING have received formal and informal requests in this regard, and are cooperating fully with each request for information.

**6. Related Party Transactions**

ING Brokers Network, LLC (ING BN) (an affiliated company) and ING AIH performed certain general administrative services for the Company.

Amounts reported in the statement of financial condition related to transactions and agreements with affiliates may not be the same as those recorded if the Company was not a wholly owned subsidiary of its Parent.

**7. Off-Balance Sheet Risk**

Financial instruments recorded at fair value on the Company's consolidated statement of financial condition include securities owned and securities sold, not yet purchased. Other financial instruments are recorded by the Company at contract amounts and include receivables from and payables to brokers, dealers, and clearing organizations and receivables from and payables to customers. Financial instruments carried at contract amounts which approximate fair value either have short-term maturities (one year or less), are repriced frequently, or bear market interest rates and, accordingly, are carried at amounts approximating fair value.

The Company's customer activities involve the execution, settlement, and financing of various securities transactions. These activities are transacted on either a cash or margin basis. In margin transactions, the Company extends credit to the customer, subject to various regulatory and internal margin requirements, collateralized by cash and securities

in the customer's account. In connection with these activities, the Company executes and clears customer transactions involving the sale of securities not yet purchased and the writing of options contracts. Such transactions may expose the Company to off-balance sheet risk in the event that margin requirements are not sufficient to fully cover losses that customers incur, or counterparties are unable to meet the terms of the contracted obligations.

In the event a customer or broker fails to satisfy its obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices in order to fulfill the customer's obligations. The Company seeks to control the risk associated with its customer activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors required margin levels daily and pursuant to such guidelines, requires customers to deposit additional collateral, or reduce positions, when necessary.

## **8. Fair Value of Financial Instruments**

Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" (SFAS No. 157) defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach, as specified by SFAS No. 157, are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Company has the ability to access.
- Level 2 inputs are inputs (other than quoted prices included in level 1) that are observable for the asset or liability, either directly or indirectly.
- Level 3 are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. (The unobservable inputs should be developed based on the best information available in the circumstances and may include the Company's own data.)

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The following table presents the Company's fair value hierarchy for those assets measured at fair value on a recurring basis as of December 31, 2008:

**Fair Value Measurements on a Recurring Basis**  
**As of December 31, 2008**

<b>Assets:</b>	<b><u>Level 1</u></b>	<b><u>Level 2</u></b>	<b><u>Level 3</u></b>	<b><u>Total</u></b>
Cash and cash equivalents:				
Cash	\$ 452,550	\$ -	\$ -	452,550
Money market funds	54,390,312	-	-	54,390,312
Cash and securities segregated for regulatory purposes:				
Cash	2,500,000	-	-	2,500,000
U.S. Treasury securities	5,952,406	-	-	5,952,406
Securities owned:				
U.S. Treasury securities	1,515,839	-	-	1,515,839

**9. Net Capital Requirements**

The Company is subject to the SEC Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital. The Company computes its net capital requirements under the alternative method provided for in Rule 15c3-1. The rule requires the maintenance of minimum net capital of the greater of \$250,000 or 2% of aggregate debit items.

At December 31, 2008, the Company had net capital of \$29,614,768, which was \$29,200,128 in excess of required net capital of \$414,640. The Company's ratio of net capital to aggregate debit items was 143%.