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National Western Life Group, Inc.

Form 10-K

March 01, 2019

false--12-31FY20180001635984YesfalseLarge Accelerated

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nwli:Annuity_Policy

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

**x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended December 31, 2018

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 000-55522

NATIONAL WESTERN LIFE GROUP, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE 47-3339380
(State of Incorporation) (I.R.S. Employer Identification Number)

10801 N. MOPAC EXPY BLDG 3, AUSTIN, TEXAS 78759-5415
(Address of Principal Executive Offices)

(512) 836-1010
(Telephone Number)

Securities registered pursuant to Section 12 (b) of the Act:

Title of each class to be so registered:	Name of each exchange on which each class is to be registered:
Class A Common Stock, \$0.01 par value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12 (g) of the Act:

None

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definition of "accelerated filer," "large accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer o Non-accelerated filer (Do not check if a smaller reporting company) o Smaller reporting company o Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The aggregate market value of the common stock (based upon the closing price) held by non-affiliates of the Registrant on June 30, 2018 was \$699,652,528.

As of February 28, 2019, the number of shares of Registrant's common stock outstanding was: Class A - 3,436,020 and Class B - 200,000.

DOCUMENTS INCORPORATED BY REFERENCE

Documents incorporated by reference: Portions of the registrant's definitive proxy statement for the annual meeting of shareholders to be held June 21, 2019, which will be filed within 120 days after December 31, 2018, are incorporated by reference into Part III of this report.

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Cautionary Statement Regarding Forward Looking Information

This Form 10-K includes statements pertaining to anticipated financial performance, business endeavors, product development, and other similar matters. These statements, which may include words such as "may," "likely," "projected," "expect," "anticipate," "believe," "intend," and other like expressions, constitute forward-looking statements under the Private Securities Litigation Reform Act of 1995. A variety of factors could cause actual results and experiences to differ materially from the anticipated results or other expectations expressed in forward-looking statements. The risks and uncertainties that may affect the operations, performance, and results of business include, but are not limited to, the following:

Difficult conditions globally and in the U.S. economy may materially and adversely affect our business and results of operations.

Our investment portfolio is subject to several risks which may lessen the value of our invested assets and the amounts credited to policyholders.

The determination of valuation and impairments of fixed income securities include estimations and assumptions that are subjective and prone to differing interpretations and could materially impact our results of operations or financial condition.

Changing interest rates and credit spreads, market volatility and general economic conditions affect the risks and the returns on both our investment portfolio and our products.

We are subject to incurring difficulties in marketing and distributing our products through our current and future distribution channels.

We are subject to a downgrade in our financial strength ratings which may negatively affect our ability to attract and retain independent distributors, make our products less attractive to consumers, and may have an adverse effect on our operations.

We are subject to competition from new sources as well as companies having substantially greater financial resources, higher ratings, and more expansive product offerings which could have an adverse impact upon our business levels and profitability.

We are subject to regulation, changes to existing laws, and investigations which may affect our profitability or means of operation.

Changes in accounting standards issued by standard-setting bodies may adversely affect our financial statements and affect the management of business operations.

We may be subject to unfavorable judicial developments, including the time and expense of litigation, which potentially could affect our financial position and results of operations.

We could be liable with respect to liabilities ceded to reinsurers if the reinsurers fail to meet the obligations assumed by them.

We are subject to policy claims experience which can fluctuate from period to period and vary from past results or expectations.

We are subject to assumption inaccuracies regarding future mortality, persistency, and interest rates used in determining deferred policy acquisition costs which may require us to accelerate our amortization.

Occurrence of natural or man-made disasters and catastrophes could adversely affect our ability to conduct business operations and the financial condition and results of operations.

Our enterprise risk management practices and procedures may prove to be ineffective exposing us to unidentified or unanticipated risks.

We are dependent upon effective information technology systems and the development and implementation of new technologies.

The Company could be adversely affected by changes to tax law or interpretations of existing tax law which could reduce the demand for certain insurance products.

The Company may be required to establish a valuation allowance against its deferred tax assets which could materially affect the Company's results of operations and financial condition.

Competition for employees is intense and the Company may not be able to attract and retain highly skilled people needed to support its business.

See Part 1A, Risk Factors, for additional information.

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PART I

ITEM 1. BUSINESS

General

National Western Life Group, Inc. ("NWLGI"), a Delaware Corporation, is the parent holding company which was established effective October 1, 2015 under a holding company plan of reorganization. As a result of the reorganization, NWLGI replaced National Western Life Insurance Company as the publicly held company at that time with the latter becoming a wholly owned subsidiary of NWLGI.

National Western Life Insurance Company (hereinafter referred to as "National Western" or "company" where insurance operations are being discussed) is a stock life insurance company, chartered in the State of Colorado in 1956, currently licensed to do business in all states (except for New York), the District of Columbia, and four U.S. territories or possessions. National Western is also licensed in Haiti. National Western has historically provided life insurance products on a global basis for the savings and protection needs of policyholders and annuity contracts for the asset accumulation and retirement needs of contract holders. As disclosed in the Form 10-Q filed by NWLGI for the quarter ended March 31, 2018, the company discontinued accepting applications for the company's international products from all remaining foreign residents in May 2018. Since 2015, the company had progressively disengaged from accepting applications for its international products from residents of certain countries culminating in the decision to discontinue accepting applications from residents of all other territories. At December 31, 2018, the company maintained approximately 105,500 policies for its life insurance products and 126,900 annuity contracts.

The Company's total assets decreased to \$11.9 billion at December 31, 2018, from \$12.2 billion at December 31, 2017. The Company generated revenues of \$551.6 million, \$874.4 million and \$682.4 million in 2018, 2017 and 2016, respectively. In addition, NWLGI generated net income of \$116.8 million, \$110.4 million and \$100.9 million in 2018, 2017 and 2016, respectively.

Products

National Western offers a broad portfolio of individual whole life, universal life and term insurance plans, and annuities, including supplementary riders. In the following discussion, the Company reports sales and other statistical information. These statistics are derived from various sales tracking and administrative systems and are not derived from the Company's financial reporting systems or financial statements. These statistics are used to measure the relative progress of our marketing and acquisition efforts. Sales data for traditional life insurance is based upon annualized premiums, while universal life sales are based on annualized "target" premiums which are those premiums upon which full first year commissions are paid. Sales of annuities are measured based on the amount of deposits received. These statistics attempt to measure only some of the many factors that may affect future profitability, and therefore, are not intended to be predictive of future profitability.

Life Products. The company's life products provide protection for the life of the insured and, in some cases, allow for cash value accumulation on a tax-deferred basis. These product offerings include universal life insurance ("UL"), interest-sensitive whole life, and traditional products such as term insurance coverage. Interest sensitive products such as UL accept premiums that are applied to an account value. Deducted from the account value are costs of insurance charges which vary by age, gender, plan, and class of insurance, as well as various expense charges. Interest is credited to account values at a fixed interest rate generally determined in advance and guaranteed for a policy year at a time, subject to minimum guaranteed rates specified in the policy contract. A slight variation to this general interest crediting practice involves equity-index universal life ("EIUL") policies whose credited interest may be linked in part

to an outside index at the election of the policyholder. These products offer both flexible and fixed premium modes and provide policyholders with flexibility in the available coverage, the timing and amount of premium payments and the amount of the death benefit, provided there are sufficient policy funds to cover all policy charges for the coming year. Traditional products generally provide for a fixed death benefit payable in exchange for regular premium payments.

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Annuity Products. Annuity products sold include flexible premium and single premium deferred annuities, equity-index (fixed-index) annuities, and single premium immediate annuities. These products can be tax qualified or nonqualified annuities. A fixed single premium deferred annuity ("SPDA") provides for a single premium payment at the time of issue, an accumulation period, and an annuity payout period commencing at some future date. A flexible premium deferred annuity ("FPDA") provides the same features but allows, generally with some conditions, additional payments into the contract. Interest is credited to the account value of the annuity initially at a current rate of interest which is guaranteed for a period of time, typically the first year. After this period, the interest credited is subject to change based upon market rates and product profitability subject to a minimum guaranteed rate specified in the contract. Interest accrues during the accumulation period generally on a tax-deferred basis to the contract holder. After a number of years specified in the annuity contract, the owner may elect to have the proceeds paid as a single payment or as a series of payments over a period of time. The owner is permitted at any time during the accumulation period to withdraw all or part of the annuity account balance subject to contract provisions such as surrender charges and market value adjustments. A fixed-index deferred annuity performs essentially in the same manner as SPDAs and FPDAs with the exception that, in addition to a fixed interest crediting option, the contract holder has the ability to elect an interest crediting mechanism that is linked, in part, to an outside index. A single premium immediate annuity ("SPIA") foregoes the accumulation period and immediately commences an annuity payout period.

The following table sets forth information regarding the company's sales activity by product type. Life insurance sales are measured by annualized first year premiums.

	Years Ended December 31,		
	2018	2017	2016
	(In thousands)		
Annuities:			
Fixed-index deferred	\$377,102	556,975	678,652
Other deferred	21,564	16,893	32,968
Single premium immediate	3,288	3,709	3,597
Total annuities	\$401,954	577,577	715,217
Life:			
Fixed-index universal life insurance	\$28,534	26,393	26,094
Other universal life insurance	656	1,784	2,238
Traditional life and other	1,499	2,161	2,183
Total life	\$30,689	30,338	30,515

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The table below sets forth information regarding the company's life insurance in force for each date presented.

	Insurance In Force as of	
	December 31,	
	2018	2017
	(\$ in thousands)	
Universal life:		
Number of policies	36,970	40,200
Face amounts	\$5,234,160	\$5,710,930
Traditional life:		
Number of policies	30,490	32,210
Face amounts	\$2,975,030	\$3,133,940
Fixed-index life:		
Number of policies	38,090	38,460
Face amounts	\$10,386,020	\$10,830,710
Total life insurance:		
Number of policies	105,550	110,870
Face amounts	\$18,595,210	\$19,675,580

The following table sets forth information regarding annuities in force for each date presented.

	Annuities In Force as of	
	December 31,	
	2018	2017
	(\$ in thousands)	
Fixed-index annuities		
Number of policies	73,740	75,370
GAAP annuity reserves	\$5,771,216	\$5,998,427
Other deferred annuities		
Number of policies	39,960	43,940
GAAP annuity reserves	\$1,584,660	\$1,774,436
Immediate annuities		
Number of policies	13,210	13,800
GAAP annuity reserves	\$352,418	\$363,514
Total annuities		
Number of policies	126,910	133,110
GAAP annuity reserves	\$7,708,294	\$8,136,377

Table of Contents**Operating Segments**

The company manages its business between Domestic Insurance Operations and International Insurance Operations. For segment reporting purposes, the company's annuity business is separately identified. The Company also has a corporate segment, which consists of the assets and activities of wholly owned subsidiaries that have not been allocated to any other operating segment.

Domestic Insurance Operations. The company is currently licensed to do business in all states and the District of Columbia, except for New York. Products marketed are annuities, universal life insurance, and traditional life insurance, which include both term and whole life products. The company's domestic sales have historically been more heavily weighted toward the company's annuities. More recently, a greater proportion of sales activity has been derived from single premium life insurance products, predominantly those with equity-index crediting mechanisms. National Western markets and distributes its domestic products primarily through independent national marketing organizations ("NMOs"). These NMOs assist the company in recruiting, contracting, and managing independent agents. The company's agents are independent contractors who are compensated on a commission basis. At December 31, 2018, the company's NMO relationships had contracted approximately 31,300 independent agents with the company. At December 31, 2018, the company had 49,000 domestic life insurance policies in force representing \$3.2 billion in face amount of coverage and 126,900 annuity contracts representing account balances of \$7.7 billion.

The following table sets forth the company's domestic life insurance sales as measured in annualized first year premium for the last three years.

	Years Ended December		
	31,		
	2018	2017	2016
	(In thousands)		
Fixed-index life	\$24,119	18,874	16,356
Universal life	51	24	43
Traditional life	414	96	112
Total	\$24,584	18,994	16,511

International Insurance Operations. National Western's international operations had generally focused on foreign nationals in upper socioeconomic classes. Insurance products issued were primarily to residents of countries in South America with product offerings not available in the local markets. Issuing policies to residents of countries in these different regions had provided diversification that helped to minimize large fluctuations that could arise due to various economic, political, and competitive pressures that could occur from one country to another. Products issued to international residents were almost entirely universal life and traditional life insurance products.

As disclosed in the Company's 2018 first quarter report on Form 10-Q, the company ceased accepting applications from residents of Venezuela during the first quarter of 2018 due to the unsettled political, economic, civil, and social climate existing in that country. The company had previously ceased accepting applications from residents of Brazil, Central America, and the Pacific Rim region in the fourth quarter of 2015 and from residents in the Eastern European region, primarily Russian-speaking, during 2017. As noted in Note (12) Subsequent Events in the Notes to Condensed Consolidated Financial Statements in the first quarter filing, the company ceased accepting applications for the company's international products from all remaining foreign residents effective May 11, 2018.

At December 31, 2018, the company had approximately 56,500 international life insurance policies in force representing nearly \$15.4 billion in face amount of coverage.

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The following table sets forth the company's contracts issued to international residents as measured in annualized first year premium for the past three years.

	Years Ended December 31,		
	2018	2017	2016
	(In thousands)		
Fixed-index life	\$4,415	7,519	9,738
Universal life	605	1,760	2,195
Traditional life	1,085	2,065	2,071
Total	\$6,105	11,344	14,004

There were some inherent risks of accepting international applications which are not present within the domestic market that were reduced substantially by the company in several ways. As previously described, National Western accepted applications from foreign nationals in upper socioeconomic classes who had substantial financial resources. This targeted customer base coupled with National Western's conservative underwriting practices have historically resulted in claims experience, due to natural causes, similar to that in the United States. The company has minimized exposure to foreign currency risks by requiring payment of premiums and claims in United States dollars. In addition, the company adopted an extensive anti-money laundering compliance program in order to fully comply with all applicable U.S. anti-money laundering or other illegal activities. All of the above, combined with experience with the international products for over fifty years and the company's longstanding business relationships, further served to minimize risks.

Contracts issued to international residents historically had larger face amounts of life insurance coverage per policy compared to those issued to domestic policyholders. The insurance coverage per international life policy witnessed a steady growth until 2015 when the company ceased accepting applications from residents of several countries. During the same time period, the company's average face amount of insurance coverage per policy for domestic contracts exhibited an upward trend reflecting the shift in sales toward single premium life products. Empirical evidence suggests that policy persistency generally improves with larger face amounts of insurance.

Average New Policy
Face Amount
Domestic International

Year ended December 31, 2012	\$254,900	\$ 380,200
Year ended December 31, 2013	286,000	384,000
Year ended December 31, 2014	286,600	382,600
Year ended December 31, 2015	274,500	342,500
Year ended December 31, 2016	308,700	336,500
Year ended December 31, 2017	317,200	306,300
Year ended December 31, 2018	338,400	297,100

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Geographical Distribution of Business. The following table depicts the distribution of the company's premium revenues and deposits.

	Years Ended December 31,		
	2018	2017	2016
	(In thousands)		
United States domestic products:			
Annuities	\$410,412	606,508	730,447
Life insurance	196,550	160,695	141,328
Total domestic products	606,962	767,203	871,775
International products:			
Annuities	796	2,291	293
Life insurance	103,982	116,889	131,508
Total international products	104,778	119,180	131,801
Total direct premiums and deposits collected	\$711,740	886,383	1,003,576

Although many agents sell National Western's products, the company's annuity sales in any year typically reflect several NMOs whose contracted independent agents sold 10% or more of the company's total annuity sales. In 2018, there were two NMOs that exceeded this threshold accounting for approximately 14% and 13%, respectively, of the company's annuity sales. Similarly, domestic life insurance sales in any year may include several NMOs who accounted for 10% or more of total domestic life insurance sales. In 2018, there were three NMOs who generated 35%, 10%, and 10%, respectively, of total domestic life insurance sales. Given the independent distribution model National Western employs, the concentration of sales within a particular NMO is not an acute concern as compared to other distribution channels given that the underlying agents are free to contract with the company through any NMO with which the company has a relationship.

The company's international business consisted of applications submitted by independent contractors of Latin America during 2018 and 2017. The company's international life sales during 2018 came principally from residents of Columbia, Ecuador, Peru and Chile. As noted previously, the company ceased accepting applications from all remaining residents outside the U.S. effective May 11, 2018. The company had previously ceased accepting applications for its international products from residents in the Pacific Rim, Central America, and Brazil in 2015; from residents in Eastern Europe in 2017; and from residents of Venezuela in the first quarter of 2018. The progressive disengagements were the result of increasing costs associated with this business and reduced profitability due to higher than anticipated mortality experience, lower than expected persistency of policies, and the additional cost structure imposed. In addition, unsettled political, economic, civil and social climates in places such as Venezuela contributed to the decision to cease accepting applications for international products from residents outside the country.

As disclosed in prior SEC filings, the Brazilian Superintendence of Private Insurance ("SUSEP") attempted to serve National Western in 2011 with a subpoena regarding an administrative proceeding initiated by SUSEP in which it alleged the company was operating as an insurance company in Brazil without due authorization. While the company believes that SUSEP has no jurisdiction over the company, SUSEP affirmed its imposition of a penal fine against National Western, but in a reduced amount of 3 million reais (approximately \$960,000). Given the substantial

reduction in the proposed penal fine by SUSEP, National Western paid the penal fine in the reduced amount in the fourth quarter of 2016 under protest and thereby retained its rights to seek judicial review in Brazil of the merits of the SUSEP charges. In light of these developments, the company ceased accepting new applications from residents in Brazil during the fourth quarter of 2015. Additionally, as noted in the previous paragraph, after careful consideration of various factors, including segment performance and the volume of application submissions, the company ceased accepting applications from residents in certain other countries during that same time period, primarily Central America and the Pacific Rim. Finally, as also noted above, the company ceased accepting applications from all residents outside of the U.S. in May 2018.

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Segment Financial Information. A summary of financial information for the Company's segments is as follows:

	Domestic Life Insurance (In thousands)	International Life Insurance	Annuities	All Others	Totals
Revenues, excluding realized gains (losses):					
2018	\$64,477	131,613	299,883	47,203	543,176
2017	111,299	189,334	511,506	47,546	859,685
2016	74,538	168,427	385,174	41,159	669,298
Segment earnings (losses): (A)					
2018	\$1,401	33,704	53,371	21,628	110,104
2017	2,835	59,025	17,409	21,556	100,825
2016	3,411	50,942	22,687	15,357	92,397
Segment assets: (B)					
2018	\$1,215,864	1,211,036	8,791,463	370,118	11,588,481
2017	1,106,410	1,236,733	9,269,956	398,597	12,011,696
2016	971,990	1,232,648	9,193,980	298,481	11,697,099

Notes to Table:

(A) Amounts exclude realized gains and losses on investments, net of taxes.

(B) Amounts exclude other unallocated assets.

Additional information concerning these industry segments is included in Note 13, Segment and Other Operating Information, of the accompanying Consolidated Financial Statements.

Competition and Ratings

National Western operates in a mature and highly competitive industry. We compete with hundreds of life and health insurance company groups in the United States as well as other financial intermediaries such as banks and securities firms who market insurance products. Many of these companies are larger, have more substantial capital and technological resources, possess greater brand recognition, and maintain higher ratings. Competitors in international territories had included Pan-American Life Insurance, American Fidelity Life Insurance, and Best Meridian Insurance while domestic market competitors have included, among others, Allianz Life, American Equity Investment Life, Sammons Financial Group (Midland, NACOLAH), Security Benefit Life, Fidelity and Guaranty Life, Athene USA, Jackson National Life, Equitrust Life Insurance Company, Pacific Life, National Life Group (Life of the Southwest) and Global Atlantic. Competitive factors are primarily the breadth and quality of products offered, established positions in niche markets, pricing, relationships with distribution channels, commission structures, the perceived stability of the insurer, quality of underwriting and customer service, scale and cost efficiency. Operating results of life insurers are subject to fluctuations not only from this competitive environment but also due to economic conditions, interest rate levels and changes, performance of investments, and the maintenance of strong insurance ratings from independent rating agencies.

In order to compete successfully, life insurers focus initiatives toward distribution, technology, defined end market targets, speed to the market in terms of product development, and customer relationship management as ways of gaining a competitive edge. The Company's management believes that it competes primarily on the basis of its longstanding reputation for commitment in serving its markets, its financial strength and stability, and its ability to attract and retain distribution based upon product and compensation.

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Ratings with respect to financial strength are an important factor in establishing the competitive position of insurance companies. Financial strength ratings are generally defined as a rating agency’s opinion as to a company’s financial strength and ability to meet ongoing obligations to policyholders and contract holders. Accordingly, ratings are important to maintaining public confidence and impact the ability to market products. The following summarizes National Western's current financial strength ratings.

Rating Agency	Rating	Outlook
A.M. Best	A (Excellent)	Stable
Standard & Poor's	A- (Strong)	Stable

A.M. Best has 16 financial strength ratings assigned to insurance companies which currently range from A++ (Superior) to F (In Liquidation). Standard & Poor’s has twenty-one financial strength ratings assigned to insurance companies ranging from “AAA” (Extremely Strong) to “R” (Regulatory Action). Both rating agencies further qualify their current ratings with outlook designations of “Positive”, “Stable”, and “Negative”. During 2018, Standard & Poor's, primarily in response to the company's strategic shift away from accepting applications from residents outside the U.S., reduced the company's rating while maintaining an outlook of "Stable".

A.M. Best and Standard & Poor’s ratings are an independent consideration of National Western’s claims paying ability and are not a rating of the company’s investment worthiness. Accordingly, such ratings are not recommendations to buy, sell or hold securities. The rating agencies formally review National Western and its rating on an annual basis with interim analysis performed as necessary. Generally speaking, as ratings are subject to revision or withdrawal at any time by the rating agency, there is no assurance that National Western's ratings will continue for a certain period of time. In the event the company's ratings are subsequently downgraded, the company's business may be negatively impacted.

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Risk Management

Similar to other entities, the Company is exposed to a wide spectrum of financial, operational, and other risks as described in Item 1A “Risk Factors”. Effective enterprise risk management (“ERM”) is a key concern for identifying, monitoring, measuring, communicating, and managing risks within limits and risk tolerances. The Company’s Board of Directors and senior management are knowledgeable of and accountable for key risks. The full Board of Directors of the Company (as well as the Board of Directors of National Western) meets at least every other month and regularly hears reports from the President and Chief Executive Officer, the Chief Financial Officer, the President and Chief Operating officer (National Western), the Chief Actuary (National Western), the Chief Investment Officer (National Western), and the Chief Legal Officer. In addition, the Board of Directors of the Company (including the Board of Directors of National Western) has several committees which include the Executive Committee, the Audit Committee, the Investment Committee, and the Compensation and Stock Option Committee that regularly convene to address various aspects of risk. Day-to-day responsibility for the overall ERM governance framework resides with the Company's designated Chief Risk Officer.

Enterprise Risk Management (ERM) Governance Framework

Board of Directors and Sub-Committees of the Board

O

Company Senior Management

O

ERM Committees

O	O	O	O	O
Disclosure Committee	Asset/Liability Matching	Product Pricing/ Development	Compliance/Fraud Unit	Underwriting/ Claims
O	O	O	O	O

Corporate Risk Function

Insurance Risk	Market Risk	Credit Risk	Operational Risk	Strategy Risk
O	O	O	O	O

Lines of Business / Functional Areas

National Western maintains management groups and committees that meet regularly to monitor, discuss and manage a variety of issues and risks associated with the business. These groups and committees include numerous areas such as regulatory compliance, financial reporting process and controls, fraud unit investigations, product spread management, security (including cyber), and business strategy. Key members of senior management are involved with these groups and committees providing direction and oversight and serve as a reporting liaison with the Company’s Board of Directors and sub-committees. In addition, the Internal Audit department reviews financial and operational risk exposures and reports directly to the Audit Committee of the Company concerning its independent reviews and assessments of management's efforts in these areas.

The Company maintains a system of disclosure controls and procedures, including internal controls designed to provide reasonable assurance that assets are safeguarded and transactions are properly authorized, executed and recorded. The Company recognizes the importance of full and open presentation of its financial position and operating results and to this end maintains a Disclosure Controls and Procedures Committee (“Disclosure Committee”) comprised of senior executives who possess comprehensive knowledge of the Company's business and operations. The Disclosure Committee is responsible for evaluating disclosure controls and procedures and for the

gathering, analyzing, and disclosing of information as required to be disclosed under the securities laws. It assists the Chief Executive Officer and Chief Financial Officer in their responsibilities for making the certifications required under the securities laws regarding the Company's disclosure controls and procedures. It ensures that material financial information is properly communicated up the Company's hierarchy to the appropriate person or persons and that all disclosures are made in a timely fashion. This Committee reports directly to the Audit Committee of the Company.

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National Western's product designs, underwriting standards and risk management techniques are utilized to protect against disintermediation risk and greater than expected mortality and morbidity risk. Disintermediation risk is limited through the use of surrender charges, certain provisions not allowing discretionary withdrawals, and market value adjustment features. Investment guidelines including duration targets, asset allocation tolerances and return objectives help to ensure that disintermediation risk is managed within the constraints of profitability criteria. Prudent underwriting is applied to select and price insurance risks and management regularly monitors mortality experience relative to its product pricing assumptions. Enforcement of disciplined claims management serves to further protect against greater than expected mortality.

A significant aspect of the company's business is managing the linkage of its asset characteristics with the anticipated behavior of its policy obligations and liabilities, a process commonly referred to as asset-liability matching. National Western maintains an Asset-Liability Committee ("ALCO") consisting of senior level members of National Western who assist and advise the Board of Directors in monitoring the level of risk National Western is exposed to in managing its assets and liabilities in order to attain the risk-return profile desired. Certain members of the ALCO meet as frequently as necessary, to review and recommend for Board of Director ratification, current period interest crediting rates to policyholders based upon existing and anticipated investment opportunities. These rates apply to new sales and to products after an initial guaranteed period, if applicable. Rates are established after the initial guaranteed period based upon asset portfolio yields and each product's required interest spread, taking into consideration current competitive market conditions.

Underwriters generally follow detailed policies and procedures to assess and quantify the risk of National Western's individual life products based on the age, gender, health, occupation and financial resources of the applicant and the amount of insurance applied for. As National Western maintains reinsurance treaties with several third party reinsurers, the majority of National Western's risk assessment policies have been established in conjunction with reinsurer policies and practices. National Western bases premiums and policy charges for individual life insurance on expected death benefits, surrender benefits, expenses and required reserves. Assumptions regarding mortality, interest rates, policy persistency, expenses, premium payment patterns and investment performance are embedded in the pricing of policies. Deviations of actual experience from pricing assumptions may positively or negatively impact the profitability of National Western's products.

Substantially all products sold to residents of other countries contained a currency clause stating that premium and claim "dollars" refer to lawful currency of the United States. Policy applications that had been submitted through international insurance consultants generally were associated with individuals in upper socioeconomic classes who desired the stability and inflationary hedge of dollar denominated insurance products previously issued by National Western. The favorable demographics of this group typically resulted in an average policy size, persistency, and claims experience (from natural causes) similar to that in the United States. By having accepted applications submitted on residents outside the United States, National Western was able to further diversify its revenue, earnings and insurance risk.

Insurance Product Liabilities

At December 31, 2018, the Company's total balance for liabilities pertaining to insurance products was \$9.9 billion. These product liabilities are payable over an extended period of time for which National Western's product pricing includes in making certain assumptions. The profitability of insurance products depends on this pricing and differences between the company's expectations when the products are sold and the subsequent actual experience impacts future profitability.

Liabilities for insurance products are determined using standard actuarial tables and past experience. Accordingly, establishing reserves can be an uncertain process in some cases. The Company's financial results depend significantly upon the extent to which actual experience is consistent with the assumptions used in determining reserves and pricing National Western's products. If assumptions are incorrect with respect to future claims, future policyholder premiums and policy charges or the investment income derived from the assets supporting product liabilities, the Company would be required to increase its liabilities which would negatively affect operating results.

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National Western follows the industry practice of reinsuring (ceding) portions of its insurance risks with a variety of reinsurance companies. All reinsurance is yearly renewable term. The company does not use financial or surplus relief reinsurance. The use of reinsurance allows the company to underwrite policies larger than the risk it is willing to retain on any single life and to continue writing a larger volume of new business. New sales of life insurance products are reinsured above prescribed limits and do not require the reinsurer's prior approval within certain guidelines. The maximum amount of life insurance the company normally retains is \$500,000 on any one life. However, the use of reinsurance does not relieve National Western of its primary liability to pay the full amount of the insurance benefit in the event of the failure of a reinsurer to honor its contractual obligation. Consequently, the company avoids concentrating reinsurance risk with any one reinsurer and only participates in reinsurance treaties with reputable carriers. No reinsurer of business ceded by National Western has failed to pay policy claims (individually or in the aggregate) with respect to our ceded business. The company continuously monitors the financial strength of its reinsurers and has been able to obtain replacement coverages from financially responsible reinsurers when making changes. The company's primary reinsurers as of December 31, 2018 were as follows.

Reinsurer	A.M. Best Rating	Amount of In Force Ceded (In thousands)
Hannover Life Reassurance Company (Florida)	A+	\$1,871,128
SCOR Global Life Americas Reinsurance (Delaware)	A+	1,300,031
RGA Reinsurance Company (Missouri)	A+	783,102
Swiss Life & Health America Inc. (Connecticut)	A+	41,831
SCOR Global Life USA Reinsurance (Delaware)	A+	8,170
All others	A to A+	17,717
		\$4,021,979

Regulatory and Other Issues

Regulation. The Company's insurance business is subject to comprehensive state regulation in each of the states it is licensed to conduct business. The laws enforced by the various state insurance departments provide broad administrative powers with respect to licensing to transact business, licensing and appointing agents, approving policy forms, regulating unfair trade and claims practices, establishing solvency standards, fixing minimum interest rates for the accumulation of surrender values, and regulating the type, amounts, and valuations of permitted investments, among other things. National Western is required to file detailed annual statements with each of the state insurance supervisory departments in which it does business. Annually, the company's board-appointed qualified actuary must submit an opinion to state insurance regulators where the company is licensed to do business on whether the statutory assets held backing the statutory reserves are sufficient to meet contractual obligations and related expenses of the insurer. If an opinion cannot be rendered noting the sufficiency of assets, the company is required to establish additional statutory reserves which draw from available statutory surplus until the time such an opinion can be furnished.

National Western's operations and financial records are subject to examination by these departments typically at regular intervals but may be examined at any time. Statutory financial statements are prepared in accordance with accounting practices prescribed or permitted by the Colorado Division of Insurance, the company's principal insurance

regulator. Prescribed statutory accounting practices are largely dictated by the Statutory Accounting Principles adopted by the National Association of Insurance Commissioners ("NAIC"). The company's most recent Colorado statutory financial examination covered the five year period ended December 31, 2012, and resulted in no financial statement adjustments and no material deficiencies were found. An examination for the five year period ended December 31, 2017 by the Colorado department commenced during the latter half of 2018 and is still in progress as of the date of this filing. The NAIC, as well as state regulators, continually evaluates existing laws and regulations pertaining to the operations of life insurers. To the extent that initiatives result as a part of this process, they may be adopted in the various states in which the company is licensed to do business. It is not possible to predict the ultimate content and timing of new statutes and regulations adopted by state insurance departments and the related impact upon the company's operations although it is conceivable that they may be more restrictive.

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The NAIC has developed a principles-based approach for establishing reserves for life insurance products. This approach is designed to improve reserving for products for which the current formula requirement for reserves may not accurately reflect the risks or costs of the obligations to insurers. The NAIC's Standard Valuation Law has been enacted by the minimum number of states representing a minimum level of premium volume needed in order for the principles-based approach to become effective. This approach is effective as of January 1, 2017 with a three year phase-in period and is prospective (applying only to new business). National Western fully intends to be compliant with the new Standard Valuation Law by the end of the phase-in period.

The NAIC has also enacted the Own Risk and Solvency Assessment ("ORSA") model act which requires insurers to make a formal assessment of the adequacy of their risk management and current and future solvency positions. National Western's state of domicile, Colorado, passed legislation calling for the adoption of the ORSA Model Act which subjected the company to filing annual ORSA reports with the Colorado Division of Insurance starting in 2017. The company filed its annual ORSA report in the fourth quarter of 2018.

Each state has insurance guaranty association laws under which insurers doing business in a state can be assessed contributions, up to prescribed limits, in order to cover contractual benefit obligations of insolvent insurance companies. The state guaranty associations levy assessments on each insurer on the basis of their proportionate share of the premiums written in the lines of business in which the insolvent insurer had been engaged. Some states permit the member insurers to recover the assessments paid through full or partial premium tax offsets.

National Western is also subject to the laws and regulations of states and other jurisdictions concerning the identification, reporting, and escheatment of unclaimed or abandoned funds. Compliance with these requirements is subject to audit and examination by state regulators.

State insurance laws and regulations contain numerous provisions pertaining to the marketplace activities of insurers, including various provisions governing the form and content of disclosures made to consumers, policy illustrations, advertising material, sales practices and handling of policyholder complaints. State regulatory authorities enforce these prerequisites through periodic market conduct examinations.

Given the ongoing legislative developments concerning insurance industry regulation, the NAIC and state regulators continue to revisit existing laws and statutes focusing on matters involving insurance company investments and solvency, market conduct, risk-adjusted capital measurements, enterprise risk management guidelines, interpretations of current laws, and creation of new laws. The Company does not believe the adoption of any of the current NAIC initiatives will have a material adverse impact on its operations; however, the Company cannot predict the form of any future proposals or regulation.

The Company's business is also affected by U.S. federal, state and local tax laws. Although the federal government does not directly regulate the life insurance industry, federal measures previously considered or enacted by Congress, if revisited, could affect the insurance industry and the Company's business. These measures include the tax treatment of life insurance companies and life insurance products, as well as changes in individual income tax structures and rates. Even though the ultimate impact of any of these changes, if implemented, is uncertain, the persistency of National Western's existing products and the ability to sell products could be materially affected.

The Company is subject to federal and state laws and regulations that require financial institutions and other businesses to protect the security and confidentiality of personal information, including health-related and customer information, and to notify their customers and other individuals of their policies and practices relating to the collection and disclosure of health-related and customer information. Federal or state laws or regulations also provide additional protections regarding the use and disclosure of certain information such as social security numbers; require notice to

affected individuals, regulators, and others if there is a breach of the security of certain personal information; require financial institutions to implement effective programs to detect, prevent, and mitigate identity theft; and prescribe the permissible uses of certain financial information, including customer information and consumer report information.

Despite having been in place for several years, many of the key rules of the Dodd-Frank legislation have yet to be formalized, some of which may have an impact on insurers. The Federal Insurance Office ("FIO") was established to accumulate information about the insurance industry and its mandate is very broad although it is not empowered with any general regulatory authority over insurers. The current Presidential Administration continues to review this legislation and may roll back more of the rules and regulatory authority embedded in Dodd-Frank.

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The USA Patriot Act of 2001 ("Patriot Act") amended the Money Laundering Control Act of 1986 and the Bank Secrecy Act of 1970 to expand anti-money laundering ("AML") and financial transparency laws applicable to financial services companies, including insurance companies. Among other things, the Patriot Act seeks to identify parties involved in terrorism, money laundering or other illegal activities. It is the policy of National Western to comply fully with all applicable U.S. anti-money laundering laws and regulations. The company is committed to maintaining company-wide awareness of the importance of these laws and regulations and has adopted an AML Compliance Program, setting forth National Western's policies, procedures, and internal controls designed to detect and prevent money laundering. The goal of this Program is to establish a framework for the company to ensure compliance with all applicable U.S. anti-money laundering laws and regulations, including not only the Patriot Act but also the sanctions programs promulgated by the Office of Foreign Assets Control.

Risk-Based Capital Requirements. In order to enhance the regulation of insurer solvency, the NAIC established risk-based capital ("RBC") requirements to help state regulators monitor the financial strength and stability of life insurers by identifying those companies that may be inadequately capitalized. Under the NAIC's requirements, each insurer must maintain its total capital above a calculated threshold or take corrective measures to achieve the threshold. The threshold of adequate capital is based on a formula that takes into account the amount of risk each company faces on its products and investments. The RBC formula takes into consideration four major areas of risk which are: (i) asset risk which primarily focuses on the quality of investments; (ii) insurance risk which encompasses mortality and morbidity risk; (iii) interest rate risk which involves asset-liability matching issues; and (iv) other business risks. For each category, the RBC requirements are determined by applying specified factors to various assets, premiums, reserves, and other items, with the factor being higher for items with greater underlying risk and lower for items with less risk. The standards require life insurers to submit a report to state regulators on an annual basis regarding their risk-based capital.

The RBC requirements provide for four levels of regulatory attention, varying with the ratio of the insurer's ratio of total adjusted capital to its RBC as measured on December 31 of each year. In addition, the RBC requirements provide for a trend test if an insurer's total adjusted capital falls to a certain range of its ratio relative to its RBC as of the end of the year. National Western's statutory capital and surplus at December 31, 2018, was significantly in excess of the threshold RBC requirements for regulatory attention and trend test analysis.

Effects of Inflation. The rate of inflation as measured by the change in the average consumer price index has not had a material effect on the revenues or operating results of the Company during the three most recent fiscal years.

Employees. National Western had 276 employees as of December 31, 2018, substantially all of which worked in the company's home office in Austin, Texas. None of the employees are subject to collective bargaining agreements governing their employment with the company.

Available Information

The Company files periodic and current reports, proxy statements and other information with the Securities and Exchange Commission ("SEC"). These reports, including information in this report filed on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to the above reports, are accessible free of charge through the SEC's website (www.sec.gov) or may be viewed by visiting the SEC's Public Reference Room in Washington, D.C.

The Company's press releases, financial information, and reports filed with the SEC are available online free of charge at the Company's website: www.nwlg.com. Reports filed with or furnished to the SEC will be available as soon as reasonably practicable after they are filed with or furnished to the SEC. The information located on the Company's

website is not part of this or any other report filed with or furnished to the SEC.

ITEM 1A. RISK FACTORS

Company performance is subject to varying risk factors including general business and financial risk. Any or all of these risks could have a material adverse effect on the business, financial condition or results of the Company or cause the trading price of the Company's Class A common shares (ticker symbol "NWL") to decline materially. This section provides an overview of possible risk exposures at this point in time that could impact Company performance in the future. Many of these risks are interrelated, ongoing, and endemic to the industry. Consequently, they could occur under similar business and economic conditions, and in turn prompt the emergence or amplify the effect of others. While these scenarios do not represent expectations of future experience, they are intended to illustrate the potential impacts if any of the following risks were to manifest into actual occurrences.

Difficult conditions globally and in the U.S. economy may materially adversely affect our business and results of operations.

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The Company's results from operations can be materially affected by economic conditions both in the U.S. and elsewhere around the world. Even under relatively beneficial market conditions, demand for our insurance and products, as well as our investment returns, are sensitive to fixed income, equity, real estate and other fluctuations and overall economic and political conditions. General factors such as credit availability, willingness of business to invest, consumer spending, financial market conditions and inflation affect the Company's business. Demand for our products and ultimately the profitability of our business may be adversely affected by anemic activity in any or all of these areas. Our current policyholders may opt to defer or stop paying insurance premiums. High interest rates or inflation could induce those holding interest-sensitive life insurance and annuity products of the Company to begin an elevated level of discretionary withdrawals of policy funds. Conversely, low interest rates and inflation could cause persistency of our products to vary from that anticipated and adversely affect profitability. In addition, changing economic conditions may serve to create unfavorable public perception of financial institutions and influence policyholder behavior. Changes as detailed above could negatively affect our net income and have a material effect on our business, results of operations and financial condition. The Company cannot foretell the occurrence of economic trends or the timing of changes in such trends.

Our investment portfolio is subject to several risks which may lessen the value of invested assets and the amounts credited to policyholders.

The Company primarily invests monies received in investment grade, fixed income investment securities in order to meet its obligations to policyholders and provide a return on its deployed capital. Accordingly, our business is exposed to customary risks of debt markets including credit defaults and changes in fair value. Adverse market conditions can affect the liquidity and value of our investments and we are subject to the credit risk that issuers of these securities may default on principal and interest payments, particularly in the event of an ongoing downturn in the economic and/or business climate. A ratings downgrade affecting issuers of particular securities could worsen the credit quality of our investments and could increase the amount of capital we must hold to maintain our risk-based capital levels which are monitored by regulators and rating agencies. At December 31, 2018, approximately 0.9% of the Company's \$10.2 billion fixed income securities portfolio was comprised of issuers who were investment grade at the time the Company acquired them but were subsequently downgraded for various reasons. Although this is an extremely low percentage compared to industry averages, a substantial increase in defaults from these or other issuers could negatively impact the Company's financial position and results of operations.

For the Company's fixed-index products, over the counter derivative instruments (index options) are purchased from a number of highly-rated counterparties to fund the index credit provided to policyholders. These index options consist primarily of one-year call options. Market conditions could cause these instruments to not perform as intended or expected and result in higher realized losses and unforeseen stresses on liquidity. The counterparties may also limit the availability of these hedging instruments or further increase the cost of executing product related hedges which may be difficult to recover in the pricing of our underlying products. Amounts that the Company expects to collect under derivative contracts are subject to counterparty risk. In the event that any of these counterparties fails to meet their contractual obligations under these derivative instruments, the Company would be financially at risk for providing the credits due that the counterparty reneged on. The Company attempts to offset this risk through careful credit evaluation of counterparties, diversification of holdings among numerous institutions, and use of credit support agreements requiring counterparties to provide collateral at specified threshold levels. Although the Company has never had a counterparty default on its obligations, the failure of counterparties to perform could negatively impact the Company's financial strength and reduce the Company's profitability.

The concentration of the Company's portfolio in any particular issuer, asset classes, industries, or geographic areas could have an adverse effect on our investment portfolios and, therefore, the Company's results of operations and

financial position. In order to minimize this risk, the Company's investment guidelines contain maximum exposure thresholds to concentrations of risk in order to promote a broadly diversified portfolio. Disruptions in individual market sectors within our investment portfolio could result in significant realized and unrealized losses.

Significant financial and credit market volatility, changes in interest rates and credit spread margins, credit defaults, market illiquidity, declines in equity prices, ratings downgrades of the issuers of debt securities, and declines in general economic conditions, either singularly or in combination, could have a material adverse impact on the Company's results of operations and financial condition through realized losses, impairments, and changes in unrealized loss positions.

The determination of valuation and impairments of fixed income securities include estimations and assumptions that are subjective and prone to differing interpretations and could materially impact our results of operations or financial condition.

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The Company makes assumptions regarding the fair value and expected performance of its investments. During periods of market disruption and volatility, it becomes more difficult to evaluate securities, particularly if trading becomes less frequent or market data becomes less observable. Fair value of certain securities may be based upon one or more significant unobservable inputs even in typical market conditions. As a result, valuations may include inputs and assumptions that are less observable or require greater estimation and judgment as well as valuation methods which are more complex. These values may not be ultimately realizable in a market transaction and may change rapidly as market conditions change and assumptions are modified. We also consider a wide range of factors about security issuers in evaluating the cause of a decline in the estimated fair value of a security and in assessing the prospects for recovery. Inherent in this evaluation are assumptions about the operations of the issuer and its future earnings potential. Such evaluations are revised as conditions change and new information becomes available.

The decision on whether to record an other-than-temporary impairment is determined by our assessment of the financial condition and prospects of a particular issuer, projections of future cash flows and recoverability as well as our ability and intent to hold the securities to recovery or maturity. Expectations that the Company's investments in corporate debt securities will continue to perform in accordance with their contractual terms are based on evidence gathered through our normal credit surveillance process. However, historical trends may not be indicative of future impairments and our conclusions concerning the recoverability of any particular security's market price could ultimately prove to be invalid as facts and circumstances change. Rapidly changing and unprecedented credit market conditions make it possible that issuers of the Company's investments in corporate securities and/or debt obligations will perform worse than current expectations. Consequently, there can be no assurance that we have accurately assessed the level of impairments in our financial statements or that additional impairments may not need to be taken in the future. It is also possible that unanticipated events may lead the Company to dispose of such investments and recognize the effects of any market movements in its financial statements.

We are subject to changing interest rates and credit spreads, market volatility, and general economic conditions which may affect the risk and returns on both our investment portfolio and our products.

We are exposed to significant capital market risk related to changes in interest rates. Our investment performance, including yields and realization of gains and losses, may vary depending on economic and market conditions. Substantial and sustained changes, up or down, in market interest rate levels can materially affect the profitability of our products, the market value of our investments, and ultimately the reported amount of stockholders' equity.

A rise in interest rates will increase the net unrealized loss position of our investment portfolio and may subject the Company to disintermediation risk. Disintermediation risk is the risk that in a change from a period of low interest rates to a period of significantly higher and increasing interest rates more policyholders than assumed in the product pricing assumptions may surrender their contracts or make early withdrawals in order to increase their returns, potentially requiring the Company to liquidate investments in an unrealized loss position (i.e. the market value less than the carrying value of the investments). The Company manages its liabilities and configures its investment portfolio so as to provide and maintain sufficient liquidity to support expected withdrawal demands. If the Company experiences an unexpected increased level of withdrawal or surrender activity, it could exhaust liquid assets and be forced to liquidate other assets at a loss or on other unfavorable terms. With respect to fixed income security investments maintained in the Company's "Available for Sale" category that are reported at fair values, rising interest rates will cause declines in the market value of these securities. These declines are reported in our financial statements as an unrealized investment loss and a reduction of stockholders' equity.

There may be occasions where the Company could encounter difficulty selling some of its investments due to a lack of liquidity in the marketplace. If the Company required significant amounts of cash during such a period, it may have difficulty selling investments at attractive prices, in a timely manner or both.

Significant changes in interest rates expose insurance companies to the risk of not realizing the anticipated spread between the interest rates earned on investments and the credited rates paid on in force policies and contracts. A decline in interest rates could expose the Company to reduced profitability due to minimum interest rate guarantees that are required in our products by regulation. When interest rates decline or remain low, as has been the case in recent years, the Company will have to reinvest investment portfolio cash proceeds in lower-yielding instruments, further reducing investment income. As a key component of profitability, a narrowing of investment spreads (“spread compression”) could negatively affect operating results. Although the Company has the ability to adjust the rates credited on products in order to maintain our required investment spread, a significant decline in interest rate levels could affect investment yields to the point where the investment spread is compromised due to minimum interest rate guarantees. In addition, the potential for increased policy surrenders and cash withdrawals, competitor activities, and other factors could further limit the Company’s ability to maintain crediting rates on its products at levels necessary to avoid sacrificing investment spread.

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When interest rates rise, the Company may not be able to replenish assets in its investment portfolio as rapidly with higher-yielding investments needed to fund/support the higher interest rates necessary to have its product offerings for sale remain competitive. Conversely, a prolonged period during which interest rates remain at lower levels may cause policies to remain in force for longer periods than anticipated in our pricing exposing the Company to additional spread compression and potentially greater claim costs than expected.

Due to regulatory and information system support considerations, delays may occur between the time the Company analyzes the need to make changes in the rates it credits on its products and other assumptions used for product pricing and the time the Company is able to reflect these changes in its products available for sale. These delays could negatively impact the long-term profitability of product sales during the interim period.

Changes in interest rates may also impact the Company's business in other ways. The Company's expectation for future interest earnings and spreads is an important component in determining the amortization of deferred policy acquisition costs ("DPAC") and deferred sales inducements ("DSI"). Significantly lower than expected interest earnings or spreads may cause the Company to accelerate its amortization of DPAC and DSI thereby reducing net income in a reporting period. Additionally, during periods of declining interest rates, life insurance and annuity products may be relatively more attractive savings alternatives to consumers resulting in increased premium payments on products with flexible premium features, repayment of policy loans, or otherwise a higher persistency of policies remaining in force from year-to-year during a period when the Company's investments carry lower returns.

The profitability of the Company's fixed-indexed products, whose crediting rate mechanism is linked in part to market indices, is significantly affected by the cost of underlying call options purchased to fund the credits owed to contract holders selecting this form of interest crediting. If there are little or no gains on the call options purchased over the expected life of these fixed-indexed products, the Company would incur expenses for credited interest over and above the option costs. In addition, if the Company does not successfully match the terms of the underlying call options purchased with the terms of the fixed-indexed products, the index credits could exceed call option proceeds. This would serve to reduce the Company's spread on the products and decrease profits.

We are subject to incurring difficulties in marketing and distributing our products through our current and future distribution channels.

The Company distributes its life and annuity products through independent broker-agents. These product distributors are not captive and may sell products of competitors of the Company. There is substantial competition in the Company's domestic market for independent broker-agents with the demonstrated ability to market and sell insurance products. Competition for these individuals or organizations typically centers on company reputation, products and their features, compensation, home office support services and the insurer's financial position and independent strength ratings. Competitiveness for such individuals and organizations also depends upon the relationships the Company develops with them. An interruption in key relationships could materially affect our ability to market products. Distributors may also elect to reduce or terminate their distribution relationships with the Company at any time. We are further at risk that key distribution partners may change their mode of conducting business that affects how our products are sold. The Company's future sales and financial condition are dependent upon avoiding significant interruptions in attracting and retaining independent broker-agents and consultants.

As technology continues to evolve, such as the use of so called "robo-advisors", comparison of a particular product of any company for a particular customer with competing products for that customer will become more readily available, which could also lead to increased competition as well as affecting agent, consultant and customer behavior.

We are subject to a downgrade in our financial strength ratings which may negatively affect our ability to attract and retain independent distributors, make our products less attractive to consumers, and may have an adverse effect on our operations.

Financial strength ratings are important criteria in establishing the competitive position of insurers. While financial strength ratings are not a recommendation to buy the Company's products, these ratings are important to maintaining public confidence in the Company, its products, and its competitive position. Ratings generally reflect the rating agencies' quantitative and qualitative view of a particular company's financial strength, operating performance, and ability to meet its obligations to policyholders. However, since some of the rating factors often relate to the particular and subjective views of the rating agency, their independent economic modeling, the general economic climate, and other circumstances, these are largely outside of the insurer's control. During 2018, Standard & Poor's downgraded National Western's financial strength rating primarily due to the Company's strategic decision to cease accepting applications for its international products from residents outside the U.S. We cannot predict with any certainty what future actions rating agencies may take.

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A downgrade in our financial strength rating, or an announced potential downgrade, could potentially affect our competitive position making it more difficult to market our products vis-à-vis competitors with higher financial strength ratings, and/or hurt our relationships with distributors, reinsurers and other business partners. In extreme situations, a significant downgrade action by one or more rating agencies could cause a decrease in the sale of our products, prompt defections within our independent sales force, and induce existing policyholders to cancel their policies and withdraw funds from the Company. Currently, the major rating agencies, including A.M. Best and Standard & Poor's, maintain stable outlooks on the U.S. life insurance industry. Regardless of their current view, these rating agencies could revise their benchmarks regarding levels of capital, earnings, and other metrics that align with particular rating levels and impact their rating assessments of U.S. life insurance companies. These events could have a material adverse effect on our financial position and liquidity.

We are subject to competition from new sources as well as companies having substantially greater financial resources, higher ratings, and more expansive product offerings which could have an adverse impact upon our business levels and profitability.

Life insurance is a mature and highly competitive industry. Our ability to compete is based upon a variety of factors including financial strength ratings, competitive products, quality of service, scale, and distribution capacity. There has been considerable consolidation among companies in the insurance and financial sectors resulting in large, well-capitalized entities that offer products comparable to the Company who have greater market share or breadth of distribution, higher financial strength ratings, and offer a broader range of products and services. Frequently, these larger organizations are not domiciled in the United States or are financial services entities attempting to establish a position in the insurance industry. These larger competitors often enjoy better name recognition and economies of scale which produce lower operating costs and the wherewithal to absorb greater risk allowing them to price products more competitively and, in turn, attract independent distributors. Such competition could result in lower sales or higher lapses of existing products. In addition, since the actual cost of products is not precisely known when they are sold, the Company is exposed to competitors who may sell products at prices that do not cover actual costs. Consequently, the Company may encounter additional pricing pressures to lower prices for similar products and be challenged to maintain market share, profit margin targets and profitability criteria. Due to these competitive forces, the Company may not be able to effectively compete without negative effects on our financial position and results of operations.

We are subject to regulation, changes to existing laws, and investigations that may affect our profitability or means of operations.

The Company is subject to extensive laws and regulations which are complex and subject to change. In addition, these laws and regulations are enforced by a number of different authorities including, but not limited to, the National Association of Insurance Commissioners ("NAIC"), individual state insurance regulators, the Securities and Exchange Commission ("SEC"), state attorney generals, and the U.S. Department of Justice. Compliance with these laws and regulations is time consuming and any changes may materially increase our compliance costs and other expenses of doing business. The regulatory framework at the state and federal level pertaining to insurance products and practices is unsettled and could affect not only the design of our products but our ability to continue to sell certain products.

The Company is subject to government regulation in each of the states in which it conducts business with such regulation vested in state agencies having broad administrative power dealing with many aspects of the Company's business. Regulators oversee matters relating to sales practices, policy forms, claims practices, types and amounts of investments, reserve adequacy, insurer solvency, minimum amounts of capital and surplus, transactions with related parties, and payments of dividends. At any given time, the Company may be subject to a number of financial, market conduct, or other examinations or audits. These examinations or audits may result in payment of fines and penalties as

well as changes in systems or procedures, any of these could have a material adverse effect on the Company's financial condition or results of operations. Other NAIC or state insurance regulator actions, such as the adoption of principles-based reserving or changes to RBC calculations, may adversely impact our business from time to time.

Life insurance products generally offer tax advantages to policyholders via the deferral of income tax on policy earnings during the accumulation phase of the product, be it an annuity or a life insurance product, as compared to other savings instruments such as certificates of deposit and taxable bonds. Taxes are payable on income attributable to a distribution under a policy/contract for the year in which the distribution is made as opposed to the current taxation of other savings instruments. In addition, death benefit proceeds maintain a tax-free status. Periodically, Congress has considered legislation that would reduce or eliminate this tax advantage inherent to the life insurance industry and subject the industry's products to treatment more equivalent with other investments. In the event that the tax status of life insurance products is revised or reduced by Congress all life insurers would be adversely impacted.

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Insurance companies that do business in a particular state are subject to assessment up to certain prescribed limits by that state's insurance guaranty association to provide funds to help pay for policyholder losses or liabilities of insolvent insurance companies. As the amount and timing of assessments by state insurance guaranty associations is outside of the Company's control, the liabilities provided for these potential assessments in our financial statements may differ from the amounts ultimately assessed.

In 2010, the Dodd-Frank Act ("Dodd-Frank") was enacted into law. Dodd-Frank called for expansive changes in the regulation and oversight of the financial industry intended to provide for greater supervision of financial industry entities, reduction of risk in banking practices and in securities and derivatives trading, enhancement of public company corporate governance practices and executive compensation disclosures, and greater protections to individual consumers and investors. Numerous provisions of Dodd-Frank required adoption of implementing rules and/or regulations. The process of adopting these have been substantially delayed beyond the timeframes imposed by Dodd-Frank. Legislative or regulatory requirements ultimately imposed may impact the Company in a variety of ways including placing the Company at a competitive disadvantage relative to its competition or other financial service entities, changing the competitive framework of the financial services sector and/or life insurance industry, making it more expensive for the Company to conduct its business, or requiring the reallocation of Company resources to legal and compliance-related activities. There remains some speculation that many aspects of Dodd-Frank will be rescinded given their anti-competitive and compliance costly nature. Consequently, the impact of Dodd-Frank on the Company, as well as that on the financial industry and economy cannot be determined until all the rules and regulations called for under the Act have been finalized and implemented, if at all.

The Company's operations are centralized at its Austin, Texas location and it is licensed to do business in forty-nine states (except New York) and various other U.S. territories and possessions and is regulated by the insurance departments in each of these locations. Although not otherwise licensed, the Company accepted applications from and issued dollar-denominated policies to residents outside of the United States until May 2018. From time to time insurance regulators in these non-U.S. locations have sought to exercise regulatory authority over the Company including the imposition of substantial penal fines. Although these non-U.S. regulators have no jurisdiction over the Company and any actions, including fines, would be unenforceable against the Company, the threat of regulatory action could otherwise absorb Company time and resources away from its business operations. The Company's future financial condition is dependent upon avoiding significant interruptions from authorities outside of the United States.

Several years ago, Brazilian authorities commenced an investigation into possible violations of Brazilian criminal law in connection with the issuance of the Company's insurance policies to Brazilian residents at that time, and in assistance of such investigation a Commissioner appointed by the U.S. District Court for the Western District of Texas issued a subpoena upon the Company to provide information relating to such possible violations. No conclusion can be drawn at this time as to its outcome or how such outcome may impact the Company's business, results of operations or financial condition. The Company has been cooperating with the relevant governmental authorities in regard to this matter. See "Legal Proceedings" in Item 3 of Part I of this report.

Changes in accounting standards issued by standard-setting bodies may adversely affect our financial statements and affect the management of business operations.

The Company's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP") as delineated in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("FASB ASC"). GAAP is subject to constant review by various policy-setting organizations to address emerging accounting rules and issue interpretative accounting guidance. From time to time, the Company is required to adopt new or revise accounting standards or guidance that has been integrated into the FASB ASC. For example, the FASB has had an ongoing project to revise the accounting standards for insurance contracts. The changes to GAAP from this particular project, which are subject to adoption in the coming years, present significant accounting changes which will require

companies to develop new systems and infrastructure in order to comply. Future accounting standards required to be adopted could possibly further change the current accounting treatment that the Company uses in its Consolidated Financial Statements and such changes could possibly have a material adverse effect on our financial position and results of operations.

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In addition, the FASB has been working on several projects with the International Accounting Standards Board (“IASB”) over the years which could produce significant changes if GAAP converges with International Financial Reporting Standards (“IFRS”). These projects include how the Company accounts for its insurance contracts and financial instruments and how its financial statements are prepared and presented. Although most of these efforts have stalled at this point in time, filers in the U.S. could be required to report financial results in accordance with IFRS as issued by the IASB rather than GAAP were this initiative to be resumed. Despite the uncertainty of any deliberations involving convergence of GAAP and IFRS, adoption of IFRS would be a complete change to the Company's accounting and reporting. The changes to GAAP and the ultimate conversion to IFRS would invoke new demands on public companies in the areas of governance, internal controls, employee training, and disclosure and will likely affect how business operations are managed. The Company is unable to predict whether, and if so, when this effort will be resumed, adopted and/or implemented.

The Company is also required to comply with statutory accounting principles (“SAP”) which are subject to constant review by the NAIC and related task forces and committees. Various proposals either are currently or have been previously pending before the NAIC. The Company cannot predict whether or in what form reforms will be enacted by state legislatures and whether the enacted reforms will positively or negatively affect the Company.

We may be subject to unfavorable judicial developments, including the time and expense of litigation, which potentially could affect our financial position and results of operations.

Financial services companies are frequently targets of legal proceedings, including class action litigation. In the ordinary course of business, we are involved in various legal actions common to the life insurance industry, some of which may occasionally assert claims for large amounts. Companies in the life insurance and annuity lines of business have encountered litigation pertaining to allegations of improper sales practices in connection with the sale of life insurance, improper product design and disclosures, marketing unsuitable products to customers especially in the senior market, bad faith in the handling of insurance claims, and other similar pleas. Some of these proceedings have been brought on behalf of various alleged classes of complainants. In addition, life insurance companies are subject to risk of errors and misconduct of the agents selling their products for fraud, non-compliance with policies and recommending products or transactions that are not suitable in a particular situation. Often these legal proceedings have involved plaintiffs seeking large and/or indeterminate amounts and resulted in the award of substantial amounts disproportionate to the actual damages including material amounts of punitive compensatory or exemplary damages. In some states, judges and juries have substantial discretion in awarding punitive and compensatory damages which creates the potential for material adverse judgments or awards. In the event of an unfavorable outcome in one or more matters, the ultimate liability may be in excess of the liabilities established in the Company's accounts.

Legal liability or adverse publicity emanating from current or future legal actions, whether or not they actually involve the Company, could have an adverse effect on us or cause us reputational harm, which could, in turn, impair our prospective business. Given the inherent unpredictability of litigation, and the potential complexity and scope of such actions, there can be no assurance that such litigation, current or in the future, will not have a material adverse effect on the Company's results of operations or cash flows in any particular reporting period. In addition, such matters may become more frequent and/or severe in the event that general economic conditions deteriorate.

We could be liable with respect to liabilities ceded to reinsurers if the reinsurers fail to meet the obligations assumed by them.

The Company cedes material amounts of insurance to other unaffiliated insurance companies through reinsurance. New sales of life products are reinsured within prescribed limits and do not require the reinsurer's prior approval within certain guidelines. The Company's maximum retention limit on an insured life is \$500,000. However, these

reinsurance arrangements do not fully discharge the Company's obligation to pay benefits on the reinsured business. If a reinsurer fails to meet its obligations, the Company would be forced to cover these claims. In addition, if a reinsurer becomes insolvent, it may cause the Company to lose its reserve credits on the ceded business which require the establishment of additional reserves. To mitigate the risks associated with the use of reinsurance, the Company carefully monitors the ratings and financial condition of its reinsurers on a regular basis and attempts to avoid concentration of credit risks by spreading its business among several reinsurers in order to diversify its risk exposure.

The Company's ability to be competitive is affected by the availability of reinsurance. The availability and cost of reinsurance protection are impacted by our operating and financial performance as well as conditions beyond our control. In recent years, the number of life reinsurers has decreased as the reinsurance industry has consolidated. The lower number of life reinsurers has resulted in increased concentration of risk for insurers. If the cost of reinsurance were to increase or become unavailable, the Company could be adversely impacted.

We are subject to policy claims experience which can fluctuate from period to period and vary from past results or expectations.

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The Company's earnings are significantly influenced by policy claims received and will vary from period to period depending upon the amount of claims incurred. In any given quarter or year, there is very limited predictability of claims experience. The liability established for future policy benefits is based upon a number of different factors. Our mortality experience could be adversely impacted by a catastrophic event such as a natural disaster, terrorist attack or pandemic event. Significant deviations in actual experience from pricing assumptions could have an adverse effect on the profitability of our products. Some of the Company's products permit premium increases or adjustment of other charges or credits during the life of a policy, but the adjustments permitted under the terms of the policies may not be sufficient to maintain profitability or may induce policies to lapse. Many of our products do not permit us to increase premiums or adjust other charges and credits or otherwise limit the adjustments we can make during the life of a policy. There may be instances in which we may not be able or willing to raise premiums or adjust other charges sufficiently for competitive reasons. Consequently, in the event our future claim experience does not match our past results or pricing assumptions, our operating results could be materially and adversely affected.

We are subject to assumption inaccuracies regarding future mortality, persistency, and interest rates used in determining deferred policy acquisition costs which may require us to accelerate our amortization.

In the course of business, the Company makes certain assumptions regarding mortality, policy persistency, expenses, interest rates, business mix, investment performance and other factors concerning the type of business experience expected in future periods. Deferred policy acquisition costs ("DPAC") and deferred sales inducement ("DSI") amounts are calculated using a number of these assumptions. DPAC represent costs that vary with and are primarily related to the acquisition of new insurance and annuity contracts while DSI represents first year bonus interest amounts that are credited to policyholder account balances as an inducement to purchase the policy. Both are amortized over the expected lives of the policies. Amortization is dependent upon actual and estimated future gross profits ("EGP") generated by the lines of business that incurred the related expenses and are amortized over the expected lives of the corresponding contracts. The principal assumptions for determining EGP are mortality, persistency, expenses, investment returns (including capital gains and losses on assets supporting contract liabilities), and interest crediting rates to contract holders. DPAC and DSI recorded on the Consolidated Balance Sheets are tested to determine if they are recoverable under current assumptions. The estimates and assumptions used to amortize these deferred costs proportional to expected gross profits are also regularly reviewed. Due to the uncertainty associated with establishing these assumptions, the Company cannot, with precision, determine the exact pattern of profit emergence. Updates to these assumptions (commonly referred to as "unlocking") could result in an acceleration of amortization of DPAC and DSI. Accordingly, actual results could differ from the related assumptions which could have a material and adverse impact on the Company's operating results.

Assumptions and estimates involve judgment, and by their nature are imprecise and subject to changes and revisions over time. The Company's results may be affected, positively or negatively, by actual results differing from assumptions, by changes in estimates, and by changes resulting from implementing more sophisticated administrative systems and procedures that facilitate the calculation of more precise estimates.

Occurrence of natural or man-made disasters and catastrophes could adversely affect our ability to conduct business operations and the financial condition and results of operations.

The occurrence of natural disasters and catastrophes, including earthquakes, hurricanes, floods, tornadoes, fires, explosions, pandemic disease and man-made disasters, including acts of terrorism and military actions, could adversely affect the financial condition or results of operations of the Company. Such disasters and catastrophes could impact the Company directly by damaging our facilities, preventing employees from performing their duties or otherwise disturbing the Company's ordinary business operations, as well as indirectly by changing the condition and behaviors of consumers, business counterparties and regulators and potentially causing declines or volatility in

economic and financial markets. Disasters or a pandemic outbreak could disrupt public and private infrastructure, including communications and financial services, which could disrupt the Company's normal business operations. A terrorist attack affecting financial institutions could negatively impact the financial services industry as a whole and our business operations, investment portfolio and our profitability. In addition, such events and conditions could result in a decrease or halt in economic activity in large geographic regions, adversely impacting the marketing of the Company's business within such geographic areas which in turn could have an adverse effect on the Company. There can be no assurance that our business continuity plans and insurance coverages would be effective in mitigating any negative effects on our operations or profitability in the event of a terrorist attack or other disaster.

The effects of natural and man-made disasters and catastrophes on the Company's business include, but are not limited to: an acceleration of the timing in which benefits are paid under the Company's insurance policies due to catastrophic loss of life, unexpected changes in persistency rates as policyholders affected by disaster may be unable to meet their contractual obligations, harm to the financial condition of the Company's reinsurers due to an increase in claims thereby impacting the cost and availability of reinsurance and possibly increasing the probability of default on reinsurance recoveries, and heightened volatility, loss of liquidity and credit impairment in the financial markets resulting in harm to the Company's financial condition.

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Our enterprise risk management practices and procedures may prove to be ineffective exposing us to unidentified or unanticipated risks.

The Company maintains an enterprise-wide risk management framework to mitigate risk and loss to the Company. Under this framework we maintain policies, procedures and controls intended to identify, measure, monitor, report and analyze the risks to which the Company is exposed. There are, however, inherent limitations to risk management strategies because there may exist, or develop in the future, risks that we have not appropriately anticipated or identified. If our risk management framework bears out as to being ineffective, the Company may suffer unexpected losses and could be materially adversely affected.

As our business changes and the markets in which we operate evolve, our risk management framework may not advance at the same pace as those changes. As a result, there is a risk that new products or new business strategies may present risks that are not appropriately identified, monitored or managed. Many of our risk management strategies or techniques are based upon historical customer and market behavior and all such strategies and techniques are based to some degree on management's subjective judgment. We cannot provide assurance that our risk management framework, including the underlying assumptions or strategies, will be accurate and effective. Management of operational, legal and regulatory risks requires, among other things, policies, procedures and controls to record properly and verify a large number of transactions and events, and these policies, procedures and controls may not be fully effective. In addition, there can be no assurance that controls and procedures that we employ, which are designed to monitor associates' business decisions and prevent us from taking excessive or inappropriate risks, will be effective.

We are dependent upon effective information technology systems and the development and implementation of new technologies.

The Company's business operations are technology dependent for maintaining accurate records, administering complex contract provisions, and complying with increasingly demanding regulation. While systems developments can streamline many processes and in the long term reduce the cost of doing business, these initiatives can present short-term cost and implementation risks. Projections of expenses, implementation time frames and the ultimate enhancement values may be different from expectations and escalate over time. The Company also faces rising costs and time constraints in meeting data security compliance requirements of new and proposed regulations. These increased risks and expanding requirements expose the Company to potential data loss and damages and significant increases in compliance and litigation costs.

The Company relies heavily on its telecommunication and computer systems to conduct business, service customers, and produce financial statements. These systems may fail to operate properly or become disabled as a result of events wholly or in part beyond our control. Further, we are at risk of third party vendors and parties which the Company utilizes for services, or to which we outsource the provision of services, incurring operational or technology failures. While policies, procedures and back-up plans designed to prevent or minimize the effect of incapacity or failure are maintained, the Company's computer systems may be vulnerable to disruptions or breaches which cause operational difficulties, increased costs, or other adverse effects on our business. The Company's computer systems may be inaccessible to its employees, business partners, and customers for an extended period of time. Even if employees of the Company are able to report to work, they may be unable to perform their duties if the Company's data or systems are disabled or destroyed. The failure or incapacity of any of the Company's computer systems could potentially disrupt operations, damage our reputation and adversely impact our profitability. Unanticipated problems with our disaster recovery or business continuity plans and systems could have a material adverse impact on our ability to resume and conduct business.

Despite implementation of a program of security measures, our information technology and other systems could be subject to physical or electronic break-ins, unauthorized tampering or other security breaches. The Company retains confidential information on its systems, including customer information and proprietary business information, and relies on sophisticated commercial technologies and third parties to maintain the security of those systems and information. The increasing volume and sophistication of computer viruses, hackers and other external threats may increase the vulnerability of the Company's systems to data breaches. Even given our efforts to ensure the integrity of our systems, it is possible that we may not be able to anticipate all types of security breaches, especially in light of the ever-evolving techniques used by hackers, the inability to recognize invasive attacks until launched, and the capability of cyber attacks originating from a wide variety of sources. Anyone who is able to circumvent the Company's security measures could access, view, misappropriate, alter, or delete any information in the systems, including personally identifiable customer information, customer financial information, and proprietary business information. Security breaches or other technological failures may also produce regulatory inquiries, proceedings, litigation costs, and reputational damage. An increasing number of states require customers to be notified of any unauthorized access, use, or disclosure of their information. We may incur reimbursement and other expenses, including litigation settlements and other additional compliance costs.

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The Company's business is dependent on the ability to keep up to date with effective, secure and advanced technology systems to reach a large number of people, provide sizable amounts of information, and secure and store vast quantities of data through our technology systems. Some of the Company's information technology systems are older legacy-type systems and require an ongoing commitment of resources to maintain current standards. These legacy systems are written in older programming languages with which fewer and fewer individuals are knowledgeable of and trained in. The Company's success is in large part dependent on maintaining and enhancing the effectiveness of existing legacy systems until converting to newer technologies and failure of these systems for any reason could disrupt our operations, result in the loss of business and adversely impact our profitability.

Interruption in telecommunication, information technology and other operational systems, or a failure to maintain the security, confidentiality or privacy of sensitive data residing on such systems, whether due to actions by us or others, could delay or disrupt our ability to do business and service our customers, harm our reputation, result in a violation of applicable privacy and other laws, subject us to substantial regulatory sanctions and other claims, lead to a loss of customers and revenues or financial loss to our customers and otherwise adversely affect our business.

The Company could be adversely affected by changes to tax law or interpretations of existing tax law which could reduce the demand for certain insurance products.

The Internal Revenue Code (the "IRC") provides that income tax payable on investment earnings of certain life insurance and annuity products is deferred during the accumulation period of the policies/contracts until payments are made to the policyholder or other beneficiary giving certain of the Company's products a competitive advantage over other non-insurance products. In addition, life insurance death benefits paid under terms of the policy are generally exempt from income tax. If the IRC were amended to reduce or eliminate the tax-deferred status of life insurance and annuity products, all life insurance companies, including the Company, would be adversely affected with respect to the ability to sell these products. Such changes in tax law could make the tax advantages of investing in certain life insurance and annuity products less attractive and adversely affect our financial position and results of operations.

In addition, the Company is subject to federal corporate income taxes but receives the benefit of certain tax provisions, including but not limited to, dividends-received deductions and insurance reserve deductions. Due to a variety of factors including the current Federal budget deficit and ongoing proposals from the U.S. Department of Treasury, from time to time Congress and various state legislatures entertain revenue-raising proposals contrary to the life insurance industry, either by raising rates or otherwise changing tax rules, and there is a risk that federal tax legislation could be enacted lessening or eliminating some or all of the tax advantages currently benefiting the Company and result in higher taxes. The Tax Cuts and Job Act ("Tax Act") which was passed in December 2017, besides reducing the federal corporate income tax rate from 35% to 21%, amended certain tax items unique to the life insurance industry which serve to increase the Company's federal taxable income. Chief among these in the Tax Act were the capping of the amount of tax reserves that the Company could currently deduct below previous thresholds and increasing the amount of acquisition expenses the Company is required to defer for deduction to future periods.

The level of profitability of the Company's products is significantly dependent upon current tax law and the Company's ability to generate taxable income, which is incorporated into our product design and pricing. Consequently, changes in tax law could impact product pricing and returns or require the Company to reduce sales of certain products or otherwise implement other courses of action that could be disruptive to our business. The Company cannot predict what other changes to tax laws or interpretations of existing tax law may ultimately be enacted or adopted, or whether such changes will adversely affect the Company.

The Company may be required to establish a valuation allowance against its deferred tax assets which could materially affect the Company's results of operations and financial condition.

Differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases give rise to deferred tax assets. These deferred tax assets represent future tax savings that would otherwise be paid in cash. GAAP requires that such deferred tax assets be analyzed for their future realizability which is dependent upon the generation of sufficient future taxable income with which to utilize the deferred tax assets. If it is determined that it is more likely than not all or a portion of the deferred tax assets cannot be realized, then an offsetting valuation allowance must be established with a corresponding charge to net income.

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The Company's current assessment of future taxable income in combination with the consideration of available tax planning opportunities has determined that it is more likely than not that it will generate sufficient taxable income to realize its deferred tax assets. This assessment of the realizability of our deferred tax assets requires significant judgment. If future events deviate from the Company's current assessment and cause a failure to achieve our projections, a valuation allowance may need to be established which could have a material adverse effect on the Company's results of operations and financial condition. The Company's year-end net deferred tax assets reflect the top marginal corporate income tax rate of 21% prescribed by the Tax Act. Any future reduction in this rate would cause a further write-down of our deferred tax assets.

Competition for employees is intense and the Company may not be able to attract and retain highly skilled people needed to support its business.

The Company's success and ability to reach goals is dependent upon its ability to attract and retain qualified personnel. The market for qualified personnel is extremely competitive and the Company may not be able to hire or retain key people. The unexpected loss of services of one or more of the company's key personnel could have a material adverse effect on the Company's operations due to their skills, unique knowledge of our business, years of industry experience and the potential difficulty of quickly finding qualified replacements. The Company has largely managed to sustain lower than average employee turnover and retained valued employees with decades of experience in the Company's products, business and systems. However, as these individuals attain retirement age, the Company is exposed to the loss of cumulative knowledge in its operations. The Company's employees, including named executive officers, are not subject to employee contracts. Sales in our lines of business and our results of operations and financial condition could be materially adversely affected if the Company is unsuccessful in attracting and retaining qualified individuals or its recruiting and retention costs increase significantly.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

During 2016, National Western created a new operating entity, Braker P III, LLC ("BP III"), to own and manage the operations of an approximately 196,400 square foot commercial office building in Austin, Texas, which BP III acquired. The purchase price of the property was \$49.3 million, exclusive of closing costs and fees. The Company relocated its principal office to this facility during the fourth quarter of 2017, and currently occupy approximately 78,000 square feet. At December 31, 2018, all of the remaining space is leased by BP III to other third party tenants.

The Westcap Corporation, a wholly owned subsidiary of National Western, owns the Company's former office location in Austin, Texas and two buildings adjacent to it. During 2018, the two adjacent buildings were sold for in excess of \$2.9 million. The remaining building of approximately 72,000 square feet is currently available for sale. The Company's affiliate, Regent Care Building, LP, owns an approximately 63,000 square foot building in Reno, Nevada, which is leased and utilized by another of the Company's affiliates, Regent Care Operations, LP, for use in its nursing home operations. The Company's subsidiary, Regent Care San Marcos A-3 LP, owns an approximately 79,000 square foot building in San Marcos, Texas, which is also used in nursing home operations. Lease costs and related operating expenses for facilities of the Company's subsidiaries are currently not significant in relation to the Company's Consolidated Financial Statements. The intercompany lease costs related to The Westcap Corporation and the nursing homes have been eliminated for consolidated reporting purposes.

ITEM 3. LEGAL PROCEEDINGS

In the normal course of business, the Company is involved or may become involved in various legal actions in which claims for alleged economic and punitive damages have been or may be asserted, some for substantial amounts. In recent years, carriers offering life insurance and annuity products have faced litigation, including class action lawsuits, alleging improper product design, improper sales practices, and similar claims. The Company has been a defendant in prior years in such class action lawsuits. Given the uncertainty involved in these types of actions, the ability to make a reliable evaluation of the likelihood of an unfavorable outcome or an estimate of the amount of or range of potential loss is endemic to the particular circumstances and evolving developments of each individual matter on its own merits.

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National Western was the named defendant in the case of *Damaris Maldonado Vinas, et al. vs. National Western Life Insurance*, in which the plaintiffs, after National Western had paid the death benefits to the beneficiary (Francisco Iglesias-Alvarez) upon the annuitant's (Carlos Iglesias-Alvarez) death, sought to annul two annuity policies issued by National Western at the behest of Carlos Iglesias-Alvarez and which named Francisco Iglesias-Alvarez as their beneficiary. On March 31, 2016, the United States District Court for the District of Puerto Rico (the "Court") issued its Opinion and Order on the pending Motions for Summary Judgment submitted by the parties, and therein denied National Western's motion and granted plaintiffs' motion voiding the two annuities and requesting a refund of the premiums paid (\$2.9 million). National Western vigorously defended the case and believes that the Court's Opinion and Order is contrary to applicable law. As such, National Western filed a Motion for Reconsideration of Opinion and Order and Corresponding Judgment with the Court on April 27, 2016, which the Court denied on May 5, 2016. National Western filed a Notice of Appeal on June 10, 2016, filed its Appeal Brief on September 12, 2016, and oral arguments with the U.S. Court of Appeals for the First Circuit were held on March 9, 2017. On June 29, 2017, the Court of Appeals vacated the district court's judgment and remanded to the district court to determine whether it is nevertheless equitable for the case to proceed without Francisco Iglesias-Alvarez. Plaintiffs filed a Motion in Support of Determination in Equity and Good Conscience That Action Should Proceed Among Existing Parties Under Fed.R.Civ.P. 19(B) on September 14, 2017, and National Western filed its Opposition to Plaintiffs' Motion on October 27, 2017. On April 2, 2018 the Court asked the parties for additional briefing regarding the Court's jurisdiction over Francisco Iglesias-Alvarez, which the parties filed on April 30, 2018. On May 14, 2018, National Western filed its Opposition to Plaintiffs' Brief. Plaintiffs filed a Motion to Strike on May 22, 2018, which National Western opposed on June 4, 2018. On August 6, 2018, the Court issued an Opinion and Order dismissing plaintiffs' case without prejudice and plaintiffs filed a Notice of Appeal to the First Circuit Court of Appeals on September 4, 2018. The case settled in December of 2018 without an admission of liability by either party.

On September 28, 2017, a purported shareholder derivative lawsuit was filed in the 122nd District Court of Galveston County, State of Texas entitled Robert L. Moody, Jr. derivatively on behalf of National Western Life Insurance Company and National Western Life Group, Inc. v. Ross Rankin Moody, et al., naming certain current and former directors and current officers as defendants. The complaint challenges the directors' oversight of insurance sales to non-U.S. residents and alleges that the defendants breached their fiduciary duties in the conduct of their duties as board members by failing to act (i) on an informed basis and (ii) in good faith or with the honest belief that their actions were in the best interests of the Company. The complaint seeks an undetermined amount of damages, attorneys' fees and costs, and equitable relief, including the removal of the Company's Chairman and Chief Executive Officer and other board members and/or officers of the Company. The Company believes that the claims in the complaint are baseless and without merit, will vigorously defend this lawsuit, and will seek reimbursement of all legal costs and expenses from plaintiff. The Company believes, based on information currently available, that the final outcome of this lawsuit will not have a material adverse effect on the Company's business, results of operations, or consolidated financial position. The companies and directors filed their respective Pleas to the Jurisdiction ("Pleas") contesting the plaintiff's standing to even pursue this action, along with their Answers, on October 27, 2017. On December 14, 2017, plaintiff filed a Response to the Pleas and on December 21, 2017, the Court heard oral argument on the Pleas. Plaintiff then filed a First Amended Petition on January 11, 2018. The companies and directors filed a Supplement to the Pleas on January 30, 2018, to which plaintiff responded on February 1, 2018, and the companies and directors replied on February 9, 2018. On May 3, 2018, the Court issued a memorandum to all attorneys of record stating that the Court will grant the defendants' Pleas and asking the attorney for defendants to prepare and submit proposed orders/judgments granting the requested relief for consideration by the Court. The defendants filed such proposed order granting the Pleas on May 7, 2018. On May 16, 2018 the Court issued an Order granting the Pleas and dismissing Robert L. Moody, Jr.'s claims with prejudice, and plaintiff then filed a Motion to Transfer Venue ("MTTV"). Defendants filed an Application for Fees, seeking to recover defendants' legal costs and expenses from plaintiff, and a Response to the MTTV on June 8, 2018. In response plaintiff filed a Motion to Vacate, a Response to the Application for Fees, and their own Request for Attorney's Fees on July 5, 2018. Defendants filed a Response to the Motion to

Vacate and to plaintiff's Request for Attorney's Fees on July 11, 2018, and the Court heard oral arguments on July 16, 2018. Plaintiff filed supplemental briefing in support of their July 5, 2018 filings on July 25, 2018, and defendants filed their response to plaintiff's supplemental briefing on July 27, 2018. On August 8, 2018 the Court issued an Order denying plaintiff's Motion to Vacate. Pursuant to the Court's instructions, on October 5, 2018, defendants filed an Order Granting Application for Expenses. Defendants then filed a Motion for Entry of Final Judgment and a Request for Submission Date on Motion for Entry of Final Judgment on October 11, 2018, which the Court set as October 30, 2018. Plaintiff filed his Objection to Proposed Final Judgment and Objection to Proposed Order on Attorneys' Fees on October 25, 2018, to which defendants filed a response on October 30, 2018. On November 11, 2018, the Court issued its Final Judgment: ordering Plaintiff to pay the companies \$1,314,053.73 for reasonable and necessary fees and expenses; denying Plaintiff's Motion to Transfer Venue, and; dismissing Plaintiff's counterclaim. Plaintiff has appealed the Court's Final Judgment and that appeal is pending before the First District Court of Appeals in Houston, TX.

Although there can be no assurances, at the present time, the Company does not anticipate that the ultimate liability arising from such other potential, pending, or threatened legal actions will have a material adverse effect on the financial condition or operating results of the Company.

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Separately, Brazilian authorities commenced an investigation into possible violations of Brazilian criminal law in connection with the issuance of National Western insurance policies to Brazilian residents, and in assistance of such investigation a Commissioner appointed by the U.S. District Court for the Western District of Texas issued a subpoena upon the company in March of 2015 to provide information relating to such possible violations. No conclusion can be drawn at this time as to its outcome or how such outcome may impact the Company's business, results of operations or financial condition. National Western is cooperating with the relevant governmental authorities in regard to this matter.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY,
RELATED STOCKHOLDER MATTERS AND ISSUER
PURCHASES OF EQUITY SECURITIES****Market Information**

The Class A common stock of National Western Life Group, Inc. ("NWLGI" or the "Company") is listed for trading on The NASDAQ - Stock Market® ("Nasdaq") under the symbol "NWLI". The quarterly high and low sales prices for the Company's common stock for each quarter during the past two calendar years as reported on Nasdaq, and the cash dividends declared per common share, are shown in the following table.

Class A Common Stock Data (per share)	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter
2018:				
High	\$ 343.22	328.53	335.00	329.00
Low	276.00	287.00	304.65	260.65
Dividends Declared	—	—	—	0.36
2017:				
High	\$ 331.70	332.00	352.03	368.00
Low	287.10	294.39	318.84	329.53
Dividends Declared	—	—	—	0.36

There is no established public trading market for the NWLGI's Class B common stock.

Equity Security Holders

The number of stockholders of record on February 28, 2019 was as follows:

Class A Common Stock 2,497
Class B Common Stock 2

Dividends

Class B common stockholders receive dividends at one-half the per share amount declared on Class A common stock. During 2018, NWLGI paid cash dividends on its Class A and Class B common stock in the amounts of \$1.2 million and \$36,000, respectively. During 2017, the Company also paid cash dividends on its Class A and Class B common stock in the amounts of \$1.2 million and \$36,000, respectively. Payment of dividends is within the discretion of the Company's Board of Directors.

Payment of dividends by National Western Life Insurance Company ("National Western") to NWLGI, as sole owner, are also within the discretion of National Western's Board of Directors, but are subject to prescribed limitations set by the Colorado Division of Insurance without prior approval. The Company's general policy is to reinvest earnings internally to finance the development of new business, provide for potential acquisitions, and to lend support to its financial strength ratings assigned by independent rating agencies. In the years ended December 31, 2018 and 2017, National Western declared and paid dividends to NWLGI in the amounts of \$6.0 million and \$7.0 million, respectively, to fund the operations of the holding company.

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Securities Authorized For Issuance Under Equity Compensation Plans

The Company has two equity compensation plans that were approved by security holders. These plans were assumed by NWLGI from National Western in 2015 pursuant to the terms of the reorganization. The plan approved in 1995 terminated in 2010 while the plan approved in 2008 was amended, restated and approved by stockholders of NWLGI in June 2016 extending its term for ten years from the date of stockholder approval. Under these plans, there are no outstanding options at December 31, 2018 which would otherwise entitle option holders to shares. At December 31, 2018, 291,000 shares of Class A common stock remain available for future issuance under the remaining plan.

Performance Graph

The following graph compares the change in the Company's cumulative total stockholder return on its common stock with the NASDAQ - U.S. Companies Index and the NASDAQ - Insurance Stock Index. The graph assumes that the value of the Company's Class A common stock and each index was \$100 at December 31, 2013, and that all dividends were reinvested.

Issuer Purchases of Equity Securities

Effective August 22, 2008, National Western adopted and implemented a limited stock buy-back program associated with the company's 2008 Incentive Plan which provides Option Holders the additional alternative of selling shares acquired through the exercise of options directly back to the company. This program succeeded a similar buy-back program implemented March 10, 2006 associated with the company's 1995 Stock Option and Incentive Plan. The programs provide Option Holders with the ability to elect to sell acquired shares back to the company at any time within ninety (90) days after the exercise of options at the prevailing market price as of the date of notice of election. These plans and program were assumed by NWLGI from National Western in 2015 pursuant to the terms of the holding company reorganization. As of December 31, 2018, there are no options outstanding under these plans.

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The following table sets forth the Company's issuance and repurchase activity of its Class A common shares from Option Holders for the quarter ended December 31, 2018.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May yet Be Purchased Under the Plans or Programs
October 1, 2018 through October 31, 2018	—	\$ —	N/A	N/A
November 1, 2018 through November 30, 2018	—	\$ —	N/A	N/A
December 1, 2018 through December 31, 2018	—	\$ —	N/A	N/A
Total	—	\$ —	N/A	N/A

Purchased shares are reported in the Company's Consolidated Financial Statements as authorized and unissued.

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The following five-year financial summary includes comparative amounts derived from the audited Consolidated Financial Statements. (1)

	Years Ended December 31,				
	2018	2017	2016	2015	2014
	(In thousands except per share amounts)				
<i>Earnings Information:</i>					
Revenues:					
Universal life and annuity contract charges	\$ 155,205	159,968	163,447	155,608	150,596
Traditional life premiums	18,291	18,962	19,276	19,699	19,519
Net investment income	349,077	659,685	467,674	379,114	505,430
Other revenues	20,603	21,070	18,901	28,166	21,630
Net realized investment gains (losses)	8,423	14,763	13,070	7,209	11,605
Total revenues	551,599	874,448	682,368	589,796	708,780
Benefits and expenses:					
Life and other policy benefits	65,297	71,485	65,529	67,452	54,295
Amortization of deferred policy acquisition costs	114,771	114,387	121,139	120,333	115,154
Universal life and annuity contract interest	136,055	437,019	248,390	176,901	298,259
Other operating expenses	93,969	107,002	94,448	78,442	83,551
Total benefits and expenses	410,092	729,893	529,506	443,128	551,259
Earnings before Federal income taxes	141,507	144,555	152,862	146,668	157,521
Federal income taxes	24,749	34,134	51,970	48,272	51,933
Net earnings	\$ 116,758	110,421	100,892	98,396	105,588
<i>Basic Earnings Per Share:</i>					
Class A	\$33.02	31.23	28.53	27.83	29.87
Class B	\$16.51	15.61	14.27	13.91	14.93
<i>Diluted Earnings Per Share:</i>					
Class A	\$33.02	31.23	28.53	27.82	29.85
Class B	\$16.51	15.61	14.27	13.91	14.93
<i>Balance Sheet Information:</i>					
Total assets	\$ 11,931,691	12,225,094	11,894,981	11,612,576	11,351,892
Total liabilities	\$ 10,030,914	10,392,920	10,173,153	10,000,590	9,795,572
Stockholders' equity	\$ 1,900,777	1,832,174	1,721,828	1,611,986	1,556,320
Book value per common share	\$522.76	503.88	473.53	443.32	428.01

(1) See Note 1 Summary of Significant Accounting Policies to the Consolidated Financial Statement for reorganization effective October 1, 2015.

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**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. Certain information contained herein or in other written or oral statements made by or on behalf of the Company or its subsidiaries are or may be viewed as forward-looking. Although the Company has taken appropriate care in developing any such information, forward-looking information involves risks and uncertainties that could significantly impact actual results. These risks and uncertainties include, but are not limited to, matters described in the Company's SEC filings such as exposure to market risks, anticipated cash flows or operating performance, future capital needs, and statutory or regulatory related issues. However, as a matter of policy, the Company does not make any specific projections as to future earnings, nor does it endorse any projections regarding future performance that may be made by others. Whether or not actual results differ materially from forward-looking statements may depend on numerous foreseeable and unforeseeable events or developments. Also, the Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future developments, or otherwise.

Management's discussion and analysis of the financial condition and results of operations ("MD&A") of National Western Life Group, Inc. for the three years ended December 31, 2018 follows. Where appropriate, discussion specific to the insurance operations of National Western Life Insurance Company is denoted by "National Western" or "company". This discussion should be read in conjunction with the Company's Consolidated Financial Statements and related notes beginning on page 85 of this report.

Overview

National Western has historically provided life insurance products on a global basis for the savings and protection needs of policyholders and issued annuity contracts for the asset accumulation and retirement needs of contract holders, both domestic and international residents. As disclosed in the Form 10-Q filed for the quarter ended March 31, 2018, the company discontinued accepting applications for the company's international products from foreign residents in May 2018.

The company accepts funds from policyholders or contract holders and establishes a liability representing future obligations to pay the policy or contract holders and their beneficiaries. To ensure the company will be able to pay these future commitments, the funds received as premium payments and deposits are invested in high quality investments, primarily fixed income securities.

Due to the business of accepting funds to pay future obligations in later years and the underlying economics, the relevant factors affecting the Company's overall business and profitability include the following:

- the level of sales and premium revenues collected
- persistence of policies and contracts
- return on investments sufficient to produce acceptable spread margins over interest crediting rates
- investment credit quality which minimizes the risk of default or impairment
- levels of policy benefits and costs to acquire business
- the level of operating expenses
- effect of interest rate changes on revenues and investments including asset and liability matching

maintaining adequate levels of capital and surplus

corporate tax rates and the treatment of financial statement items under tax rules and accounting

actual levels of surrenders, withdrawals, claims and interest spreads

changes in assumptions for amortization of deferred policy acquisition expenses and deferred sales inducements

changes in the fair value of derivative index options and embedded derivatives pertaining to fixed-index life and annuity products

pricing and availability of adequate counterparties for reinsurance and index option contracts

litigation subject to unfavorable judicial development, including the time and expense of litigation

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The Company monitors these factors continually as key business indicators. The discussion that follows in this Item 7 includes these indicators and presents information useful to an overall understanding of the Company's business performance in 2018, incorporating required disclosures in accordance with the rules and regulations of the SEC.

Impact of Recent Business Environment

The Company's business is generally aided by an economic environment experiencing growth, whether moderate or vibrant, characterized by metrics which indicate improving employment data and increases in personal income growth. The consensus view at this time is for GDP growth to moderate during 2019 as the Federal Reserve delays raising rates at least for the first half of the year in its attempt to engineer an economic soft-landing. Risk of recession over the next couple of years is elevated compared to previous outlooks. While there is minimal slack in the labor market, inflation expectations continue to be muted. Accordingly, the probability of entering a high-inflation period remains remote.

With regard to the credit market, industry analysts and observers generally agree that a sudden jump in interest rate levels, while presently a highly unlikely scenario, would be harmful to life insurers with interest-sensitive products as it could provide an impetus for abnormal levels of product surrenders and withdrawals at the same time fixed debt securities held by insurers declined in market value. The Federal Reserve has more recently tilted toward a slightly dovish policy. Their challenge continues to be calibrating the last stretch of their normalization efforts to facilitate a soft-landing while market volatility edges up and growing concerns about financial stability emerge. The baseline view call for two rate increases in 2019 with an end rate of 3.0% for short-term rates. However, the direction and at what pace interest rate movements may occur in the future is ultimately uncertain and subject to change. What impact, if any, such movements would have on the Company's business, results of operations, cash flows or financial condition is indeterminate.

The U.S. life insurance sector today is faced with an interest rate, economic and regulatory environment making strategic long-term planning decisions more challenging and vulnerable to inaccurate assessments. In an environment such as this, the need for a strong capital position that can cushion against unexpected bumps is critical for stability and ongoing business activity. The Company's operating strategy continues to be focused on maintaining capital levels substantially above regulatory and rating agency requirements. Our business model is predicated upon steady growth in invested assets while managing the block of business within profitability objectives. A key premise of our financial management is maintaining a high quality investment portfolio, well matched in terms of duration with policyholder obligations, that continues to outperform the industry with respect to adverse impairment experience. This discipline enables the Company to sustain resources more than adequate to fund future growth and absorb abnormal periods of cash outflows.

Critical Accounting Policies

Accounting policies discussed below are those considered critical to an understanding of the Company's financial statements.

Impairment of Investment Securities. The Company's accounting policy requires that a decline in the value of a security below its amortized cost basis be evaluated to determine if the decline is other-than-temporary. The primary factors considered in evaluating whether a decline in value for fixed income and equity securities is other-than-temporary include: (a) the length of time and the extent to which the fair value has been less than cost, (b) the reasons for the decline in value (credit event, interest rate related, credit spread widening), (c) the overall financial condition as well as the near-term prospects of the issuer, (d) whether the debtor is current on contractually obligated principal and interest payments, and (e) that the Company does not intend or be required to sell the investment prior to

recovery. In addition, certain securitized financial assets with contractual cash flows are evaluated periodically by the Company to update the estimated cash flows over the life of the security. If the Company determines that the fair value of the securitized financial asset is less than its carrying amount and there has been a decrease in the present value of the estimated cash flows since the previous purchase or prior impairment, then an other-than-temporary impairment charge is recognized. The Company would recognize impairment of securities due to changing interest rates or market dislocations only if the Company intended to sell the securities prior to recovery. When a security is deemed to be impaired, a charge is recorded equal to the difference between the fair value and amortized cost basis of the security. In compliance with GAAP guidance the estimated credit versus the non-credit components are bifurcated, and the non-credit component is reclassified as unrealized losses in other comprehensive income. Once an impairment charge has been recorded, the fair value of the impaired investment becomes its new cost basis and the Company continues to review the other-than-temporarily impaired security for appropriate valuation on an ongoing basis. However, the new cost basis of an impaired security is not adjusted for subsequent increases in estimated fair value.

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Deferred Policy Acquisition Costs (“DPAC”). The Company is required to defer certain policy acquisition costs and amortize them over future periods. These costs include commissions and certain other expenses that vary with and are directly associated with acquiring new business. The deferred costs are recorded as an asset commonly referred to as deferred policy acquisition costs. The DPAC asset balance is subsequently charged to income over the lives of the underlying contracts in relation to the anticipated emergence of revenue or profits. Actual revenue or profits can vary from Company estimates resulting in increases or decreases in the rate of amortization. The Company performs regular evaluations of its universal life and annuity contracts to determine if actual experience or other evidence suggests that earlier estimates should be revised. Assumptions considered significant include surrender and lapse rates, mortality, expense levels, investment performance, and estimated interest spread. Should actual experience dictate that the Company change its assumptions regarding the emergence of future revenues or profits (commonly referred to as “unlocking”), the Company would record a charge or addition to bring its DPAC balance to the level it would have been if using the new assumptions from the inception date of each policy.

DPAC is also subject to periodic recoverability and loss recognition testing. These tests ensure that the present value of future contract-related cash flows will support the capitalized DPAC balance to be amortized in the future. The present value of these cash flows, less the benefit reserve, is compared with the unamortized DPAC balance and if the DPAC balance is greater, the deficiency is charged to expense as a component of amortization and the asset balance is reduced to the recoverable amount. For more information about accounting for DPAC see Note 1, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements.

Deferred Sales Inducements. Costs related to sales inducements offered on sales to new customers, principally on investment type contracts and primarily in the form of additional credits to the customer’s account value or enhancements to interest credited for a specified period, which are beyond amounts currently being credited to existing contracts, are deferred and recorded as other assets. All other sales inducements are expensed as incurred and included in interest credited to contract holders’ funds. Deferred sales inducements are amortized to income using the same methodology and assumptions as DPAC, and are included in interest credited to contract holders’ funds. Deferred sales inducements are also periodically reviewed for recoverability. For more information about accounting for deferred sales inducements see Note 1, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements.

Future Policy Benefits. Because of the long-term nature of insurance contracts, the Company is liable for policy benefit payments many years into the future. The liability for future policy benefits represents estimates of the present value of the Company’s expected benefit payments, net of the related present value of future net premium collections. For traditional life insurance contracts, this is determined by standard actuarial procedures, using assumptions as to mortality (life expectancy), morbidity (health expectancy), persistency, and interest rates, which are based on the Company’s experience with similar products. The assumptions used are those considered to be appropriate at the time the policies are issued. An additional provision is made on most products to allow for possible adverse deviation from the assumptions assumed. For universal life and annuity products, the Company’s liability is the amount of the contract’s account balance. Account balances are also subject to minimum liability calculations as a result of minimum guaranteed interest rates in the policies. While management and National Western actuaries have used their best judgment in determining the assumptions and in calculating the liability for future policy benefits, there is no assurance that the estimate of the liabilities reflected in the financial statements represents the Company’s ultimate obligation. In addition, significantly different assumptions could result in materially different reported amounts. A discussion of the assumptions used to calculate the liability for future policy benefits is reported in Note 1, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements.

Revenue Recognition. Premium income for the Company’s traditional life insurance contracts is generally recognized as the premium becomes due from policyholders. For annuity and universal life contracts, the amounts collected from

policyholders are considered deposits and are not included in revenue. For these contracts, fee income consists of policy charges for policy administration, cost of insurance charges and surrender charges assessed against policyholders' account balances which are recognized in the period the services are provided.

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Investment activities of the Company are integral to its insurance operations. Since life insurance benefits may not be paid until many years into the future, the accumulation of cash flows from premium receipts are invested with income reported as revenue when earned. Anticipated yields on investments are reflected in premium rates, contract liabilities, and other product contract features. These anticipated yields are implied in the interest required on the Company's net insurance liabilities (future policy benefits less deferred acquisition costs) and contractual interest obligations in its insurance and annuity products. The Company benefits to the extent actual net investment income exceeds the required interest on net insurance liabilities and manages the rates it credits on its products to maintain the targeted excess or "spread" of investment earnings over interest credited. The Company will continue to be required to provide for future contractual obligations in the event of a decline in investment yield. For more information concerning revenue recognition, investment accounting, and interest sensitivity, please refer to Note 1, Summary of Significant Accounting Policies; Note 3, Investments, in the Notes to Consolidated Financial Statements; and the discussions under Investments in Item 7 of this report.

Pension Plans and Other Postretirement Benefits. The Company sponsors a qualified defined benefit pension plan, which was frozen effective December 31, 2007, covering substantially all employees at that time, and three non-qualified defined benefit plans covering certain senior officers. In addition, the Company has postretirement health care benefits for certain senior officers. The freeze of the qualified benefit pension plan ceased future benefit accruals to all participants and closed the Plan to any new participants. In addition, all participants became immediately 100% vested in their accrued benefits as of that date. In accordance with prescribed accounting standards, the Company annually reviews plan assumptions.

The Company annually reviews its pension benefit plans' assumptions which include the discount rate, the expected long-term rate of return on plan assets, and the compensation increase rate. The assumed discount rate is set based on the rates of return on high quality long-term fixed income investments currently available and expected to be available during the period to maturity of the pension benefits. The assumed long-term rate of return on plan assets is generally set at the rate expected to be earned based on the long-term investment policy of the plans, the various classes of the invested funds, input of the plan's investment advisors and consulting actuary, and the plan's historic rate of return. The compensation rate increase assumption is generally set at a rate consistent with current and expected long-term compensation and salary policy, including inflation. These assumptions involve uncertainties and judgment, and therefore actual performance may not be reflective of the assumptions.

Other postretirement benefit assumptions include future events affecting retirement age, mortality, dependency status, per capita claims costs by age, health care trend rates, and discount rates. Per capita claims cost by age is the current cost of providing postretirement health care benefits for one year at each age from the youngest age to the oldest age at which plan participants are expected to receive benefits under the plan. Health care trend rates involve assumptions about the annual rate(s) of change in the cost of health care benefits currently provided by the plan, due to factors other than changes in the composition of the plan population by age and dependency status. These rates implicitly consider estimates of health care inflation, changes in utilization, technological advances, and changes in health status of the participants.

Share-Based Payments. Liability awards under a share-based payment arrangement have been measured based on the awards' fair value at the reporting date. The Black-Scholes valuation method is used to estimate the fair value of the options. This fair value calculation of the options includes assumptions relative to the following:

- exercise price
- expected term based on contractual term and perceived future behavior relative to exercise
- current price
- expected volatility

risk-free interest rates
expected dividends

These assumptions are continually reviewed by the Company and adjustments may be made based upon current facts and circumstances.

Other significant accounting policies, although not involving the same level of measurement uncertainties as those discussed above, but nonetheless important to an understanding of the financial statements, are described in Note 1, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements.

Table of Contents**RESULTS OF OPERATIONS**

The Company's Consolidated Financial Statements are prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). In addition, the Company regularly evaluates operating performance using non-GAAP financial measures which exclude or segregate derivative and realized investment gains and losses from operating revenues. Similar measures are commonly used in the insurance industry in order to assess profitability and results from ongoing operations. The Company believes that the presentation of these non-GAAP financial measures enhances the understanding of the Company's results of operations by highlighting the results from ongoing operations and the underlying profitability factors of the Company's business. The Company excludes or segregates derivative and realized investment gains and losses because such items are often the result of events which may or may not be at the Company's discretion and the fluctuating effects of these items could distort trends in the underlying profitability of the Company's business. Therefore, in the following sections discussing consolidated operations and segment operations, appropriate reconciliations have been included to report information management considers useful in enhancing an understanding of the Company's operations to reportable GAAP balances reflected in the Consolidated Financial Statements.

Consolidated Operations

Revenues. The following details Company revenues:

	Years Ended December 31,		
	2018	2017	2016
	(In thousands)		
Universal life and annuity contract charges	\$ 155,205	159,968	163,447
Traditional life premiums	18,291	18,962	19,276
Net investment income (excluding derivatives)	429,081	436,810	439,310
Other revenues	20,603	21,070	18,900
Operating revenues	623,180	636,810	640,933
Derivative gain (loss)	(80,004)	222,875	28,364
Net realized investment gains (losses)	8,423	14,763	13,070
Total revenues	\$551,599	874,448	682,367

Universal life and annuity contract revenues - Revenues for universal life and annuity contract charges decreased in 2018 compared to 2017 due to lower surrender charge revenue from terminated policies and lower cost of insurance and administrative charges as shown below. Revenues for universal life and annuity products consist of policy charges for the cost of insurance, administration charges, and surrender charges assessed against policyholder account balances, less reinsurance premiums as depicted in the following table.

	Years Ended December 31,		
	2018	2017	2016
	(In thousands)		
Cost of insurance and administrative charges	\$ 129,591	134,884	133,997
Surrender charges	37,138	42,061	44,828
Other charges	6,040	(173)	856

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Gross contract revenues	172,769	176,772	179,681
Reinsurance premiums	(17,564)	(16,804)	(16,234)
Net contract charges	\$155,205	159,968	163,447

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Cost of insurance charges were \$105.9 million in 2018 compared to \$107.5 million in 2017 and \$106.2 million in 2016. Cost of insurance charges typically trend with the size of the universal life insurance block in force and the amount of new business issued during the period. The volume of universal life insurance in force during 2018 decreased to \$15.6 billion from \$16.5 billion during 2017. Cost of insurance charges in 2017 showed an increase over the previous year due to the company increasing its cost of insurance charges during 2016 in accordance with its policy provisions on certain blocks of international life insurance policies. These increases were in effect for the entirety of 2017 and helped to mitigate the decline in insurance in force from 2016. Administrative charges were \$23.7 million, \$27.4 million, and \$27.8 million for the years ended December 31, 2018, 2017 and 2016, respectively, and correlate with new universal life insurance business sales by the number of policies placed, the amount of premiums received and the volume of insurance issued. National Western's decision in May 2018 to cease accepting international policy applications from residents of other countries significantly decreased the level of universal life insurance sales.

Surrender charges assessed against policyholder account balances upon withdrawal were \$37.1 million in 2018 compared to \$42.1 million in 2017 and \$44.8 million in 2016. While the Company earns surrender charge income that is assessed upon policy terminations, the Company's overall profitability is enhanced when policies remain in force and additional contract revenues are realized and the Company continues to make an interest rate spread equivalent to the difference it earns on its investment and the amounts that it credits to policyholders. Policy lapse rates in 2018 for domestic life insurance and annuities segments were somewhat higher than those experienced in 2017 while the international life segment exhibited lower lapse rates. A spike in surrender charge income recognized occurred in 2016 reflecting a higher international life insurance lapse rate, most noticeably in the countries from which the Company ceased accepting applications from residents in the fourth quarter of 2015. Surrender charge income recognized is also dependent upon the duration of policies at the time of surrender (i.e. later duration policy surrenders have lower surrender charges assessed and earlier policy surrenders have a higher surrender charge assessed).

The growth in domestic life insurance sales the past several years has been driven principally by the sale of single premium life insurance products. In 2013, the Company began deferring the premium load associated with these products and spreading it over future income periods. The 2018 amount shown above as "Other charges" represents the net of previously capitalized amounts being amortized into revenue over current year deferrals of premium loads. Sales of single premium life insurance products have been a substantial portion of the company's new business over the past several years and has generated a higher balance of premium loads being amortized as revenue.

Traditional life premiums - Traditional life premiums have been relatively level over the past three years. Traditional life insurance premiums for products such as whole life and term life are recognized as revenues over the premium-paying period. A sizable portion of traditional life business resides in the International Life insurance segment which ceased accepting new applications in the second quarter of 2018. The Company's overall life insurance sales focus has been primarily centered around universal life products. Universal life products, especially the Company's equity-index universal life products, which offer the opportunity for consumers to acquire life insurance protection and receive credited interest linked in part to an outside market index such as the S&P 500 Index®, have been more popular product offerings in the Company's markets representing 95% of new life insurance sales in 2018.

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Net investment income (with and without derivatives) - A detail of net investment income is provided below.

	Years Ended December 31,		
	2018	2017	2016
	(In thousands)		
Gross investment income:			
Debt and equities	\$399,645	409,401	416,638
Mortgage loans	12,066	11,045	7,964
Policy loans	3,185	3,485	3,700
Short-term investments	2,249	1,012	668
Other invested assets	13,289	13,137	11,432
Total investment income	430,434	438,080	440,402
Less: investment expenses	1,353	1,270	1,092
Net investment income (excluding derivatives)	429,081	436,810	439,310
Derivative gain (loss)	(80,004)	222,875	28,364
Net investment income	\$349,077	659,685	467,674

Effective January 1, 2018, new accounting guidance requires that changes in fair values of equity securities be included in the Consolidated Statements of Earnings. For the year ended December 31, 2018, an unrealized (loss) of (\$1.8) million is included in net investment income (in the Debt and equities line item in the above table) reflecting the change in fair value during the period. The carrying value of the Company's portfolio of equity securities was \$17.5 million at December 31, 2018.

Debt and equity securities generated approximately 93% of total investment income, excluding derivative gains and losses, in 2018 consistent with prior years. The Company's strategy is to invest substantially all of its cash flows in fixed debt securities within its guidelines for credit quality, duration, and diversification. The Company's investable funds are derived from incremental cash flow from new business and investment income from its portfolio above its operational requirements to pay policy benefits, commissions, and expenses. The debt securities portfolio grew from \$10.2 billion at December 31, 2016 to \$10.3 billion at December 31, 2017, but declined to \$10.2 billion at December 31, 2018 as cash balances were being built in anticipation of closing an acquisition in early 2019. Investment yields on new bond purchases in 2018 exceeded the portfolio's weighted average yield for the first time in the current decade. The portfolio weighted average yield was approximately 3.90% at December 31, 2018, while the yield on debt security purchases to fund insurance operations increased to 4.20% in 2018 from 3.57% in 2017. Although the yield on new purchases increased in 2018, bond portfolio returns continued to be impacted by higher yielding debt securities maturing or being called by borrowers with the proceeds being reinvested into lower yielding securities.

The Company's new mortgage loan activity has been relatively low for a number of years given the low level of rates and the higher level of risk associated with commercial properties in this economic environment. Due to a concerted effort, the volume of new mortgage loan originations during 2017 and 2016 increased from prior year levels, however, aggressive interest rates offered by competitors served to hold down new loan originations in 2018. Mortgage loan investment income in 2018 and 2017 benefited from incremental contributions from loan prepayment fees and profit participation receipts during the year. Policy loan and other invested asset balances outstanding have remained

relatively stable over the past few years. As noted above, the company maintained elevated short-term investment balances during the latter part of 2018 in anticipation of closing the acquisition of target companies in early 2019.

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In order to evaluate underlying profitability and results from ongoing operations, net investment income performance is analyzed excluding derivative gain (loss), which is a common practice in the insurance industry. Net investment income and average invested assets shown below includes cash and cash equivalents. Net investment income performance is summarized as follows:

	Years Ended December 31,		
	2018	2017	2016
	(In thousands except percentages)		
Excluding derivatives:			
Net investment income	\$429,081	436,810	439,310
Average invested assets, at amortized cost	\$10,758,315	10,623,632	10,406,589
Annual yield on average invested assets	3.99	% 4.11	% 4.22
			%
Including derivatives:			
Net investment income	\$349,077	659,685	467,674
Average invested assets, at amortized cost	\$10,863,022	10,781,320	10,486,115
Annual yield on average invested assets	3.21	% 6.12	% 4.46
			%

The decline in average invested asset yield, excluding derivatives, from 2016 to 2017 and to 2018 is due to the Company continuing to obtain low yields on newly invested cash inflows as higher yielding assets mature or are called. The pattern in average invested asset yield, including derivatives, incorporates increases and decreases in the fair value of index options purchased by the company to support its fixed-index products. Fair values of the purchased call options recorded net gains in 2017 and 2016 while recording a loss in 2018 corresponding to the movement in the S&P 500 Index[®] during these periods (the primary index the Company's fixed-index products employ). Refer to the derivatives discussion following this section for a more detailed explanation.

Other revenues - Other revenues primarily pertain to the Company's two nursing home operations in Reno, Nevada and San Marcos, Texas. Revenues associated with these operations were \$17.2 million, \$18.2 million and \$18.2 million in 2018, 2017 and 2016, respectively. Beginning in 2017, other revenues also includes the operations of Braker P III ("BP III"), a new subsidiary created at the end of 2016 to own and manage a commercial office building it acquired (Refer to Item 2. Properties in Part I of this filing for further discussion). Revenues associated with BP III were \$3.2 million and \$1.5 million in December 31, 2018 and 2017, respectively, reflecting additional tenant leases executed. Other revenues also includes the annual revaluation of the fair value of the life interest in the Libbie Shearn Moody Trust.

Derivative gain (loss) - Index options are derivative financial instruments used to hedge the equity return component of the Company's fixed-index products. Derivative gain or loss includes the amounts realized from the sale or expiration of the options. Since the index options do not meet the requirements for hedge accounting under GAAP, they are marked to fair value on each reporting date and the resulting unrealized gain or loss is reflected as a component of net investment income.

Gains and losses from index options are substantially due to changes in equity market conditions. Index options are intended to act as hedges to match the returns on the product's underlying reference index and the rise or decline in the index relative to the index level at the time of the option purchase which causes option values to likewise rise or decline. As income from index options fluctuates with the underlying index, the contract interest expense to policyholder accounts for the Company's fixed-index products also fluctuates in a similar manner and direction. During 2017 and 2016, the reference indices increased and the Company recorded each year an overall gain

from index options with a corresponding increase in contract interest expense in an amount relative to the gains recorded. In 2018, the reference indices decreased and an overall loss from index options was incurred and contract interest expense similarly declined.

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The table below summarizes the derivative gain (loss) amounts and total contract interest by year.

	Years Ended December 31,		
	2018	2017	2016
	(In thousands)		
Derivatives:			
Unrealized gain (loss)	\$(191,654)	74,607	92,559
Realized gain (loss)	111,650	148,268	(64,195)
Total gain (loss) included in net investment income	\$(80,004)	222,875	28,364
Total contract interest	\$136,055	437,019	248,390

The economic impact of option performance in the Company's financial statements is not generally determined solely by the option gain or loss included in net investment income as there is a corresponding amount recorded in the contract interest expense line. Rather, the Company's profitability with respect to these options is dependent upon the purchase cost of the option remaining within the financial budget for acquiring options embedded in the product pricing. Option prices vary with interest rates, volatility, and dividend yields among other things. As option prices vary, the Company manages for the variability by making offsetting adjustments to product caps, participation rates, and management fees. For the periods shown, the Company's option costs have generally been within the product pricing budgets.

The financial statement investment spread, the difference between investment income and interest credited to contractholders, is subject to variations from option performance during any given period. For example, many of the company's equity-index annuity products provide for the collection of asset management fees. These asset management fees are assessed when returns on expiring options are positive, and they are collected prior to passing any additional returns above the assessed management fees to the policy contractholders. During periods of positive returns, the collected asset management fees serve to increase the financial statement spread by increasing option realized gains reported as investment income in an amount greater than interest credited to policy contractholders which is reported as contract interest expense. Asset management fees collected in 2018, 2017, and 2016 were \$24.3 million, \$31.8 million, and \$6.4 million, respectively.

Net realized investment gains (losses) - Realized gains (losses) on investments include proceeds on bond calls and sales as well as impairment write-downs on investments in debt securities, mortgage loans, and real estate. The net investment gains reported in 2018 consisted of gross gains of \$8.5 million, primarily from calls of debt securities, offset by gross losses of \$0.0 million, which included no other-than-temporary impairment losses. Included in the gross gains in 2018 is the sale of previously occupied home office property located in Austin, Texas of approximately of \$1.8 million. Included in the gross gains in 2017 is approximately \$2.3 million realized from a partial sale of the Company's previous home office land property to the Texas Department of Transportation to be used in the construction of roadway expansion.

The Company records impairment write-downs when a decline in value is considered to be other-than-temporary and full recovery of the investment is not expected. Impairments due to credit factors are recorded in the Company's Consolidated Statements of Earnings while non-credit (liquidity) impairment losses are included in the Consolidated Statements of Comprehensive Income (Loss).

Equity impairments (common stocks) represent a mark-to-market write-down on securities in which the market discount to book value was considered significant and had been maintained for several reporting periods. Prior to 2018, market value changes in equity security holdings were recorded through Other Comprehensive Income as a component of Stockholders' Equity. Effective January 1, 2018, the accounting guidance for equity securities was amended requiring that market value changes be recorded as a component of investment income in the Consolidated Statements of Earnings in the period of change. This guidance caused the impairment analysis of equity securities to be not applicable going forward. Equity securities represent 0.2% of invested assets and individual holdings have an average cost basis of approximately \$84,000.

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Benefits and Expenses. The following details benefits and expenses.

	Years Ended December 31,		
	2018	2017	2016
	(In thousands)		
Life and other policy benefits	\$65,297	71,485	65,529
Amortization of deferred policy acquisition costs	114,771	114,387	121,139
Universal life and annuity contract interest	136,055	437,019	248,390
Other operating expenses	93,969	107,002	94,448
Totals	\$410,092	729,893	529,506

Life and other policy benefits - Life and other policy benefits include death claims of \$44.9 million, \$38.6 million and \$31.3 million for 2018, 2017 and 2016, respectively. While death claim amounts are subject to variation from period to period, the Company's mortality experience has generally been consistent with or better than its product pricing assumptions. Mortality exposure is managed through reinsurance treaties under which the Company's retained maximum net amount at risk on any one life is capped at \$500,000.

Life and other policy benefits also includes policy liabilities held associated with the company's traditional life products, including riders such as the company guaranteed minimum withdrawal benefit rider ("WBR"), a popular rider to its equity-indexed annuity products. The increases in these liabilities were \$7.3 million, \$17.9 million, and \$17.5 million in 2018, 2017, and 2016, respectively. In 2018, the company unlocked its policy benefit reserves associated with the WBR which resulted in a decrease to the policy benefit liability (and policy benefit expenses) during the period of \$15.7 million. The primary unlocking adjustment included within this amount was an adjustment of the assumed rate of election by policyholders taking withdrawal payments to a rate consistent with actual experience (which was lower than that previously assumed). In 2016, the company also recorded a prospective unlocking adjustment of WBR, the effect of which was to decrease WBR reserves by \$3.1 million which decreased life and other policy benefits by a like amount.

Amortization of deferred policy acquisition costs - Life insurance companies are required to defer certain expenses that vary with, and are primarily related to, the cost of acquiring new business. The majority of these acquisition expenses consist of commissions paid to agents, underwriting costs, and certain marketing expenses. Recognition of these deferred policy acquisition costs ("DPAC") as an expense in the Consolidated Financial Statements occurs over future periods in relation to the expected emergence of profits priced into the products sold. This emergence of profits is based upon assumptions regarding premium payment patterns, mortality, persistency, investment performance, and expense patterns. Companies are required to review universal life and annuity contract assumptions periodically to ascertain whether actual experience has deviated significantly from that assumed. If it is determined that a significant deviation has occurred, the emergence of profits pattern is to be "unlocked" and reset based upon the actual experience. DPAC balances are also adjusted each period to reflect current policy lapse or termination rates, expense levels and credited rates on policies as compared to anticipated experience ("true-up") with the adjustment reflected in current period amortization expense. In accordance with GAAP guidance, the Company must also write off deferred acquisition costs and unearned revenue liabilities upon internal replacement of certain contracts as well as annuitizations of deferred annuities.

The following table identifies the effects of unlocking adjustments on DPAC balances recorded through amortization expense separate from recurring amortization expense components for 2018, 2017 and 2016.

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<i>Amortization of DPAC</i>	Years Ended December 31,		
	2018	2017	2016
	(In thousands)		
Unlocking adjustments	\$(950)	(11,857)	(13,840)
Other amortization components	115,721	126,244	134,979
Totals	\$114,771	114,387	121,139

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In 2018, the company unlocked its DPAC balances associated with its Life and Annuity segments for: (1) mortality, extended death benefit reserves, and the investment yield supporting universal life policy liabilities on its Life segment which collectively increased amortization expense by \$1.2 million; and (2) mortality, the election rate of the company's withdrawal benefit rider, and the investment yield supporting annuity contract accounts which collectively decreased amortization expense by \$2.2 million for the Annuity segment.

In 2017, the Company unlocked its DPAC balance for: (1) International life favorable mortality, better than expected persistency from disengaged countries, and enforcement of an interest rate clawback on certain universal life policies which collectively reduced amortization expense by \$28.0 million; (2) Annuity surrender/annuitization assumptions and tighter crediting rate spreads which increased amortization by \$15.1 million; and (3) Domestic and International life crediting rate spreads on certain equity-indexed universal life products which increased amortization expense by \$1.1 million.

During 2016, the Company unlocked its DPAC balance for: (1) favorable mortality in the Domestic life insurance segment resulting in reduced amortization expense by \$8.2 million; (2) International life insurance favorable mortality, increased cost of insurance charges that had been implemented during the year, and higher lapse assumptions for policies associated with residents in "disengaged countries" (countries which the Company ceased accepting applications from residents in 2015) collectively decreasing DPAC amortization expense by \$7.3 million; (3) updating surrender and annuitization rates on indexed, single tier, and two tier annuities which increased DPAC amortization expense by \$3.7 million; and (4) updating DPAC future profit projections for universal life insurance riders which had not been previously included in software models which resulted in decreasing DPAC amortization expense by \$2.1 million.

As the DPAC balance is an asset on the Company's Consolidated Balance Sheets, GAAP provides for an earned interest return on the unamortized balance each period. The earned interest serves to increase the DPAC balance and reduce other amortization component expense. The rate at which the DPAC balance earns interest is the average credited interest rate on the company's universal life and annuity policies in force, including credited interest on equity-indexed policies. The amount of earned interest on DPAC balances recorded was \$29.1 million, \$33.5 million, and \$10.5 million in 2018, 2017, and 2016, respectively, decreasing other amortization component expense.

Universal life and annuity contract interest - The Company closely monitors credited interest rates on interest sensitive policies, taking into consideration such factors as profitability goals, policyholder benefits, product marketability, and economic market conditions. As long-term interest rates change, the Company's credited interest rates are often adjusted accordingly, taking into consideration the factors described above. The difference between yields earned on investments over policy credited rates is often referred to as the "interest spread".

The Company's approximated average credited rates, excluding and including equity-indexed products, were as follows:

	December 31, 2018 2017 2016 (Excluding fixed-index products)			December 31, 2018 2017 2016 (Including fixed-index products)		
Annuity	2.07%	2.19%	2.27%	1.13%	3.81%	1.97%
Interest sensitive life	3.37%	3.41%	3.62%	2.61%	7.77%	4.28%

Contract interest reported in financial statements also encompasses the performance of the index options associated with the Company's fixed-index products. As previously noted, the market value changes of these derivative features resulted in net realized and unrealized gains (losses) in 2018, 2017 and 2016 of \$(80.0) million, \$222.9 million and \$28.4 million, respectively. In 2018, this figure was comprised of unrealized losses totaling \$(191.7) million offset by realized gains of \$111.7 million. These returns similarly increased/(decreased) the computed average credited rates for the periods shown. Policyholders of equity-indexed products cannot receive an interest credit below 0% according to the policy contract terms.

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Generally, the impact of the market value change of index options on asset values aligns closely with the movement of the embedded

derivative liability held for the Company's fixed-index products such that the net effect upon pretax earnings is negligible (i.e. net

realized and unrealized gains/(losses) included in net investment income approximate the change in contract interest associated with the corresponding embedded derivative liability change). However, other aspects of the embedded derivatives can cause deviations to occur between the change in index option asset values included in net investment income and the change in the embedded derivative liability included in contract interest. As noted in the discussion of net investment income, the collection of asset management fees in a period can cause investment income to increase marginally higher than contract interest expense since these collected fees are deducted from indexed interest credited to policyholders. During the years ended December 31, 2018, 2017, and 2016, asset management fees collected were \$24.3 million, \$31.8 million, and \$6.4 million, respectively.

Accounting rules require the embedded derivative liability to include a projection of asset management fees estimated to be collected in the succeeding fiscal year as an offset to projected policyholder interest credits. The projections are based upon the performance of options as of the year-end balance sheet dates. The change in this projection, plus or minus, is included in contract interest expense for the period being reported on. During the years ended December 31, 2018, 2017, and 2016, contract interest was increased/(decreased) by \$17.6 million, \$6.9 million, and \$(15.9) million, respectively, for this occurrence. The increases to contract interest expense reflect lower estimated asset management fees to be collected while the decrease to contract interest expense represents an increase to the amount of asset management fees estimated to be collected. Refer to Note 15 Derivative Investments in the accompanying Notes to Consolidated Financial Statements for further information.

Contract interest expense also includes reserve changes for immediate annuities, two tier annuities, excess death benefit reserves, excess annuitizations, and amortization of deferred sales inducement balances. These items are offset by policy charges assessed for policies having the withdrawal benefit rider. As changes in these items collectively impact contract interest expense, financial statement interest spread is also affected. For the years ended December 31, 2018, 2017, and 2016 the changes in these items increased contract interest expense by \$22.8 million, \$38.1 million, and \$46.9 million, respectively.

Similar to deferred policy acquisition costs, the company defers sales inducements in the form of first year credited interest bonuses on annuity products that are directly related to the production of new business. These bonus interest charges are deferred and amortized using the same methodology and assumptions used to amortize other capitalized acquisition costs and the amortization is included in contract interest. In addition, deferred sales inducement balances are also reviewed periodically to ascertain whether actual experience has deviated significantly from that assumed (unlock) and are adjusted to reflect current policy lapse or termination rates, expense levels and credited rates on policies compared to anticipated experience (true-up). These adjustments, plus or minus, are included in contract interest expense. As part of the DPAC balance unlockings for the Annuity segment previously discussed for 2018, 2017, and 2016, the Company also unlocked its deferred sales inducement balance. The effect of the prospective unlocking was to increase the deferred sales inducement balance by \$1.3 million in 2018 (and decrease contract interest expense), and to decrease the deferred sales inducement balance by \$4.3 million, and \$1.7 million, in 2017, and 2016, respectively, and thereby increasing contract interest expense by a related amount for each period.

As previously discussed in the amortization of deferred policy acquisition costs section, in 2018 the company unlocked its life insurance DPAC balance for mortality experience and extended benefit policy reserves. While these changes had a relatively modest impact on the DPAC unlocking, they had a larger effect on the policy benefits liability balance. The impact of these unlocking adjustments upon policy benefit reserves was an increase of \$14.2 million. This increase is included as a component of contract interest expense in 2018. Similarly, the company

unlocked its excess benefit reserves (International life) and two tier annuity reserves in 2017 and 2016. The unlockings of these reserves increased contract interest expense by \$13.7 million and \$3.0 million in 2017 and 2016, respectively.

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Other operating expenses - Other operating expenses consist of general administrative expenses, licenses and fees, commissions not subject to deferral, nursing home expenses, real estate expenses and compensation costs. These are summarized in the table that follows.

	Years Ended December		
	31,		
	2018	2017	2016
	(In thousands)		
General insurance expenses	\$29,028	38,074	31,298
Nursing home expenses	15,935	16,804	17,924
Compensation expenses	27,340	27,146	28,151
Commission expenses	8,816	10,738	11,206
Real estate expenses	5,125	2,993	—
Taxes, licenses and fees	7,725	11,247	5,868
Totals	\$93,969	107,002	94,447

General insurance expenses include expenditures for software and amortization of previously capitalized information technology expenditures. The Company has progressively released into production components of system development over the past couple of years initiating amortization of these capitalized costs. Software costs, including amortization expense, for 2018, 2017, and 2016 were \$11.3 million, \$9.0 million, and \$8.6 million, respectively. General insurance expenses also include payments and provisions made relating to potential or contingent legal liabilities. Expenses related to these items were \$(1.8) million, \$8.5 million, and \$4.2 million in 2018, 2017, and 2016, respectively. The 2016 amount includes a \$1.3 million payment (including interest and expenses) to insurance authorities in Brazil pertaining to administrative proceedings in that country and a \$2.9 million provision for an annuity contract matter in Puerto Rico in litigation. The 2018 amount reflects settlement of the annuity contract matter in Puerto Rico for \$1.0 million and the release of the excess provision recorded in 2016. The 2017 amount pertains to an \$8.2 million loss contingency recorded by the Company at December 31, 2017 related to excess premiums on certain of its policies. Refer to the Legal Proceedings narrative in Part I, Item 3 of this Form 10-K for further discussion of litigation matters.

Nursing home expenses reflect the operations of the Company's two facilities in Reno, Nevada and San Marcos, Texas. The lower expense level in 2018 compared to the prior two years corresponds with decreased revenues from lower census figures and the resultant cost containment measures undertaken to manage profitability.

Compensation expenses include share-based compensation costs related to outstanding vested and nonvested stock options and stock appreciation rights ("SARs"), restricted stock units ("RSUs"), and performance share units ("PSUs"). The related share-based compensation costs move in tandem not only with the number of awards outstanding but also with the movement in the market price of the Company's Class A common stock as a result of marking the stock options, SARs, and RSUs to fair value under the liability method of accounting. Consequently, the related expense amount varies positive or negative in any given period. In the amounts shown above, share-based compensation expense totaled \$1.4 million in 2018, \$5.0 million in 2017 and \$7.9 million in 2016. These expense levels reflect a change in the Company's Class A common share price from \$251.94 at December 31, 2015 to \$310.80 at December 31, 2016 to \$331.02 at December 31, 2017 and to \$300.70 at December 31, 2018. In addition to the changes in price of the Company's Class A common shares, there were 12,590; 22,184; and 14,643 SARs granted to officers of National Western in 2018, 2017 and 2016, respectively.

Real estate expenses pertain to the commercial building operated by Braker P III. The building was acquired at year-end 2016 and the company relocated to this facility during the fourth quarter of 2017. The higher operating expenses for 2018 relative to 2017 reflects the company's occupancy as well as other third party tenants added during 2018.

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Taxes, licenses and fees include premium taxes and licensing fees paid to state insurance departments, guaranty fund assessments, the company portion of social security and Medicare taxes, real estate taxes, state income taxes, and other state and municipal taxes. State income taxes are generally determined by apportioning the company's federal taxable income based upon premium generated from a particular state as a percentage of total premiums. Federal taxable income is derived from the company's statutory financial results. State income tax expense was \$0.8 million, \$2.5 million, and \$0.7 million in 2018, 2017, and 2016, respectively. Premium tax expenses for the years ended December 31, 2018, 2017, and 2016 were \$3.4 million, \$4.0 million, and \$2.6 million, respectively. The 2017 expense also includes withholding tax liabilities for international policy distributions not previously withheld on.

Segment Operations***Summary of Segment Earnings***

A summary of segment earnings from continuing operations for the years ended December 31, 2018, 2017 and 2016 is provided below. The segment earnings exclude realized gains and losses on investments, net of taxes.

	Domestic Life Insurance (In thousands)	International Life Insurance	Annuities	All Others	Totals
Segment earnings (loss):					
2018	\$1,401	33,704	53,371	21,628	110,104
2017	2,835	59,025	17,409	21,556	100,825
2016	3,411	50,942	22,687	15,357	92,397

Table of Contents***Domestic Life Insurance Operations***

A comparative analysis of results of operations for the Company's domestic life insurance segment is detailed below.

	Years Ended December 31,		
	2018	2017	2016
	(In thousands)		
Premiums and other revenues:			
Premiums and contract revenues	\$40,879	37,387	34,728
Net investment income	23,579	73,866	39,691
Other revenues	19	46	119
Total premiums and other revenues	64,477	111,299	74,538
Benefits and expenses:			
Life and other policy benefits	21,688	18,565	17,908
Amortization of deferred policy acquisition costs	11,539	10,377	4,125
Universal life insurance contract interest	8,826	59,865	28,606
Other operating expenses	20,731	18,842	18,739
Total benefits and expenses	62,784	107,649	69,378
Segment earnings (loss) before Federal income taxes	1,693	3,650	5,160
Provision (benefit) for Federal income taxes	292	815	1,749
Segment earnings (loss)	\$1,401	2,835	3,411

Revenues from domestic life insurance operations include life insurance premiums on traditional type products and contract revenues from universal life insurance. Revenues from traditional products are simply premiums collected, while revenues from universal life insurance consist of policy charges for the cost of insurance, policy administration fees, and surrender charges assessed during the period. A comparative detail of premiums and contract revenues is provided below.

	Years Ended December 31,		
	2018	2017	2016
	(In thousands)		
Universal life insurance revenues	\$45,371	40,970	37,427
Traditional life insurance premiums	5,552	5,333	5,320
Reinsurance premiums	(10,044)	(8,916)	(8,019)
Totals	\$40,879	37,387	34,728

The Company's domestic life insurance in force, in terms of policy counts, has been declining for some time. The pace of new policies issued has lagged the number of policies terminating from death or surrender by roughly a two-to-one

rate over the past several years causing a declining level of insurance in force from which contract revenue is received. Consequently, the number of domestic life insurance policies in force has declined from 51,600 at December 31, 2016 to 50,200 at December 31, 2017 and to 49,000 at December 31, 2018. Policy lapse rates in 2018 increased to 6.5% from 6.0% in 2017 but were less than the rate in 2016 of 7.5%.

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Universal life insurance revenues are also generated with the issuance of new business based upon amounts per application and percentages of the face amount (volume) of insurance issued. The number of domestic policies issued during 2018 was 28% higher than in 2017 and the volume of insurance issued was 36% more than that in 2017.

In 2013 the Company began deferring the premium load on its highest selling domestic product, single pay life insurance. Amounts deferred are amortized into revenues over future periods corresponding with the duration of the policies. Initially, the premium load amounts deferred exceeded the amounts amortized back into revenues. However, beginning in 2016 the cumulative amounts deferred reached a level such that the current year revenue amortization now exceeds the current period deferral resulting in net increasing revenue from this accounting method.

Premium dollars collected on universal life products are not reflected as revenues in the Company's Consolidated Statements of Earnings in accordance with GAAP. Actual domestic universal life premiums collected are detailed below.

Years Ended December 31,
2018 2017 2016
(In thousands)

Universal life insurance:

First year and single premiums	\$ 169,363	132,358	114,118
Renewal premiums	19,538	20,117	20,155

Totals	\$ 188,901	152,475	134,273
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During the past several years the company has achieved some success in growing dollar amount of sales of its domestic life insurance new business. Sales have been substantially weighted toward single premium policies which do not have much in the way of recurring premium payments. These products are targeting wealth transfer strategies involving the movement of accumulated wealth in alternative investment vehicles, including annuities, into life insurance products. As a result, renewal premium levels have not been exhibiting a corresponding level of increase.

Net investment income for this segment of business, excluding derivative gain/(loss), has been gradually increasing due to the increased new business activity described above (single premium policies) and a higher level of investments needed to support the corresponding growth in policy obligations, especially those for single premium policies. The increase in net investment income has been partially muted by lower investment yields from debt security investment purchases during this time frame. Net investment income also includes the gains and losses on index options purchased to back the index crediting mechanism on fixed-index universal life products. A detail of net investment income for domestic life insurance operations is provided below.

Years Ended December
31,
2018 2017 2016
(In thousands)

Net investment income (excluding derivatives)	\$ 41,123	36,579	33,331
Derivative gain (loss)	(17,544)	37,287	6,360
Net investment income	\$ 23,579	73,866	39,691

Universal life insurance contract interest	\$8,826	59,865	28,606
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Life and policy benefits for a smaller block of business are subject to variation from period to period. Claim count activity during 2018 increased 19% compared to 2017 while the average net claim amount increased to \$31,800 from \$27,700. The low face amount per claim relative to the current issued amounts of insurance per policy reflects the older block of domestic life insurance policies sold which were final expense type products (i.e. purchased to cover funeral costs). The increase in the average net claim amount reflects claims from more recent policy sales (single premium wealth transfer products) which have much higher face amounts of insurance coverage per policy. GAAP reporting requires that claims be recorded after any cash value amounts that have been accumulated in the policies. While domestic claims increased in 2018 compared to 2017, the accumulated cash values on the claims incurred was substantially higher in 2018 (which reduces the net amount at risk on policies). The company's overall mortality experience for this segment has been better than pricing assumptions.

As noted previously in the discussion of results from Consolidated Operations, the company records true-up adjustments to DPAC balances each period to reflect current policy lapse or termination rates, expense levels and credited rates on policies as compared to anticipated experience with the adjustment reflected in current period amortization expense. To the extent required, the company may also record unlocking adjustments to DPAC balances. The following table identifies the effects of unlocking adjustments on domestic life insurance DPAC balances recorded through amortization expense separate from recurring amortization expense components for 2018, 2017 and 2016.

	Years Ended December		
	31,		
	2018	2017	2016
	(In thousands)		
<i>Amortization of DPAC</i>			
Unlocking adjustments	\$1,015	795	(9,000)
Other amortization components	10,524	9,582	13,125
Totals	\$11,539	10,377	4,125

The company unlocked the DPAC balances associated with its Domestic Life segment for favorable mortality, extended death benefit reserves, and the investment portfolio yield supporting universal life policy liabilities in 2018. The effect of the prospective unlocking was to decrease DPAC balances by \$1.0 million (and increase amortization expense). During 2017, the company unlocked the interest crediting rate spread on certain equity-indexed universal life products which increased amortization expense by \$0.8 million. During 2016 the Company unlocked its DPAC balance for favorable mortality and for future profit projections related to universal life insurance riders which had not been previously included in DPAC actuarial software models. These unlockings decreased DPAC amortization expense.

Although not an unlocking, during the fourth quarter of 2018 the company successfully converted its reserve modeling for excess death benefit reserves on UL riders to its existing actuarial software platform. The implementation refined the company's estimate increasing reserves and included an adjustment decreasing the Domestic Life DPAC balance (increasing amortization expense). The amount of the amortization expense increase was \$0.8 million.

Contract interest expense includes the fluctuations that are the result of the effect upon the embedded derivative for the performance of the underlying equity indices associated with fixed-indexed universal life products. For liability purposes, the embedded option in the Company's policyholder obligations for this feature is bifurcated and reserved for separately. Accordingly, the impact for the embedded derivative component in the equity-index universal life product is reflected in the contract interest expense for approximately the same amounts as in net investment income

for each respective period. As part of the 2018 unlockings discussed above, the company reduced its excess benefit reserve by \$1.0 million which served to decrease contract interest expense by a like amount.

Operating expenses are allocated to lines of business based upon a functional cost analysis of the business activity giving rise to incurred expenses. With the company's decision to cease accepting applications from international residents and the decline in annuity sales volumes, a higher proportion of operating expenses were allocated to the Domestic Life segment given the increase in activity in this segment and its greater share of the overall operational resources.

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The Company's international life operations have been a steady contributor to the Company's overall earnings performance and represented a niche where the Company believed it had a competitive advantage historically. A stable population of distribution relationships developed over decades of operations had provided the Company with a persistent block of business.

A comparative analysis of results of operations for the Company's international life insurance segment is detailed below.

	Years Ended December 31,		
	2018	2017	2016
	(In thousands)		
Premiums and other revenues:			
Premiums and contract revenues	\$108,923	120,852	125,775
Net investment income	22,603	68,399	42,331
Other revenues	87	83	321
Total premiums and other revenue	131,613	189,334	168,427
Benefits and expenses:			
Life and other policy benefits	22,333	23,981	18,759
Amortization of deferred policy acquisition costs	24,358	(1,473)	18,027
Universal life insurance contract interest	24,590	54,502	28,636
Other operating expenses	19,593	36,341	25,933
Total benefits and expenses	90,874	113,351	91,355
Segment earnings before Federal income taxes	40,739	75,983	77,072
Provision (benefit) for Federal income taxes	7,035	16,958	26,130
Segment earnings	\$33,704	59,025	50,942

As with Domestic Life operations, revenues from the International Life insurance segment include both premiums on traditional type products and revenues from universal life insurance. A comparative detail of premiums and contract revenues is provided below.

	Years Ended December 31,		
	2018	2017	2016
	(In thousands)		
Universal life insurance revenues	\$103,704	115,112	120,033
Traditional life insurance premiums	12,739	13,628	13,956
Reinsurance premiums	(7,520)	(7,888)	(8,214)
Totals	\$108,923	120,852	125,775

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Universal life revenues and operating earnings are generated from the amount of life insurance in force and new sales activity. Over the past three years, the volume of insurance in force for this segment has contracted from \$17.9 billion at December 31, 2016 to \$16.6 billion at December 31, 2017 and to \$15.4 billion at December 31, 2018. The decline in volume of in force reflect the company's decision at the end of 2015 to disengage from certain countries. In addition, during 2018 the company made the decision to cease accepting international policy applications from residents from all remaining countries. Universal life insurance revenues are also generated with the issuance of new business based upon amounts per application and percentages of the face amount (volume) of insurance issued. During 2018, the number of international life policies decreased 48% from the prior year while the volume of insurance issued decreased approximately 50% from the level in 2017.

A third component of international universal life revenues include surrender charges assessed upon surrender of contracts by policyholders. In 2015, termination activity levels increased in conjunction with the company's decision to cease accepting applications from residents in Brazil and certain other countries resulting in additional surrender charge fee revenues. This activity continued into 2016 and 2017 but subsided in 2018. The following table illustrates National Western's recent international life termination experience.

<i>Volume In Force Terminations</i>	Amount in \$'s (millions)	Annualized Termination Rate	
Year Ended December 31, 2018	\$ 1,706.3	10.0	%
Year Ended December 31, 2017	2,309.7	12.2	%
Year Ended December 31, 2016	2,340.6	11.6	%
Year Ended December 31, 2015	2,659.1	12.3	%
Year Ended December 31, 2014	1,825.5	8.4	%

The higher incidence of terminations that occurred in the 2015 through 2017 time period related to policies with residents of the countries from which the company discontinued accepting applications in late 2015. As a result of the higher termination incidence, the company unlocked its DPAC balances for this segment of the business during 2016 to incorporate a greater lapse assumption, among other things.

As noted previously, premiums collected on universal life products are not reflected as revenues in the Company's Consolidated Statements of Earnings in accordance with GAAP. Actual international universal life premiums collected are detailed below.

	Years Ended December 31,		
	2018	2017	2016
	(In thousands)		
Universal life insurance:			
First year and single premiums	\$11,454	16,024	21,534
Renewal premiums	78,611	86,461	94,596
Totals	\$90,065	102,485	116,130

National Western's most popular international products have been its fixed-index universal life products in which the policyholder can elect to have the interest rate credited to their policy account values linked in part to the performance of an outside equity index. These products issued were not generally available in the local markets sold. Included in the totals in the above table are collected premiums for fixed-index universal life products of approximately \$57.8 million, \$65.6 million and \$74.9 million for the years ended 2018, 2017 and 2016, respectively. The declining trend in renewal premiums during these periods corresponds with the decline in policies in force due to reduced sales activity and increased termination activity as discussed above.

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As noted previously, net investment income and contract interest include period-to-period changes in fair values pertaining to call options purchased to hedge the interest crediting feature on the fixed-index universal life products. With the growth in the fixed-index universal life block of business, the period-to-period changes in fair values of the underlying options have had an increasingly greater impact on net investment income and universal life contract interest. A detail of net investment income for international life insurance operations is provided below.

	Years Ended December 31,		
	2018	2017	2016
	(In thousands)		
Net investment income (excluding derivatives)	\$33,264	35,117	36,499
Derivative gain (loss)	(10,661)	33,282	5,832
Net investment income	\$22,603	68,399	42,331
Universal life insurance contract interest	\$24,590	54,502	28,636

Life and policy benefits primarily consist of death claims on policies. National Western's clientele for international products are generally wealthy individuals with access to U.S. dollars and quality medical care. Consequently, the amounts of coverage purchased have historically tended to be larger amounts. In the year ended December 31, 2018, the average face amount of insurance purchased was approximately \$297,100, reflecting a level somewhat lower than that of immediately prior years reflecting the company's decision to disengage from certain markets and ultimately to cease accepting applications for international life products from international residents. Life and policy benefit expense for the international life segment reflects the larger policies historically purchased, however mortality due to natural causes is comparable to that in the United States. The company's maximum risk exposure per insured life is capped at \$500,000 through reinsurance. The average international life net claim amount (after reinsurance) in 2018 increased to \$205,200 from \$152,200 while the number of claims incurred declined 18% during 2018. Measured over a period of years, the Company's international life mortality experience has generally been better than product pricing assumptions.

The company records true-up adjustments to DPAC balances each period to reflect current policy lapse or termination rates, expense levels, and credited rates on policies as compared to anticipated experience as well as unlocking adjustments as necessary. The following table identifies the effects of unlocking adjustments on international life insurance DPAC balances recorded through amortization expense separate from recurring amortization components for 2018, 2017 and 2016.

	Years Ended December 31,		
	2018	2017	2016
	(In thousands)		
<i>Amortization of DPAC</i>			
Unlocking adjustments	\$251	(27,732)	(8,490)
Other amortization components	24,107	26,259	26,517
Totals	\$24,358	(1,473)	18,027

In 2018, the company unlocked DPAC balances associated with its International Life segment for extended death benefit reserves and the investment portfolio yield supporting universal life policy liabilities. The effect of the prospective unlocking was to decrease DPAC balances by \$0.3 million (and increase amortization expense). In 2017, the company unlocked the DPAC balance for favorable mortality, lower than expected lapses from disengaged countries, the implementation of an interest crediting clawback on certain universal life policies, and the interest crediting rate spread on one of its equity-indexed universal life products which collectively decreased amortization expense by \$27.7 million. During 2016, the Company unlocked the DPAC balance for: (1) favorable mortality, (2) higher cost of insurance charges which had been implemented, (3) increased lapse rates for disengaged countries, and (4) for future profit projections related to universal life insurance riders which had not been previously included in DPAC actuarial software models, the result of which collectively decreased amortization expense by \$8.5 million.

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Although not an unlocking, during the fourth quarter of 2018 the company successfully converted its reserve modeling for excess death benefit reserves on UL riders to its existing actuarial software platform. The implementation refined the company's estimate increasing these reserves and included an adjustment increasing the International Life DPAC balance (decreasing amortization expense). The amount of the amortization expense decrease was \$3.6 million.

Contract interest expense includes the fluctuations that are the result of the effect upon the embedded derivative for the performance of the underlying equity indices associated with fixed-indexed universal life products. For liability purposes, the embedded option in the Company's policyholder obligations for this feature is bifurcated and reserved for separately. Accordingly, the impact for the embedded derivative component in the equity-index universal life product is reflected in the contract interest expense for approximately the same amounts as in net investment income for each respective period. As part of the 2018 unlockings discussed above, the company increased its excess benefit reserve by \$14.1 million which served to increase contract interest expense by a like amount. In addition, as part of the unlocking adjustments made during 2016, the company's benefit reserves for the International Life segment were decreased by \$6.2 million. The effect of this decrease was to correspondingly decrease contract interest for the year by a like amount.

Similar to the Domestic Life segment, operating expenses are allocated to lines of business based upon a functional cost analysis of the business activity giving rise to incurred expenses. As discussed in the Domestic Life segment, a greater proportion of the Company's overall operating expenses were allocated toward the Domestic Life segment and away from the International Life and Annuity segments due to decreased activity in the latter two segments. In 2017, the potential and contingent legal liability provisions discussed in the Consolidated Operations section were primarily allocated to the International Life segment.

Annuity Operations

National Western's annuity operations are exclusively in the United States. A comparative analysis of results of operations for the Company's annuity segment is detailed below.

	Years Ended December		
	31,		
	2018	2017	2016
	(In thousands)		
Premiums and other revenues:			
Premiums and contract revenues	\$23,694	20,691	22,220
Net investment income	276,123	490,706	362,700
Other revenues	66	109	254
Total premiums and other revenues	299,883	511,506	385,174
Benefits and expenses:			
Life and other policy benefits	21,276	28,939	28,862
Amortization of deferred policy acquisition costs	78,874	105,483	98,987
Annuity contract interest	102,639	322,652	191,148
Other operating expenses	32,584	32,021	31,852
Total benefits and expenses	235,373	489,095	350,849

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Segment earnings before Federal income taxes	64,510	22,411	34,325
Provision (benefit) for Federal income taxes	11,139	5,002	11,638
Segment earnings	\$53,371	17,409	22,687

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Premiums and contract charges primarily consist of surrender charge income recognized on terminated policies. The amount of the surrender charge income recognized is determined by the volume of surrendered contracts as well as the duration of each contract at the time of surrender given the pattern of declining surrender charge rates over time that is common to most annuity contracts. The Company's lapse rate for annuity contracts during 2018 was 7.5%, an increase from a rate of 6.0% in 2017 and the 6.5% rate experienced in 2016. Annuity contracts with fixed interest rates are more prone to terminate during periods of rising interest rates as was the situation during 2018.

Deposits collected on annuity contracts are not reflected as revenues in the Company's Consolidated Statements of Earnings in accordance with GAAP. Actual annuity deposits collected are detailed below.

	Years Ended December 31,		
	2018	2017	2016
	(In thousands)		
Fixed-index annuities	\$382,153	578,647	685,023
Other deferred annuities	22,883	23,926	38,262
Immediate annuities	6,172	6,226	7,455
Totals	\$411,208	608,799	730,740

Fixed-index products are more attractive for consumers when interest rate levels remain low and equity markets produce positive returns. Since National Western does not offer variable products or mutual funds, fixed-index products provide an important alternative to the company's existing fixed interest rate annuity products. Fixed-index annuity deposits as a percentage of total annuity deposits were 93%, 95% and 94% for the years ended December 31, 2018, 2017 and 2016, respectively. The percentage of fixed-index products to total annuity sales reflects the low interest rate environment and the ongoing bull market in equities.

Some of the company's deferred products, including fixed-index annuity products, contain a first year interest bonus ranging from 1% to 7% depending upon the product, in addition to the base first year interest rate. Other products include a premium bonus ranging from 2% to 10% which is credited to the account balance when premiums are applied. These bonus rates are deferred in conjunction with other capitalized policy acquisition costs. The amount deferred to be amortized over future periods amounted to approximately \$7.5 million, \$17.9 million and \$19.3 million for the years ended December 31, 2018, 2017 and 2016, respectively. Amortization of deferred sales inducements is included as a component of annuity contract interest as described later in this discussion of Annuity Operations.

A detail of net investment income for annuity operations is provided below.

	Years Ended December 31,		
	2018	2017	2016
	(In thousands)		
Net investment income (excluding derivatives)	\$327,922	338,400	346,528
Derivative gain (loss)	(51,799)	152,306	16,172
Net investment income	\$276,123	490,706	362,700
Annuity contract interest	\$102,639	322,652	191,148

As previously described, derivatives are call options purchased to hedge the equity return component of National Western's fixed-index annuity products with any gains or losses from the sale or expiration of the options, as well as period-to-period changes in fair values, reflected in net investment income. Since the embedded derivative option in the policies is bifurcated when determining the contract reserve liability, the impact of the market value change of index options on asset values generally aligns closely with the movement of the embedded derivative liability such that the net effect upon pretax earnings is negligible (i.e. net realized and unrealized gains/(losses) included in net investment income approximate the change in contract interest associated with the corresponding embedded derivative liability change). See further discussion below regarding contract interest activity.

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Consistent with the domestic and international life segments, the Company records true-up adjustments to DPAC balances each period to reflect current policy lapse or termination rates, expense levels and credited rates on policies as compared to anticipated experience as well as unlocking adjustments as necessary. The following table identifies the effects of unlocking adjustments on annuity DPAC balances recorded through amortization expense separate from recurring amortization expense components for 2018, 2017 and 2016.

	Years Ended December 31,		
	2018	2017	2016
	(In thousands)		
<i>Amortization of DPAC</i>			
Unlocking adjustments	\$(2,216)	15,080	3,650
Other amortization components	81,090	90,403	95,337
Totals	\$78,874	105,483	98,987

In 2018, the company unlocked the DPAC balances associated with its Annuity segment for assumptions concerning mortality, the election rate of the company's withdrawal benefit rider, and for the investment portfolio yield supporting annuity contract accounts. The effect of the prospective unlocking was to increase DPAC balances by \$2.2 million (and decrease amortization expense). In 2017, the company unlocked the DPAC balance associated with its annuity segment for surrender/annuitization assumptions and interest crediting rate spreads. The effect of the prospective unlocking was to increase amortization expense by \$15.1 million. During 2016, the annuity DPAC balance was unlocked for surrender and annuitization rates. The effect of this prospective unlocking was to increase amortization expense by \$3.7 million.

Annuity contract interest includes the equity component return associated with the call options purchased to hedge National Western's fixed-index annuities. The detail of fixed-index annuity contract interest as compared to contract interest for all other annuities is as follows:

	Years Ended December 31,		
	2018	2017	2016
	(In thousands)		
Fixed-indexed annuities	\$14,861	230,936	102,107
All other annuities	75,028	81,073	81,439
Gross contract interest	89,889	312,009	183,546
Bonus interest deferred and capitalized	(7,546)	(17,901)	(19,302)
Bonus interest amortization	20,296	28,544	26,904
Total contract interest	\$102,639	322,652	191,148

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The fluctuation in reported contract interest amounts for fixed-index annuities is driven by sales levels, the level of the business in force and the effect of positive or negative market returns of option values on projected interest credits. As noted above in the net investment income discussion, the amounts shown for contract interest for fixed-index annuities generally align with the derivative gains/(losses) included in net investment income as the impact of the market change of index options on asset values align closely with the movement of the embedded derivative liability held for these products. As noted in the discussion in the Consolidated Operations section, positive returns on expiring options during 2016 through 2018 led to collection of asset management fees by National Western which are subtracted from contract interest credited to policyholders. This serves to lessen the increase in contract interest expense relative to the option gains reported in the Company's net investment income. Asset management fees collected during 2018, 2017, and 2016 were \$24.3 million, \$31.8 million, and \$6.4 million, respectively.

As previously noted, accounting rules require the embedded derivative liability to include a projection of asset management fees estimated to be collected in the succeeding fiscal year as an offset to projected policyholder interest credits. The projections are based upon the performance of options as of the year-end balance sheet dates. The change in this projection, plus or minus, is included in contract interest expense for the period being reported on. During the years ended December 31, 2018, 2017, and 2016, contract interest was increased/(decreased) by \$17.6 million, \$6.9 million, and \$(15.9) million, respectively, for this occurrence. The increases to contract interest expense reflect lower estimated asset management fees to be collected while the decrease to contract interest expense represents an increase to the amount of asset management fees estimated to be collected. The Annuity segment contains the products which charge asset management fees.

Annuity contract interest includes true-up adjustments for the deferred sales inducement balance which are done each period similar to that done with respect to DPAC balances with the adjustment reflected in current period contract interest expense. To the extent required, the company may also record unlocking adjustments to deferred sales inducement balances in conjunction with DPAC balance unlockings. For the years ended December 31, 2018, 2017, and 2016 bonus interest amortization was increased/(decreased) by \$(1.3) million, \$4.3 million and \$1.7 million, respectively, for unlocking adjustments. The unlocking in 2016, in addition to impacting the DPAC and deferred sales inducement balances, also increased the Company's benefit reserves by \$12.2 million for the two-tiered deferred annuity block of business which in turn increased contract interest expense.

Life and policy benefits for the Annuity segment include death claims and benefits associated with the company's withdrawal benefit rider. As part of the unlockings performed in 2018, the company unlocked its policy benefits reserves associated with the assumption regarding policyholder utilization of the withdrawal benefit rider provisions attached to annuity contracts. The assumptions were updated for actual utilization experience which was lower than that previously assumed. The effect of this prospective unlocking was to decrease policy reserves by \$15.7 million and to decrease life and policy benefits expense.

As noted in the Domestic Life insurance and International Life insurance segments, the Company's overall operating expenses are allocated based upon functional business activity and volumes. Although annuity sales activity decreased somewhat in 2018 relative to the Domestic and International Life segments, the segment maintained a high level of maintenance expenses for the in force block of business which kept operating expenses at a relatively level amount.

Other Operations

The Company's primary business encompasses its domestic and international life insurance operations and its annuity operations. However, the Company also has small real estate, nursing home, and other investment operations through its wholly owned subsidiaries. Nursing home operations generated \$1.3 million, \$1.4 million and \$0.3 million of pre-tax earnings in 2018, 2017, and 2016, respectively. Amounts for these periods also include the results of BP III

which commenced operations at the beginning of the year. BP III incurred pre-tax losses of \$(1.9) and \$(1.5) million in 2018 and 2017, respectively.

The remaining pre-tax earnings in Other Operations of \$26.8 million, \$27.8 million, and \$23.0 million for the years ended December 31, 2018, 2017, and 2016, respectively, represents investment income from real estate, municipal bonds, and common and preferred equities held in subsidiary company portfolios principally for tax-advantage purposes. Included in these amounts are semi-annual distributions from a life interest in the Libbie Shearn Moody Trust which is an asset held in NWLSM, Inc. Pretax distributions from this trust were \$7.5 million, \$6.1 million, and \$6.0 million in 2018, 2017, and 2016, respectively. In addition to pretax distributions, these amounts also include additional revenue recorded for annually revaluing the actuarial life interest in the Libbie Shearn Moody Trust.

Table of Contents**INVESTMENTS****General**

The Company's investment philosophy emphasizes the careful handling of policyowners' and stockholders' funds to achieve security of principal, to obtain the maximum possible yield while maintaining security of principal, and to maintain liquidity in a measure consistent with current and long-term requirements of the Company.

The Company's overall conservative investment philosophy is reflected in the allocation of its investments, which is detailed below as of December 31, 2018 and 2017. The Company emphasizes investment grade debt securities.

	December 31, 2018		December 31, 2017	
	Carrying Value	%	Carrying Value	%
	(In thousands)		(In thousands)	
Debt securities	\$10,231,313	96.7	\$10,288,155	95.2
Mortgage loans	203,180	1.9	208,249	1.9
Policy loans	54,724	0.6	56,405	0.5
Derivatives, index options	14,684	0.1	194,731	1.8
Real estate	35,692	0.3	37,420	0.3
Equity securities	17,491	0.2	18,478	0.2
Other	21,159	0.2	14,408	0.1
Totals	\$10,578,243	100.0	\$10,817,846	100.0

The Company's investment portfolio decreased (2)% to \$10.6 billion at December 31, 2018 compared to \$10.8 billion at December 31, 2017 due primarily to the unrealized loss increases associated with investments reported at fair value (debt securities available for sale, index options and equity securities).

A portion of the Company's debt securities are designated in the available for sale portfolio, which is reported at fair market value. Unrealized gains associated with this part of the portfolio were \$76.6 million at December 31, 2017 but shifted to an unrealized loss position of \$(62.6) million at December 31, 2018 incrementally lowering the total portfolio balance. The increase in the unrealized loss position of the portfolio is largely a consequence of market interest rate levels increasing during 2018.

Derivatives are call options purchased to hedge the interest crediting mechanism associated with the Company's fixed-index universal life and annuity policies. These options are reported on the Consolidated Balance Sheets at fair value in accordance with GAAP. The unrealized loss position of options held at December 31, 2018 was \$(72.3) million which was \$191.7 million lower than the unrealized gain position at December 31, 2017 of \$119.4 million. The decrease is due to the lower equity index level at the end of 2018 relative to the market indice levels at the time outstanding options were purchased.

Table of Contents**Debt Securities**

The Company maintains a diversified portfolio which consists mostly of corporate, mortgage-backed, and public utility fixed income securities. Investments in mortgage-backed securities primarily include U.S. government agency pass-through securities and collateralized mortgage obligations ("CMO"). The Company's investment guidelines prescribe limitations by type of security as a percent of the total investment portfolio and all holdings were within these threshold limits. As of December 31, the Company's debt securities portfolio consisted of the following for 2018 and 2017:

	December 31, 2018		December 31, 2017	
	Carrying Value (In thousands)	%	Carrying Value (In thousands)	%
Corporate	\$7,544,831	73.7	\$7,343,473	71.4
Residential mortgage-backed	1,193,016	11.7	1,301,877	12.7
Public utilities	1,014,100	9.9	1,149,651	11.2
State and political subdivisions	457,970	4.5	467,983	4.5
Asset-backed securities	10,051	0.1	13,544	0.1
Foreign governments	10,004	0.1	10,290	0.1
U.S. Treasury	1,341	—	1,337	—
Totals	\$10,231,313	100.0	\$10,288,155	100.0

Substantially all of the Company's investable cash flows are directed toward the purchase of long-term debt securities. The Company's investment policy calls for investing in debt securities that are investment grade, meet quality and yield objectives, and provide adequate liquidity for obligations to policyholders. Debt securities with intermediate maturities are targeted by the Company as they more closely match the intermediate nature of the Company's policy liabilities and provide an appropriate strategy for managing cash flows. The Company holds minimal levels of U.S. Treasury securities due to their low yields and deposits most of these holdings with various state insurance departments in order to meet security deposit on hand requirements in these jurisdictions.

Long-term debt securities purchased to fund insurance company operations are summarized below.

	Year Ended December 31			
	2018		2017	
	(Dollars in thousands)			
Cost of acquisitions	\$737,223		\$840,861	
Average S&P quality	BBB+		BBB+	
Effective annual yield	4.20	%	3.57	%
Spread to treasuries	1.29	%	1.19	%
Effective duration	8.3 years		8.1 years	

Rating agencies generally view mortgage-backed securities as having additional risk for insurers holding interest sensitive liabilities given the potential for asset/liability disintermediation. Consequently, the Company holds

predominantly agency mortgage-backed securities. Because mortgage-backed securities are subject to prepayment and extension risk, the Company has substantially reduced these risks by investing in collateralized mortgage obligations ("CMO"), which have more predictable cash flow patterns than pass-through securities. These securities, known as planned amortization class I ("PAC I"), very accurately defined maturity ("VADM") and sequential tranches are designed to amortize in a more predictable manner than other CMO classes or pass-throughs. The Company does not purchase tranches, such as PAC II and support tranches, that subject the portfolio to greater than average prepayment risk. Using this strategy, the Company can more effectively manage and reduce prepayment and extension risks, thereby helping to maintain the appropriate matching of the Company's assets and liabilities.

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In addition to diversification, an important aspect of the Company's investment approach is managing the credit quality of its investments in debt securities. Thorough credit analysis is performed on potential corporate investments including examination of a company's credit and industry outlook, financial ratios and trends, and event risks. This emphasis is reflected in the high average credit rating of the Company's debt securities portfolio with 99.1% held in investment grade securities. In the table below, investments in debt securities are classified according to credit ratings by nationally recognized statistical rating organizations.

	December 31, 2018		December 31, 2017	
	Carrying Value (In thousands)	%	Carrying Value (In thousands)	%
AAA	\$102,240	1.0	\$114,873	1.1
AA	2,083,271	20.4	2,106,243	20.5
A	3,135,471	30.6	3,199,169	31.1
BBB	4,816,117	47.1	4,766,525	46.3
BB and other below investment grade	94,214	0.9	101,345	1.0
Totals	\$10,231,313	100.0	\$10,288,155	100.0

The investments held in debt securities that are below investment grade are the result of subsequent downgrades of the securities. These holdings are further summarized below.

Below Investment Grade Debt Securities

Amortized Cost	Carrying Value	Fair Value	% of Invested Assets	
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(In thousands except percentages)

December 31, 2018	\$102,938	94,214	92,711	0.9 %
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December 31, 2017	\$100,992	101,345	101,140	0.9 %
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The Company's percentage of below investment grade securities compared to total invested assets at December 31, 2018 remained level with that of year-end 2017 as upgrades of several securities, primarily energy-related entities, maturities, and calls by several issuers in this category nearly offset new downgrades. The Company's holdings of below investment grade securities are relatively small and as a percentage of total invested assets low compared to industry averages.

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Holdings in below investment grade securities by category as of December 31, 2018 are summarized in the following table including the comparable fair value as of December 31, 2017 for those debt securities rated below investment grade at December 31, 2018. The Company continually monitors developments in these industries for issues that may affect security valuation.

Industry Category	Below Investment Grade Debt Securities			
	Amortized Cost 2018	Carrying Value 2018	Fair Value 2018	Fair Value 2017
	(In thousands)			
Asset-backed securities	\$4,711	4,823	4,909	4,926
Residential mortgage-backed	962	878	878	936
Oil & gas	12,005	7,995	7,995	11,316
Manufacturing	65,293	60,880	59,291	62,361
Other	19,967	19,638	19,638	20,650
Totals	\$102,938	94,214	92,711	100,189

The Company closely monitors its below investment grade holdings by reviewing investment performance indicators, including information such as issuer operating performance, debt ratings, analyst reports and other economic factors that may affect these specific investments. While additional losses are not currently anticipated, based on the existing status and condition of these securities, continued credit deterioration of some securities or the markets in general is possible, which may result in future write-downs.

Generally accepted accounting principles require that investments in debt securities be written down to fair value when declines in value are judged to be other-than-temporary. 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 (an exit price methodology). Refer to Note (14) Fair Values of Financial Instruments of the accompanying Consolidated Financial Statements for further discussion.

During the year ended December 31, 2018, the Company recorded no other-than-temporary impairment ("OTTI") credit related write-downs on debt securities. See Note (3) Investments of the accompanying Consolidated Financial Statements for further discussion.

Since the Company's adoption of the GAAP guidance and accounting for other-than-temporary impairments due to credit loss versus non-credit loss, the Company has recognized on its securities held at December 31, 2018 a total of \$0.6 million of other-than-temporary impairments of which \$0.6 million were deemed credit related and recognized as realized investment losses in earnings, and \$0.0 million that was deemed non-credit related impairments and recognized in other comprehensive income.

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The Company is required to classify its investments in debt securities into one of three categories: (a) trading securities; (b) securities available for sale; or (c) securities held to maturity. The Company purchases securities with the intent to hold to maturity and accordingly does not maintain a portfolio of trading securities. Of the remaining two categories, available for sale and held to maturity, the Company makes a determination on categorization based on various factors including the type and quality of the particular security and how it will be incorporated into the Company's overall asset/liability management strategy. As shown in the table below, at December 31, 2018, approximately 29.0% of the Company's total debt securities, based on fair values, were classified as securities available for sale. These holdings in available for sale provide flexibility to the Company to react to market opportunities and conditions and to practice active management within the portfolio to provide adequate liquidity to meet policyholder obligations and other cash needs.

	December 31, 2018		
	Fair Value	Amortized Cost	Unrealized Losses
	(In thousands)		
Securities held to maturity:			
Debt securities	\$7,228,268	7,285,254	(56,986)
Securities available for sale:			
Debt securities	2,946,059	3,008,624	(62,565)
Totals	\$10,174,327	10,293,878	(119,551)

Asset-Backed Securities

The Company holds approximately \$10.1 million in asset-backed securities as of December 31, 2018. This portfolio includes \$0.7 million of manufactured housing bonds and \$9.4 million of home equity loans (also referred to as subprime securities). These holdings have declined from the levels held at December 31, 2017 of \$1.0 million and \$12.5 million, respectively. The Company does not have any holdings in collateralized bond obligations ("CBO"s), collateralized debt obligations ("CDO"s), or collateralized loan obligations ("CLO"s). Principal risks in holding asset-backed securities are structural, credit, and capital market risks. Structural risks include the securities' priority in the issuer's capital structure, the adequacy of and ability to realize proceeds from collateral and the potential for prepayments. Credit risks include corporate credit risks or consumer credit risks for financing such as subprime mortgages. Capital market risks include the general level of interest rates and the liquidity for these securities in the marketplace.

Mortgage Loans and Real Estate

The Company originates loans on high quality, income-producing properties such as shopping centers, freestanding retail stores, office buildings, industrial, sales or service facilities, selected apartment buildings, hotels, and health care facilities. The location of these properties is typically in major metropolitan areas that offer a potential for property value appreciation. Credit and default risk is minimized through strict underwriting guidelines and diversification of underlying property types and geographic locations. In addition to being secured by the property, mortgage loans with leases on the underlying property are often guaranteed by the lease payments and also by the borrower. This approach has proved over time to result in quality mortgage loans with few defaults. Mortgage loan interest income is recognized on an accrual basis with any premium or discount amortized over the life of the loan. Prepayment and late fees are recorded on the date of collection.

The Company targets a minimum specified yield on mortgage loan investments determined by reference to currently available debt security instrument yields, plus a desired amount of incremental basis points. During the past several years, the low interest rate environment has resulted in fewer loan opportunities being available that meet the Company's required rate of return. Mortgage loans originated by the Company totaled \$29.9 million and \$59.4 million for the years 2018 and 2017, respectively.

Loans in foreclosure, loans considered impaired or loans past due 90 days or more are placed on a non-accrual status. If a mortgage loan is determined to be on non-accrual status, the mortgage loan does not accrue any income into the Consolidated Statements of Earnings. The loan is independently monitored and evaluated as to potential impairment or foreclosure. If delinquent payments are made and the loan is brought current, then the Company returns the loan to active status and accrues income accordingly. The Company has no loans past due 90 days which are accruing interest.

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The Company's direct investments in real estate are not a significant portion of its total investment portfolio as most of these investments were acquired through mortgage loan foreclosures. For the years ended December 31, 2018 and 2017, there were no real estate properties acquired through mortgage loan foreclosure. The Company also participates in several real estate joint ventures and limited partnerships that invest primarily in income-producing retail properties.

The Company held net investments in mortgage loans, after allowances for possible losses, totaling \$203.2 million and \$208.2 million at December 31, 2018 and 2017, respectively. The diversification of the portfolio by geographic region, property type, and loan-to-value ratio was as follows:

	December 31, 2018		December 31, 2017	
	Amount	%	Amount	%
	(In thousands)		(In thousands)	
<i>Mortgage Loans by Geographic Region:</i>				
West South Central	\$116,205	57.0	\$119,794	57.3
East North Central	20,944	10.3	30,876	14.8
South Atlantic	29,829	14.6	19,155	9.2
East South Central	13,801	6.8	14,273	6.8
West North Central	12,751	6.3	12,967	6.2
Pacific	6,626	3.2	8,014	3.8
Middle Atlantic	2,138	1.0	2,215	1.1
Mountain	1,561	0.8	1,605	0.8
Gross balance	203,855	100.0	208,899	100.0
Allowance for possible losses	(675)	(0.3)	(650)	(0.3)
Totals	\$203,180	99.7	\$208,249	99.7

	December 31, 2018		December 31, 2017	
	Amount	%	Amount	%
	(In thousands)		(In thousands)	
<i>Mortgage Loans by Property Type:</i>				
Retail	\$96,075	47.1	\$87,805	42.0
Office	71,194	34.9	74,301	35.6
Hotel	14,454	7.1	13,782	6.6
Land/Lots	3,498	1.7	10,563	5.1
All other	18,634	9.2	22,448	10.7
Gross balance	203,855	100.0	208,899	100.0
Allowance for possible losses	(675)	(0.3)	(650)	(0.3)
Totals	\$203,180	99.7	\$208,249	99.7

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	December 31, 2018		December 31, 2017	
	Amount	%	Amount	%
	(In thousands)		(In thousands)	
<i>Mortgage Loans by Loan-to-Value Ratio (1):</i>				
Less than 50%	\$66,371	32.6	\$82,224	39.4
50% to 60%	22,610	11.1	27,395	13.1
60% to 70%	102,857	50.4	86,849	41.6
70% to 80%	6,642	3.3	—	—
80% to 90%	5,375	2.6	6,929	3.3
Greater than 90%	—	—	5,502	2.6
Gross balance	203,855	100.0	208,899	100.0
Allowance for possible losses	(675)	(0.3)	(650)	(0.3)
Totals	\$203,180	99.7	\$208,249	99.7

(1) Loan-to-Value Ratio using the most recent appraised value. Appraisals are required at the time of funding and may be updated if a material change occurs from the original loan agreement.

The greater than 90% category is related to loans made with a long standing borrower which are backed by the investment property, contracted leases and the guarantee of the borrower.

All mortgage loans are analyzed quarterly in order to monitor the financial quality of these assets. Based on ongoing monitoring, mortgage loans with a likelihood of becoming delinquent are identified and placed on an internal “watch list”. Among the criteria that would indicate a potential problem are: major tenant vacancies or bankruptcies, late payments, and loan relief/restructuring requests. The mortgage loan portfolio is analyzed for the need for a valuation allowance on any loan that is on the internal watch list, in the process of foreclosure or that currently has a valuation allowance.

Mortgage loans are considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. When it is determined that a loan is impaired, a loss is recognized for the difference between the carrying amount of the mortgage loan and the estimated value reduced by the cost to sell. Estimated value is typically based on the loan’s observable market price or the fair value of the collateral less cost to sell. Impairments and changes in the valuation allowance are reported in net realized capital gains (losses) in the Consolidated Statements of Earnings.

The Company recognized no impairment losses for the years ended December 31, 2018, 2017 and 2016, respectively. The current mortgage loan valuation allowance represents a general valuation allowance established for the Company's mortgage loan portfolio based upon the Company's loss experience for more than ten years and is not specifically identified to individual loans.

The following table represents the mortgage loan allowance for the years ended December 31, 2018 and 2017:

2018 2017

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(In
thousands)

Balance, beginning of period	\$ 650	650
Provision	25	—
Releases	—	—
Balance, end of period	\$ 675	650

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The Company does not recognize interest income on loans past due ninety days or more. The Company had no mortgage loans past due six months or more at December 31, 2018 and 2017. There was no interest income that was not recognized in 2018, 2017 and 2016.

The contractual maturities of mortgage loan principal balances at December 31, 2018 and 2017 were as follows:

	December 31, 2018		December 31, 2017	
	Amount	%	Amount	%
	(In thousands)		(In thousands)	
<i>Principal Balance by Contractual Maturity:</i>				
Due in one year or less	\$23,839	11.7	\$22,966	11.0
Due after one year through five years	39,391	19.3	41,248	19.7
Due after five years through ten years	134,574	65.8	119,966	57.2
Due after ten years through fifteen years	6,642	3.2	25,429	12.1
Due after fifteen years	—	—	—	—
Totals	\$204,446	100.0	\$209,609	100.0

The Company's direct investments in real estate total approximately \$35.7 million at December 31, 2018 and \$37.4 million at December 31, 2017, and consist primarily of income-producing properties which are being operated by a wholly owned subsidiary of National Western. The Company recognized operating income on these properties of approximately \$2.2 million, \$2.9 million and \$2.6 million for the years ended December 31, 2018, 2017 and 2016, respectively. The Company monitors the conditions and market values of these properties on a regular basis and makes repairs and capital improvements to keep the properties in good condition. The Company recorded net realized investment gains of \$1.8 million, \$2.7 million and \$2.9 million associated with real estate investments in the years ended December 31, 2018, 2017 and 2016, respectively.

Derivatives, Index Options

The Company offers fixed-index universal life and annuity products that guarantee the return of principal to policyholders and, at the policyholder's election, credit interest based on a percentage gain in a specified equity market index (policyholders may alternatively elect a fixed interest rate). Premiums and deposits received on these products are predominantly invested in investment grade fixed income securities with a portion used to purchase derivatives consisting of call options on the applicable market index to fund the index credits due to fixed-index policyholders. The call options purchased are one year over-the-counter option contracts coinciding with the initial issuance of the policy and subsequent annual renewal periods in order to match the Company's funding requirements for the underlying policies. On the respective anniversary dates of the index policies, the index used to compute the annual index credit is reset and a new one-year call option is purchased to fund the next annual index credit.

Although the call options are employed to be effective hedges against the Company's policyholder obligations from an economic standpoint, they do not meet the requirements for hedge accounting under GAAP. Accordingly, the call options are marked to fair value on each reporting date with the change in fair value, plus or minus, included as a component of net investment income. The change in fair value of the call options includes the gains or losses recognized at the expiration of the option term and the changes in fair value for open contracts.

The Company's design of its fixed-index products incorporates a budget for the purchase of over-the-counter call options to fund the index credits due to policyholders. Management monitors current prices of these call options and manages the cost of purchases through the terms of the policy contracts. These terms permit the Company to change caps, participation rates, and asset fees, subject to guaranteed minimums, thus managing the cost of the call options quoted by counterparties. In addition, the Company's product terms allow for the Company to withdraw from offering a particular index option at any time effective on the next policy anniversary date.

The fair value of derivative instruments presented in the Company's Consolidated Financial Statements totaling \$14.7 million at December 31, 2018 and \$194.7 million at December 31, 2017 pertain to notional policyholder account values of \$2.6 billion and \$3.2 billion at December 31, 2018 and 2017, respectively, electing interest credits based upon applicable market index performance.

Table of Contents**Market Risk**

Market risk is the risk of change in market values of financial instruments due to changes in interest rates, currency exchange rates, commodity prices, or equity prices. The most significant market risk exposure for National Western is interest rate risk. Substantial and sustained increases and decreases in market interest rates can affect the profitability of insurance products and fair value of investments. The yield realized on new investments generally increases or decreases in direct relationship with interest rate changes. The fair values of fixed income debt securities correlate to external market interest rate conditions as market values typically increase when market interest rates decline and decrease when market interest rates rise. However, market values may fluctuate for other reasons, such as changing economic conditions, market dislocations or increasing event-risk concerns.

Interest Rate Risk

A gradual increase in interest rates from current levels would generally be a positive development for the Company. Rate increases would be expected to provide incremental net investment income, produce increased sales of fixed rate products, and limit the potential erosion of the Company's interest rate spread on products due to minimum guaranteed crediting rates in products. Alternatively, a rise in interest rates would reduce the fair value of the Company's investment portfolio and if long-term rates rise dramatically within a relatively short time period could expose the Company to disintermediation risk. Disintermediation risk is the risk that policyholders will surrender their policies in a rising interest rate environment forcing the Company to liquidate assets when they are in an unrealized loss position.

A decline in interest rates could cause certain mortgage-backed securities in the Company's portfolio to be more likely to pay down or prepay. In this situation, the Company typically will be unable to reinvest the proceeds at comparable yields. Lower interest rates will likely also cause lower net investment income, subject the Company to reinvestment rates risks, and possibly reduce profitability through reduced interest rate margins associated with products with minimum guaranteed crediting rates. Alternatively, the fair value of the Company's investment portfolio will increase when interest rates decline.

The correlation between fair values and interest rates for debt securities is reflected in the tables below.

	December 31,			
	2018	2017		
	(In thousands except percentages)			
Debt securities - fair value	\$ 10,174,327	10,475,235		
Debt securities - amortized cost	\$ 10,293,878	10,211,534		
Fair value as a percentage of amortized cost	98.84	% 102.58		%
Unrealized gains (losses) at year-end	\$(119,551)	) 263,701		
Ten-year U.S. Treasury bond - increase (decrease) in yield for the year	0.28	% (0.04)%

The Company's unrealized gain (loss) balance for debt securities held at December 31, 2018 and 2017 is shown in the following table.

Unrealized Gain (Loss) Balance	
Net	Net
Balance at	Balance
	at

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	December 31, 2018 (In thousands)	December 31, 2017	Change in Net Balance
Debt securities held to maturity	\$(56,986)	187,080	(244,066)
Debt securities available for sale	(62,565)	76,621	(139,186)
Totals	\$(119,551)	263,701	(383,252)

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Debt securities held to maturity are recorded at their amortized cost basis. Accordingly, the unrealized amounts shown in the table above for Debt securities held to maturity are not incorporated into the Company's Consolidated Financial Statements at December 31, 2018 and 2017, respectively.

Changes in interest rates typically have a sizable effect on the fair values of the Company's debt securities. During 2018, the market interest rate of the ten-year U.S. Treasury bond increased roughly 28 basis points from 2.41% at year-end 2017 to 2.69% at year-end 2018. Therefore, the increase in unrealized losses was primarily the result of the increase in interest rate levels. However, since the majority of the Company's debt securities are classified as held to maturity, which are recorded at amortized cost, changes in fair values have a lesser effect on the Company's financial results.

The Company manages interest rate risk principally through ongoing cash flow testing as required for insurance regulatory purposes. Computer models are used to perform cash flow testing under various commonly used stress test interest rate scenarios to determine if existing assets would be sufficient to meet projected liability outflows. Sensitivity analysis allows the Company to measure the potential gain or loss in fair value of its interest-sensitive instruments and to protect its economic value and achieve a predictable spread between what is earned on invested assets and what is paid on liabilities. The Company seeks to minimize the impact of interest risk through surrender charges that are imposed to discourage policy surrenders. Interest rate changes can be anticipated in the computer models and the corresponding risk addressed by management actions affecting asset and liability instruments. However, potential changes in the values of financial instruments indicated by hypothetical interest rate changes will likely be different from actual changes experienced, and the differences could be significant.

The Company has the ability to adjust interest rates, participation rates, and asset management fees and caps, as applicable, in response to changes in investment portfolio yields for a substantial portion of its business in force. The ability to adjust these rates is subject to competitive forces in the market for the Company's products. Surrender rates could increase and new sales could be negatively affected if crediting rates are not competitive with the rates on competing products offered by other insurance companies and financial service entities. The Company designs its products with features encouraging persistency. Interest sensitive life and annuity products have surrender and withdrawal penalty provisions. Typically, surrender charge rates gradually decrease each year the contract is in force.

The Company seeks to minimize the impact of interest rate risk through surrender charges that are imposed to discourage policy surrenders and to offset unamortized acquisition costs. Certain products, such as supplementary contracts with life contingencies, are not subject to surrender or discretionary withdrawal. The Company may also include a market value adjustment ("MVA") feature on its annuity products which could increase or decrease the amount paid to contract holders upon surrender of their contract as a means to further mitigate interest rate risk.

The following table profiles the Company's insurance liabilities at December 31, 2018 for annuities, deposit-type contracts and supplementary contracts with life contingencies by surrender and discretionary withdrawal characteristics.

	December 31, 2018	
	Amount	%
	(In thousands)	
Subject to discretionary withdrawal:		
With market value adjustment	\$696,456	9.2

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With surrender charge of 5% or more	5,226,196	69.4
With surrender charge of 5% or less	1,224,533	16.2
Not subject to discretionary withdrawal	388,711	5.2
Total	\$7,535,896	100.0

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Table of Contents*Interest Rate Sensitivity*

The following table illustrates the market risk sensitivity of the Company's interest rate sensitive assets. The table shows the effect of a change in interest rates on the fair value of the portfolio using models that measure the change in fair value arising from an immediate and sustained change in interest rates in increments of 100 basis points.

	Fair Values of Assets				
	Changes in Interest Rates in Basis Points				
	-100	0	+100	+200	+300
	(In thousands)				
Debt and equity securities	\$10,644,791	10,191,817	9,752,955	9,334,894	8,941,251
Mortgage loans	212,217	202,762	193,914	185,628	177,862
Other loans	12,969	12,709	12,456	12,209	11,966
Derivatives	13,955	14,684	15,466	16,308	17,211

The selection of the 100 basis point parallel shift in the yield curve was made as an illustration of the potential hypothetical impact of such an event and should not be construed as a prediction of future market events. Actual results could vary materially from those illustrated due to the nature of the estimates and assumptions used in the above analysis. Expected maturities of debt securities may differ from contractual maturities due to call or prepayment provisions. The models assume that prepayments on mortgage-backed securities are influenced by agency and pool types, the level of interest rates, loan age, refinancing incentive, month of the year, and underlying coupon. During periods of declining interest rates, principal payments on mortgage-backed securities and collateralized mortgage obligations tend to increase as the underlying mortgages are prepaid. Conversely, during periods of rising interest rates, the rate of prepayment slows. Both of these situations can expose the Company to the possibility of asset-liability cash flow and yield mismatch. The model uses a proprietary method of sampling interest rate paths along with a mortgage prepayment model to derive future cash flows. The initial interest rates used are based on the current U.S. Treasury yield curve as well as current mortgage rates for the various types of collateral in the portfolio.

Mortgage and other loans were modeled by discounting scheduled cash flows through the scheduled maturities of the loans, starting with interest rates currently being offered for similar loans to borrowers with similar credit ratings. Policy loans were modeled by discounting estimated cash flows using U.S. Treasury Bill interest rates as base rates at December 31, 2018. The estimated cash flows include assumptions as to whether such loans will be repaid by the policyholders or settled upon payment of death or surrender benefits on the underlying insurance contracts and incorporate both Company experience and mortality assumptions associated with such contracts.

In addition to the securities analyzed above, the Company invests in index options which are derivative financial instruments used to hedge the equity return component of the Company's indexed annuity and life products. The values of these options are primarily impacted by equity price risk, as the options' fair values are dependent on the performance of the underlying reference index. However, increases or decreases in investment returns from these options are substantially offset by corresponding increases or decreases in amounts paid to indexed policyholders, subject to minimum guaranteed policy interest rates.

The Company's market risk liabilities, which include policy liabilities for annuity and supplemental contracts, are managed for interest rate risk through cash flow testing as previously described. As part of this cash flow testing, the Company has analyzed the potential impact on net earnings of a 100 basis point decrease and increases in increments of 100 basis points in the U.S. Treasury yield curve as of December 31, 2018. The potential impact on net earnings from these interest rate changes are summarized below.

Changes in Interest Rates in
Basis Points
-100 +100 +200 +300
(In thousands)

Impact on net earnings \$(546) 3,004 7,686 14,888

These estimated impacts on earnings are net of tax effects and the estimated effects of deferred policy acquisition costs.

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The above described scenarios produce estimated changes in cash flows as well as cash flow reinvestment projections. Estimated cash flows in the Company's model assume cash flow reinvestments, which are representative of the Company's current investment strategy. Calls and prepayments include scheduled maturities and those expected to occur which would benefit the security issuers. Assumed policy surrenders consider differences and relationships between credited interest rates and market interest rates as well as surrender charges on individual policies. The impact to earnings also includes the expected effects on amortization of deferred policy acquisition costs. The model considers only annuity and supplemental contracts in force at December 31, 2018, and does not consider new product sales or the possible impact of interest rate changes on sales.

Credit Risk

The Company is exposed to credit risk through counterparties and within its investment portfolio. Credit risk relates to the uncertainty associated with an obligor's continued ability to make timely payments of principal and interest in accordance with the contractual terms of an instrument or contract. As previously discussed, the Company manages credit risk through established investment credit policies and guidelines which address the quality of creditors and counterparties, concentration limits, diversification practices and acceptable risk levels. These policies and guidelines are regularly reviewed and approved by senior management and National Western's Board of Directors.

In connection with the Company's use of call options to hedge the equity return component of its fixed-indexed annuity and life products, the Company is exposed to the risk that a counterparty fails to perform under terms of the option contract. The Company purchases one-year option contracts from multiple counterparties and evaluates the creditworthiness of all counterparties prior to the purchase of the contracts. For consideration in contracting with a counterparty the rating required by the Company is a credit rating of "A" or higher. Accordingly, all options are purchased from nationally recognized financial institutions with a demonstrated performance for honoring their financial obligations and possessing substantial financial capacity. In addition, each counterparty is required to execute a credit support agreement obligating the counterparty to provide collateral to the Company when the fair value of the Company's exposure to the counterparty exceeds specified amounts. Counterparty credit ratings and credit exposure are monitored continuously by National Western's Investment department with adjustments to collateral levels managed under as incurred under the credit support agreements.

The Company's net exposure to loss due to credit risk if option counterparties failed to completely perform according to the terms of their one-year contracts is as follows at December 31, 2018 and 2017.

Counterparty	Moody/ S&P Rating	December 31, 2018		
		Fair Value (In thousands)	Collateral Held	Net Exposure
Credit Suisse	A1/A	\$802	795	7
Wells Fargo	Aa2/A+	4,469	3,476	993
Bank of America	Aa3/A+	4,109	4,476	—
Barclays Bank	A2/A	419	175	244
BNP Paribas	Aa3/A	204	213	—
JPMorgan Chase	Aa2/A+	990	—	990
Royal Bank of Canada	Aa2/AA-	1,614	1,719	—
Canadian Imperial Bank	Aa2/A+	2,077	2,305	—
		\$14,684	13,159	2,234

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Counterparty	Moody/ S&P Rating	December 31, 2017		
		Fair Value (In thousands)	Collateral Held	Net Exposure
Credit Suisse	A1/A	\$38,633	40,795	—
Wells Fargo	Aa2/AA-	39,521	43,074	—
Bank of America	Aa3/A+	61,238	65,260	—
Barclays Bank	A1/A	14,360	15,262	—
BNP Paribas	Aa3/A	15,157	16,683	—
JPMorgan Chase	Aa3/A+	18,437	14,090	4,347
Royal Bank of Canada	A1/AA-	7,385	7,453	—
		\$194,731	202,617	4,347

The Company has never incurred a loss on index options due to counterparty default.

The Company is also exposed to credit spread risk related to market prices of investment securities and cash flows associated with changes in credit spreads. Credit spread tightening will reduce net investment income associated with new purchases of fixed debt securities and will increase the fair value of the investment portfolio. Credit spread widening will reduce the fair value of the investment portfolio and will increase net investment income on new purchases.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Liquidity requirements are met primarily by funds provided from operations. Premium deposits and annuity considerations, investment income, and investment maturities and prepayments are the primary sources of funds while investment purchases, policy benefits in the form of claims, and payments to policyholders and contract holders in connection with surrenders and withdrawals as well as operating expenses are the primary uses of funds. To ensure the Company will be able to pay future commitments, the funds received as premium payments and deposits are invested in high quality investments, primarily fixed income securities. Funds are invested with the intent that the income from investments, plus proceeds from maturities, will meet the ongoing cash flow needs of the Company. The approach of matching asset and liability durations and yields requires an appropriate mix of investments. Although the Company historically has not been put in the position of having to liquidate invested assets to provide cash flow, its investments consist primarily of marketable debt securities that could be readily converted to cash for liquidity needs. The Company (National Western) may also borrow up to \$75 million on its bank line of credit for short-term cash needs. There were no borrowings outstanding under the line of credit at December 31, 2018.

A primary liquidity concern for life insurers is the risk of an extraordinary level of early policyholder withdrawals, particularly with respect to annuity products whose funds tend to move more rapidly with interest rate changes. The Company includes provisions within its annuity and universal life insurance policies, such as surrender and market value adjustments, that help limit and discourage early withdrawals.

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The following table sets forth withdrawal characteristics of National Western's annuity reserves and deposit liabilities (based on statutory reporting liability values) as of the dates indicated.

	December 31, 2018		December 31, 2017	
	Amount	% of Total	Amount	% of Total
	(In thousands except percentages)			
Not subject to discretionary withdrawal provisions	\$388,711	5.2 %	\$408,888	5.2 %
Subject to discretionary withdrawal, with adjustment:				
With market value adjustment	696,456	9.2 %	973,442	12.4 %
At contract value less current surrender charge of 5% or more	5,226,196	69.4 %	5,480,555	70.0 %
Subtotal	6,311,363	83.8 %	6,862,885	87.6 %
Subject to discretionary withdrawal at contract value with no surrender charge or surrender charge of less than 5%	1,224,533	16.2 %	969,173	12.4 %
Total annuity reserves and deposit liabilities	\$7,535,896	100.0 %	\$7,832,058	100.0 %

The actual amounts paid out by product line in connection with surrenders and withdrawals for the years ended December 31 are noted in the table below.

	December 31,		
	2018	2017	2016
	(In thousands)		
Product Line:			
Traditional Life	\$3,755	4,487	6,238
Universal Life	98,819	120,824	114,964
Annuities	629,930	515,583	516,820
Total	\$732,504	640,894	638,022

The above contractual withdrawals, as well as the level of surrenders experienced, were generally consistent with the Company's assumptions in asset-liability management, and the associated cash outflows did not have an adverse impact on overall liquidity. Individual life insurance policies are less susceptible to withdrawal than annuity reserves and deposit liabilities because policyholders may need to undergo a new underwriting process in order to obtain a new insurance policy elsewhere. The Company's disengagement from several international markets in 2015 initially influenced higher withdrawals from these areas but this level of activity has subsequently subsided. Annuity dollar outflows are generally more sensitive to economic conditions and interest rate levels. In addition, the maturation of policies within the annuity block of business (i.e. moving into durations having no surrender charges or minimal surrender charges), has been gradual as evidenced by the previous table depicting withdrawal characteristics of the in force reserves. During 2018, interest rate levels marginally increased coinciding with policy decisions of the Federal Reserve and this upward movement in rates did prompt a higher incidence annuity dollar outflows. Cash flow projections and tests under various market interest rate scenarios and assumptions are performed to assist in evaluating liquidity needs and adequacy. The Company currently expects available liquidity sources and future cash flows to be more than adequate to meet the demand for funds.

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Cash flows from the Company's insurance operations have historically been sufficient to meet current needs. Cash flows from operating activities were \$326.6 million, \$276.1 million, and \$309.1 million in 2018, 2017, and 2016, respectively. The Company also has significant cash flows from both scheduled and unscheduled investment security maturities, redemptions, and prepayments. These cash flows totaled \$633.2 million, \$779.0 million, and \$595.0 million in 2018, 2017, and 2016, respectively. Cash flows from security maturities, redemptions, and prepayments coincide primarily with scheduled maturity dates of securities given the Company's buy and hold investment philosophy but may become amplified during periods of significant declines in interest rates due to prepayments and bond calls. Conversely, these cash flow items could experience reduced levels of activity if interest rates rise in the future. Net cash inflows/(outflows) from the Company's universal life and annuity product operations totaled \$(440.6) million, \$(163.3) million, and \$(52.8) million in 2018, 2017, and 2016, respectively. The trend in net outflows reflects the declining annuity sales pattern during the period and in 2018 the higher incidence of annuity cash surrenders and withdrawals.

Capital Resources

The Company relies on retained earnings for its capital resources as there is no long-term debt outstanding and the Company does not anticipate the need for any long-term debt in the near future. As of December 31, 2018, the Company maintained commitments for its normal operating and investment activities. In addition, the Company had pending an acquisition under a Stock Purchase Agreement executed October 3, 2018, which was subject to receiving the requisite regulatory approvals at December 31, 2018. As disclosed in Note (8) Subsequent Events in the Notes to Consolidated Financial Statements in Attachment A of Part IV Item 15. Exhibits and Financial Statement Schedules of this filing, the Company subsequently completed the announced acquisition on January 31, 2019 paying \$205.5 million for the targeted companies.

The Company has declared and paid an annual dividend on its common shares since 2005 although its practice remains to substantially reinvest earnings internally to finance the development of new business. Despite the fact the Company's market price of its Class A common shares has been trading at a discount to the book value per share for some time, there are no imminent plans for the Company to repurchase its shares as the Board of Directors has adopted a strategic policy of building a strong capital base to maintain its high financial strength ratings and having the ability to take competitive advantages and acquisitions as they arise. The capacity of National Western to pay dividends to NWLGI is limited by law in the state of Colorado to earned profits (statutory unassigned surplus). At December 31, 2018, the maximum amount legally available for distribution during 2019 without further regulatory approval is \$30.7 million.

The National Association of Insurance Commissioners ("NAIC") has established risk-based capital ("RBC") standards for U.S. life insurers as well as a risk-based capital model act ("RBC Model Act"). The RBC Model Act requires that life insurers annually submit a report to state regulators regarding their RBC amounts based upon four categories of risk (asset risk, insurance risk, interest rate risk, and business risk). The capital requirement for each is determined by applying factors that vary based upon the degree of risk to various asset, premium and policy benefit reserve items. The formula is an early warning tool to identify potential weakly capitalized companies for purposes of initiating further regulatory action. Independent rating agencies utilize proprietary versions similar to the NAIC RBC model incorporating additional risk factors identified in their respective rating methodology. At December 31, 2018, National Western maintained statutory capital substantially in excess of applicable statutory requirements.

OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

It is Company practice to not enter into off-balance sheet arrangements or to issue guarantees to third parties, other than in the normal course of issuing insurance contracts. Commitments related to insurance products sold are reflected as liabilities for future policy benefits. Insurance contracts guarantee certain performances by National Western.

Insurance reserves are the means by which life insurance companies determine the liabilities that must be established to assure that future policy benefits are provided for and can be paid. These reserves are required by law and based upon standard actuarial methodologies to ensure fulfillment of commitments guaranteed to policyholders and their beneficiaries, even though the obligations may not be due for many years. Refer to Note (1) Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements for a discussion of reserving methods.

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The table below summarizes future estimated cash payments under existing contractual obligations.

	Payment Due by Period				
	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
	(In thousands)				
Loan commitments	\$ 17,800	17,800	—	—	—
Lease obligations (1)	1,434	359	717	358	—
Life claims payable (2)	75,533	75,533	—	—	—
Other long-term reserve liabilities reflected on the balance sheet under GAAP (3)	12,083,235	1,053,205	1,961,346	1,695,351	7,373,333
Total	\$ 12,178,002	1,146,897	1,962,063	1,695,709	7,373,333

(1) Refer to Note (9) Commitments and Contingencies in the Notes to Consolidated Financial Statements relating to Company leases.

(2) Life claims payable include benefit and claim liabilities for which the Company believes the amount and timing of the payment is essentially fixed and determinable. Such amounts generally relate to incurred and reported death and critical illness claims including an estimate of claims incurred but not reported.

(3) Other long-term liabilities include estimated life and annuity obligations related to death claims, policy surrenders, policy withdrawals, maturities and annuity payments based on mortality, lapse, annuitization, and withdrawal assumptions consistent with the Company's historical experience. These estimated life and annuity obligations are undiscounted projected cash outflows that assume interest crediting and market growth consistent with assumptions used in amortizing deferred acquisition costs. They do not include any offsets for future premiums or deposits. Other long-term liabilities also include determinable payout patterns related to immediate annuities. Due to the significance of the assumptions used, the actual cash outflows will differ both in amount and timing, possibly materially, from these estimates.

ACCOUNTING STANDARDS AND CHANGES IN ACCOUNTING

Recently Issued Accounting Standards

Refer to Note 1, Summary of Significant Accounting Policies.

Correction of Errors

None.

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**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES
ABOUT MARKET RISK**

The information called for by Item 7A is set forth in the Investments section of the Management's Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Attachment A, Index to Consolidated Financial Statements, Notes and Schedules, in Part IV, Item 15. of this report.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS
ON ACCOUNTING AND FINANCIAL DISCLOSURE**

There have been no disagreements with auditors that are reportable pursuant to Item 304 of Regulation S-K.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to ensure that information to be disclosed in reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within required time periods. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the Securities and Exchange Act of 1934 is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding disclosure matters.

Internal controls over financial reporting change as the Company modifies and enhances its systems and processes to meet business needs. Any significant changes in controls are evaluated prior to implementation to help ensure continued effectiveness of internal controls and the control environment. As reported in previous filings, during the 2016 and 2017 calendar years, the Company converted its annuity and traditional life new business and in force policies to its internally developed policy administration system and has been processing such business since that time. Prior to each implementation and conversion, the Company performed model office testing encompassing the new processes and procedures to be employed using the new system and defined its internal controls with respect to such processing in this environment. During the course of calendar year 2018 management has continued to perform post-implementation testing and analysis of the processing and internal controls implemented as ongoing modifications are made to its proprietary policy administration system. Management has determined that these ongoing modifications and enhancements did not materially affect the Company's internal controls over financial reporting such that the information required to be reported and disclosed in its reports under the Exchange Act was adversely impacted.

While other changes have taken place in internal controls during the year ended December 31, 2018, none of these changes have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of this evaluation.

The Company's management, with the participation of the Company's Chairman of the Board, President and Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report and concluded that the Company's disclosure controls and procedures are effective.

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Management's Report on Internal Control Over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles. Under the supervision and participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2018 was conducted based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control - Integrated Framework (Updated 2013)*. Based on the Company's assessment under the criteria of this framework, management concluded that the Company maintained effective internal control over financial reporting as of December 31, 2018.

Attestation Report of the Company's Registered Public Accounting Firm

The Company engages BKD LLP as the independent registered accounting firm to audit the Company's financial statements and internal control over financial reporting and express their opinion thereon. A copy of BKD LLP's audit report on the Company's internal control over financial reporting is set forth on the page that follows.

Changes in Internal Control Over Financial Reporting

Internal controls over financial reporting change as the Company modifies and enhances its systems and processes to meet business needs. Any significant changes in controls are evaluated prior to implementation to help ensure continued effectiveness of internal controls and the control environment. In the normal course of operations, the Company employed remediation procedures throughout 2018 in areas where control deficiencies had been previously identified. No other changes have taken place in internal controls during the year ended December 31, 2018, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting. There have been no other significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of this examination.

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Report of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors and Stockholders
National Western Life Group, Inc.
Austin, Texas

Opinion on the Internal Control over Financial Reporting

We have audited National Western Life Group, Inc.'s (the "Company") internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework* (2013 edition) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework* (2013 edition) issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated financial statements of the Company and our report dated March 1, 2019, expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definitions and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

/s/BKD, LLP

Little Rock, Arkansas
March 1, 2019

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ITEM 9B. OTHER INFORMATION

There is no information required to be disclosed on Form 8-K for the quarter ended December 31, 2018 which has not been previously reported.

PART III

The information required by Part III is incorporated by reference from our definitive proxy statement for our annual meeting of shareholders to be held June 21, 2019 to be filed with the Commission pursuant to Regulation 14A within 120 days after December 31, 2018.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Listing of Financial Statements

See Attachment A, Index to Consolidated Financial Statements, Notes and Schedules, on page 85 for a list of financial statements included in this report.

(a) 2. Listing of Financial Statement Schedules

See Attachment A, Index to Consolidated Financial Statements, Notes and Schedules, on page 85 for a list of financial statement schedules included in this report.

All other schedules are omitted because they are not applicable, not required, or because the information required by the schedule is included elsewhere in the financial statements or notes.

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(a) 3. Listing of Exhibits

The exhibits listed below, as part of Form 10-K, are numbered in accordance with the numbering used in Item 601 of Regulation S-K of The Securities and Exchange Commission.

National Western Life Group, Inc.:

Exhibit 2.1 - Agreement and Plan of Merger, dated April 6, 2015, among National Western Life Insurance Company, a Colorado corporation, National Western Life Group, Inc., a Delaware corporation, and NWLIC MergerCo., Inc. (Incorporated by reference to Annex I of the Registration Statement on Form S-4 (File No. 333-203257) filed by National Western Life Group, Inc. with the SEC on April 6, 2015) (incorporated by reference to Exhibit 2.1 to the Company's Form 8-K dated October 2, 2015).

Exhibit 2.2 - Stock Purchase Agreement, dated October 3, 2018, among National Western Life Insurance Company, a Colorado corporation, National Western Life Group, Inc., a Delaware corporation, and CNS Corporation filed by National Western Life Group, Inc. with the SEC on October 4, 2018 (incorporated by reference to Exhibit 2.2 to the Company's Form 8-K dated October 4, 2018).

Exhibit 10(a) - National Western Life Insurance Company 2016 Executive Officer Bonus Program (Exhibit 10(a) to Form 8-K dated December 15, 2015).

Exhibit 10(b) - National Western Life Insurance Company 2016 Domestic Marketing Officer Bonus Program (Exhibit 10(b) to Form 8-K dated December 15, 2015).

Exhibit 10(c) - National Western Life Insurance Company 2016 International Marketing Officer Bonus Program (Exhibit 10(c) to Form 8-K dated December 15, 2015).

Exhibit 10(d) - National Western Life Insurance Company 2016 Officer Bonus Program (Exhibit 10(d) to Form 8-K dated December 15, 2015).

Exhibit 10(e) - National Western Life Insurance Company Change in Control & Severance Agreement - dated December 21, 2015

Exhibit 10(f) - National Western Life Insurance Company 2017 Executive Officer Bonus Program (Exhibit 10(f) to Form 8-K dated December 16, 2016).

Exhibit 10(g) - National Western Life Insurance Company 2017 Domestic Marketing Officer Bonus Program (Exhibit 10(g) to Form 8-K dated December 16, 2016).

Exhibit 10(h) - National Western Life Insurance Company 2017 International Marketing Officer Bonus Program (Exhibit 10(h) to Form 8-K dated December 16, 2016).

Exhibit 10(i) - National Western Life Insurance Company 2017 Officer Bonus Program (Exhibit 10(i) to Form 8-K dated December 16, 2016).

Exhibit 10(j) - National Western Life Insurance Company 2018 Executive Officer Bonus Program (Exhibit 10(j) to Form 8-K dated December 18, 2017).

Exhibit 10(k) - National Western Life Insurance Company 2018 Domestic Marketing Officer Bonus Program (Exhibit 10(k) to Form 8-K dated December 18, 2017).

Exhibit 10(l) - National Western Life Insurance Company 2018 International Marketing Officer Bonus Program (Exhibit 10(l) to Form 8-K dated December 18, 2017).

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- Exhibit 10(m)* - National Western Life Insurance Company 2018 Officer Bonus Program (Exhibit 10(m) to Form 8-K dated December 18, 2017).
- Exhibit 10(n)* - National Western Life Insurance Company Change in Control & Severance Agreement - dated December 21, 2017
- Exhibit 10(o)* - National Western Life Insurance Company 2019 Officer Bonus Program (Exhibit 10(o) to Form 8-K dated December 14, 2018).
- Exhibit 10(p)* - National Western Life Insurance Company Change in Control Agreement - dated February 28, 2019
- Exhibit 21* - Subsidiaries of the Registrant.
- Exhibit 23(a)* - Consent of Independent Registered Public Accounting Firm.
- Exhibit 31(a)* - Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- Exhibit 31(b)* - Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- Exhibit 32(a)* - Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- National Western Life Insurance Company:*
- Exhibit 3ii(i)* - Amended and Restated Bylaws of National Western Life Insurance Company, dated March 16, 2015 (incorporated by reference to Exhibit 3ii(i) to the Company's Form 8-K dated March 16, 2015).
- Exhibit 3.1* - Restated Certificate of Incorporation of National Western Life Group, Inc. (Incorporated by reference to Annex II of the Supplement to the Proxy Statement/Prospectus (File No. 333-203257) filed with the SEC on June 12, 2015) (incorporated by reference to Exhibit 3.1 of the Company's Form 8-K dated October 2, 2015).
- Exhibit 3.2* - Bylaws of National Western Life Group, Inc. (Incorporated by reference to Annex III of the Supplement to the Proxy Statement/Prospectus (File No. 333-203257) filed with the SEC on June 12, 2015) (incorporated by reference to Exhibit 3.1 of the Company's Form 8-K dated October 2, 2015).
- Exhibit 10(a)* - National Western Life Insurance Company Non-Qualified Defined Benefit Plan dated July 26, 1991 (incorporated by reference to Exhibit 10(a) to the Company's Form 10-K for the year ended December 31, 1995).
- Exhibit 10(c)* - National Western Life Insurance Company Non-Qualified Deferred Compensation Plan, as amended and restated, dated March 27, 1995 (incorporated by reference to Exhibit 10(c) to the Company's Form 10-K for the year ended December 31, 1995).

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Exhibit 10(d) First Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective July 1, 1995 (incorporated by reference to Exhibit 10(d) to the Company's Form 10-K for the year ended December 31, 1995).

Exhibit 10(e) National Western Life Insurance Company 1995 Stock and Incentive Plan (incorporated by reference to Exhibit 10(e) to the Company's Form 10-K for the year ended December 31, 1995).

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- Exhibit 10(f)* First Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan -effective December 17, 1996 (incorporated by reference to Exhibit 10(f) to the Company's Form 10-K for the year ended December 31, 1996).
- Exhibit 10(g)* Second Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan -effective December 17, 1996 (incorporated by reference to Exhibit 10(g) to the Company's Form 10-K for the year ended December 31, 1996).
- Exhibit 10(h)* Second Amendment to the National Western Life Insurance Company Non-Qualified Deferred -Compensation Plan effective December 17, 1996 (incorporated by reference to Exhibit 10(h) to the Company's Form 10-K for the year ended December 31, 1996).
- Exhibit 10(i)* Third Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation -Plan effective December 17, 1996 (incorporated by reference to Exhibit 10(i) to the Company's Form 10-K for the year ended December 31, 1996).
- Exhibit 10(j)* Fourth Amendment to the National Western Life Insurance Company Non-Qualified Deferred -Compensation Plan effective June 20, 1997 (incorporated by reference to Exhibit 10(j) to the Company's Form 10-K for the year ended December 31, 1997).
- Exhibit 10(k)* First Amendment to the National Western Life Insurance Company 1995 Stock and Incentive Plan effective -June 19, 1998 (incorporated by reference to Exhibit 10(k) to the Company's Form 10-Q for the quarter ended June 30, 1998).
- Exhibit 10(m)* Fifth Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation -Plan effective July 1, 1998 (incorporated by reference to Exhibit 10(m) to the Company's Form 10-Q for the quarter ended September 30, 1998).
- Exhibit 10(n)* Sixth Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation -Plan effective August 7, 1998 (incorporated by reference to Exhibit 10(n) to the Company's Form 10-K for the year ended December 31, 1998).
- Exhibit 10(o)* Third Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan -effective August 7, 1998 (incorporated by reference to Exhibit 10(o) to the Company's Form 10-K for the year ended December 31, 1998).
- Exhibit 10(p)* Exchange Agreement by and among National Western Life Insurance Company, NWL Services, Inc., Alternative Benefit Management, Inc., and American National Insurance Company effective November 23, 1998 (incorporated by reference to Exhibit 10(p) to the Company's Form 10-K for the year ended December 31, 1998).
- Exhibit 10(s)* Seventh Amendment to the National Western Life Insurance Company Non-Qualified Deferred -Compensation Plan effective August 7, 1998 (incorporated by reference to Exhibit 10(s) to the Company's Form 10-K for the year ended December 31, 2000).
- Exhibit 10(u)* Eighth Amendment to the National Western Life Insurance Company Non-Qualified Deferred -Compensation Plan effective December 1, 2000 (incorporated by reference to Exhibit 10(u) to the Company's Form 10-K for the year ended December 31, 2000).

Exhibit 10(v) Fourth Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan -effective December 1, 2000 (incorporated by reference to Exhibit 10(v) to the Company's Form 10-K for the year ended December 31, 2000).

Exhibit 10(w) Second Amendment to the National Western Life Insurance Company 1995 Stock and Incentive Plan -(incorporated by reference to Exhibit 10(w) to the Company's Form 10-Q for the quarter ended September 30, 2001).

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<i>Exhibit 10(z)</i>	Fifth Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan -effective January 1, 2001 (incorporated by reference to Exhibit 10(z) to the Company's Form 10-K for the year ended December 31, 2001).
<i>Exhibit 10(ae)</i>	Sixth Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan -effective August 23, 2002 (incorporated by reference to Exhibit 10(ae) to the Company's Form 10-Q for the quarter ended September 30, 2002).
<i>Exhibit 10(af)</i>	Seventh Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective October 18, 2002 (incorporated by reference to Exhibit 10(af) to the Company's Form 10-Q for the quarter ended September 30, 2002).
<i>Exhibit 10(ai)</i>	Eighth Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan -effective January 1, 2003 (incorporated by reference to Exhibit 10(ai) to the Company's Form 10-K for the year ended December 31, 2002).
<i>Exhibit 10(am)</i>	Ninth amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective November 1, 2003 (incorporated by reference to Exhibit 10(am) to the Company's Form 10-K for the year ended December 31, 2003).
<i>Exhibit 10(an)</i>	Ninth amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan -effective December 5, 2003 (incorporated by reference to Exhibit 10(an) to the Company's Form 10-K for the year ended December 31, 2003.)
<i>Exhibit 10(ar)</i>	Third Amendment to the National Western Life Insurance Company 1995 Stock and Incentive Plan -(incorporated by reference to Exhibit 10(ar) to the Company's Form 10-Q for the quarter ended September 30, 2004).
<i>Exhibit 10(as)</i>	Amendment to the National Western Life Insurance Company Group Excess Benefit Plan effective -December 15, 2004 (incorporated by reference to Exhibit 10(as) to the Company's Form 10-K for the year ended December 31, 2004).
<i>Exhibit 10(at)</i>	The National Western Life Insurance Company Employee Health Plan was amended and restated effective -August 20, 2004 (incorporated by reference to Exhibit 10(at) to the Company's Form 10-K for the year ended December 31, 2004).
<i>Exhibit 10(au)</i>	Tenth Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan -effective December 31, 2004 (incorporated by reference to Exhibit 10(au) to the Company's Form 10-K for the year ended December 31, 2004).
<i>Exhibit 10(az)</i>	National Western Life Insurance Company Non-Qualified Defined Benefit Plan for Robert L. Moody -(Exhibit 10(az) to Form 8-K dated July 1, 2005).
<i>Exhibit 10(ba)</i>	First Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan for Robert L. Moody (Exhibit 10(ba) to Form 8-K dated August 22, 2005).

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Exhibit 10(bb) Second Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan for Robert L. Moody (Exhibit 10(bb) to Form 8-K dated December 15, 2005).

Exhibit 10(bc) Tenth Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan (Exhibit 10(bc) to Form 8-K dated December 15, 2005).

Exhibit 10(bd) National Western Life Insurance Company Retirement Bonus Program for Robert L. Moody (Exhibit 10(bd) to Form 8-K dated December 15, 2005).

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- Exhibit 10(be)* - Eleventh Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan (Exhibit 10(be) to Form 8-K dated December 15, 2005).
- Exhibit 10(bf)* - Non-Qualified Defined Benefit Plan for the President of National Western Life Insurance Company (Exhibit 10(bf) to Form 8-K dated December 15, 2005).
- Exhibit 10(bl)* - Amendment No. 16 to Loan Agreement (Exhibit 10(bl) to Form 8-K dated July 31, 2006).
- Exhibit 10(bu)* - National Western Life Insurance Company 2008 Incentive Plan (Exhibit 10(bu) to S-8 dated September 2, 2008).
- Exhibit 10(ca)* - National Western Life Insurance Company Non-Qualified Defined Benefit Plan for Robert L. Moody As Amended and Restated Effective as of January 1, 2009 (incorporated by reference to Exhibit 10(ca) to the Company's Form 10-K for the year ended December 31, 2008).
- Exhibit 10(cb)* - Non-Qualified Defined Benefit Plan for the President of National Western Life Insurance Company As Amended and Restated Effective as of January 1, 2009 (incorporated by reference to Exhibit 10(cb) to the Company's Form 10-K for the year ended December 31, 2008).
- Exhibit 10(cc)* - National Western Life Insurance Company Grandfathered Non-Qualified Defined Benefit Plan As Amended and Restated Effective as of December 31, 2004 (incorporated by reference to Exhibit 10(cc) to the Company's Form 10-K for the year ended December 31, 2008).
- Exhibit 10(cd)* - National Western Life Insurance Company Non-Qualified Defined Benefit Plan As Amended and Restated Effective as of January 1, 2009 (incorporated by reference to Exhibit 10(cd) to the Company's Form 10-K for the year ended December 31, 2008).
- Exhibit 10(ce)* - National Western Life Insurance Company Grandfathered Non-Qualified Deferred Compensation Plan As Amended and Restated Effective as of December 31, 2004 (incorporated by reference to Exhibit 10(ce) to the Company's Form 10-K for the year ended December 31, 2008).
- Exhibit 10(cf)* - National Western Life Insurance Company Non-Qualified Deferred Compensation Plan As Amended and Restated Effective as of January 1, 2009 (incorporated by reference to Exhibit 10(cf) to the Company's Form 10-K for the year ended December 31, 2008).
- Exhibit 10(cg)* - First Amendment to The National Western Life Insurance Company Pension Plan As Amended and Restated Effective as of January 1, 2007 (incorporated by reference to Exhibit 10(cg) to the Company's Form 10-K for the year ended December 31, 2008).
- Exhibit 10(ch)* - Amended National Western Life Insurance Company Group Excess Benefit Plan, effective May 1, 2009 (incorporated by reference to Exhibit 10(ch) to the Company's Form 10-Q for the quarter ended March 31, 2009).
- Exhibit 10(ci)* - Revolving Credit Loan Agreement with Moody National Bank (Exhibit 10(ci) to Form 8-K dated August 31, 2009).

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Exhibit 10(co) Amended National Western Life Insurance Company Pension Plan, effective January 1, 2008.
-(incorporated by reference to Exhibit 10(co) to the Company's Form 10-Q for the quarter ended March 31, 2010).

Exhibit 10(cp) Management/Consultant Agreement dated March 29, 2000 by and between Regent Care Operations, Limited Partnership and Regent Management Services, Limited Partnership. (incorporated by reference to Exhibit 10(cp) to the Company's Form 10-K /A for the year ended December 31, 2010).

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- Exhibit 10(cq)* Management Agreement dated October 1, 2008 by and between Regent Care San Marcos B-3, Limited Partnership and Regent Management Services, Limited Partnership. (incorporated by reference to Exhibit 10(cq) to the Company's Form 10-K /A for the year ended December 31, 2010).
- Exhibit 10(cr)* Administrative Services Only Agreement dated January 1, 2001 by and between National Western Life Insurance Company and American National Insurance Company (ANICO) pertaining to ANICO Excess Benefit Plan. (incorporated by reference to Exhibit 10(cr) to the Company's Form 10-K /A for the year ended December 31, 2010).
- Exhibit 10(cs)* Premium Payment Agreement dated January 1, 2001 by and between National Western Life Insurance Company and American National Insurance Company (ANICO) pertaining to ANICO Excess Benefit Plan. (incorporated by reference to Exhibit 10(cs) to the Company's Form 10-K /A for the year ended December 31, 2010).
- Exhibit 10(ct)* Administrative Services Only Agreement dated January 1, 2001 by and between National Western Life Insurance Company and American National Insurance Company (ANICO) pertaining to ANICO Excess Benefit Plan. (incorporated by reference to Exhibit 10(ct) to the Company's Form 10-K /A for the year ended December 31, 2010).
- Exhibit 10(cu)* Premium Payment Agreement dated January 1, 2001 by and between National Western Life Insurance Company and American National Insurance Company (ANICO) pertaining to ANICO Excess Benefit Plan. (incorporated by reference to Exhibit 10(cu) to the Company's Form 10-K /A for the year ended December 31, 2010).
- Exhibit 10(dh)* National Western Life Insurance Company 2014 Executive Officer Bonus Program (Exhibit 10(dh) to Form 8-K dated December 11, 2013).
- Exhibit 10(di)* National Western Life Insurance Company 2014 Domestic Marketing Officer Bonus Program (Exhibit 10(di) to Form 8-K dated December 11, 2013).
- Exhibit 10(dj)* National Western Life Insurance Company 2014 International Marketing Officer Bonus Program (Exhibit 10(dj) to Form 8-K dated December 11, 2013).
- Exhibit 10(dk)* National Western Life Insurance Company 2014 Officer Bonus Program (Exhibit 10(dk) to Form 8-K dated December 11, 2013).
- Exhibit 10(dl)* National Western Life Insurance Company 2015 Executive Officer Bonus Program (Exhibit 10(dl) to Form 8-K dated December 10, 2014).
- Exhibit 10(dm)* National Western Life Insurance Company 2015 Domestic Marketing Officer Bonus Program (Exhibit 10(dm) to Form 8-K dated December 10, 2014).
- Exhibit 10(dn)* National Western Life Insurance Company 2015 International Marketing Officer Bonus Program (Exhibit 10(dn) to Form 8-K dated December 10, 2014).
- Exhibit 10(do)* National Western Life Insurance Company 2015 Officer Bonus Program (Exhibit 10(do) to Form 8-K dated December 10, 2014).

(b) Exhibits

Exhibits required by Regulation S-K are listed as to location in the Listing of Exhibits in Item 15.(a)3 above. Exhibits not referred to have been omitted as inapplicable or not required.

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(c) Financial Statement Schedules

The financial statement schedules required by Regulation S-K are listed as to location in Attachment A, Index to Consolidated Financial Statements, Notes and Schedules, on page 85 of this report.

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ATTACHMENT A

Index to Consolidated Financial Statements, Notes and Schedules

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	<u>86</u>
<u>Consolidated Balance Sheets, December 31, 2018 and 2017</u>	<u>87</u>
<u>Consolidated Statements of Earnings for the years ended December 31, 2018, 2017 and 2016</u>	<u>89</u>
<u>Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2018, 2017 and 2016</u>	<u>90</u>
<u>Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2018, 2017 and 2016</u>	<u>91</u>
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016</u>	<u>93</u>
<u>Notes to Consolidated Financial Statements</u>	<u>95</u>
<u>Schedule I - Summary of Investments Other Than Investments in Related Parties, December 31, 2018</u>	<u>162</u>
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All other schedules are omitted because they are not applicable, not required, or because the information required by the schedule is included elsewhere in the Consolidated Financial Statements or notes.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Audit Committee, Board of Directors and Stockholders
National Western Life Group, Inc.
Austin, Texas

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of National Western Life Group, Inc. (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of earnings, comprehensive income (loss), changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes and schedules I (summary of investments other than investments in related parties), II (condensed financial information of registrant) and V (valuation and qualifying accounts) (collectively referred to as the "financial statements"). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013 edition) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and our report dated March 1, 2019, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits.

We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/BKD, LLP

We have served as the Company's auditor since 2014.

Little Rock, Arkansas
March 1, 2019

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NATIONAL WESTERN LIFE GROUP, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2018 and 2017
(In thousands)

ASSETS	2018	2017
Investments:		
Debt securities held to maturity, at amortized cost (fair value: \$7,228,268 and \$7,434,104)	\$7,285,254	7,247,024
Debt securities available for sale, at fair value (amortized cost: \$3,008,624 and \$2,964,510)	2,946,059	3,041,131
Mortgage loans, net of allowance for possible losses (\$675 and \$650)	203,180	208,249
Policy loans	54,724	56,405
Derivatives, index options	14,684	194,731
Equity securities, at fair value (cost: \$14,329 and \$12,890)	17,491	18,478
Other long-term investments	56,851	51,828
Total investments	10,578,243	10,817,846
Cash and cash equivalents	131,976	217,624
Deferred policy acquisition costs	841,704	819,511
Deferred sales inducements	133,714	135,570
Accrued investment income	96,338	96,818
Federal income tax receivable	17,934	—
Other assets	131,782	137,725
Total assets	\$11,931,691	12,225,094

See accompanying notes to Consolidated Financial Statements.

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NATIONAL WESTERN LIFE GROUP, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2018 and 2017
(In thousands)

LIABILITIES AND STOCKHOLDERS' EQUITY	2018	2017
LIABILITIES:		
Future policy benefits:		
Universal life and annuity contracts	\$9,608,850	9,962,589
Traditional life reserves	135,436	135,895
Other policyholder liabilities	135,694	128,009
Deferred Federal income tax liability	39,384	25,408
Federal income tax payable	—	2,701
Other liabilities	111,550	138,318
Total liabilities	10,030,914	10,392,920
 COMMITMENTS AND CONTINGENCIES (Notes 4, 7, and 9)		
 STOCKHOLDERS' EQUITY (Note 10):		
Common stock:		
Class A - \$.01 par value in 2018 and 2017; 7,500,000 shares authorized; 3,436,020 shares issued and outstanding in 2018 and 3,436,166 shares issued and outstanding in 2017	34	34
Class B - \$.01 par value in 2018 and 2017; 200,000 shares authorized, issued, and outstanding in 2018 and 2017	2	2
Additional paid-in capital	41,716	41,716
Accumulated other comprehensive income (loss)	(37,015	) 14,281
Retained earnings	1,896,040	1,776,141
Total stockholders' equity	1,900,777	1,832,174
Total liabilities and stockholders' equity	\$ 11,931,691	12,225,094

See accompanying notes to Consolidated Financial Statements.

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NATIONAL WESTERN LIFE GROUP, INC.
CONSOLIDATED STATEMENTS OF EARNINGS
For the Years Ended December 31, 2018, 2017 and 2016
(In thousands except per share amounts)

	2018	2017	2016
Premiums and other revenue:			
Universal life and annuity contract charges	\$155,205	159,968	163,447
Traditional life premiums	18,291	18,962	19,276
Net investment income	349,077	659,685	467,674
Other revenues	20,603	21,070	18,901
Net realized investment gains (losses):			
Total other-than-temporary impairment (“OTTI”) (losses) recoveries	12	487	110
Portion of OTTI losses recognized in other comprehensive income	(12	) (599	) (110
Net OTTI losses recognized in earnings	—	(112) —
Other net investment gains	8,423	14,875	13,070
Total net realized investment gains (losses)	8,423	14,763	13,070
Total revenues	551,599	874,448	682,368
Benefits and expenses:			
Life and other policy benefits	65,297	71,485	65,529
Amortization of deferred policy acquisition costs	114,771	114,387	121,139
Universal life and annuity contract interest	136,055	437,019	248,390
Other operating expenses	93,969	107,002	94,448
Total benefits and expenses	410,092	729,893	529,506
Earnings before Federal income taxes	141,507	144,555	152,862
Federal income taxes	24,749	34,134	51,970
Net earnings	\$116,758	110,421	100,892
Basic Earnings Per Share:			
Class A	\$33.02	31.23	28.53
Class B	\$16.51	15.61	14.27
Diluted Earnings Per Share:			
Class A	\$33.02	31.23	28.53
Class B	\$16.51	15.61	14.27

See accompanying notes to Consolidated Financial Statements.

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NATIONAL WESTERN LIFE GROUP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the Years Ended December 31, 2018, 2017 and 2016
(In thousands)

	2018	2017	2016
Net earnings	\$ 116,758	110,421	100,892
Other comprehensive income (loss), net of effects of deferred costs and taxes:			
Unrealized gains (losses) on securities:			
Net unrealized holding gains (losses) arising during period	(56,818)	8,288	12,621
Net unrealized liquidity gains (losses)	2	195	37
Reclassification adjustment for net amounts included in net earnings	(2,718)	(3,403)	(2,155)
Net unrealized gains (losses) on securities	(59,534)	5,080	10,503
Foreign currency translation adjustments	1,354	(9)	(164)
Benefit plans:			
Amortization of net prior service cost and net gain	11,298	(3,873)	(116)
Other comprehensive income (loss)	(46,882)	1,198	10,223
Comprehensive income (loss)	\$ 69,876	\$ 111,619	111,115

See accompanying notes to Consolidated Financial Statements.

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NATIONAL WESTERN LIFE GROUP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2018, 2017 and 2016
(In thousands)

	2018	2017	2016
Common stock:			
Balance at beginning of period	\$ 36	36	36
Shares exercised under stock option plan	—	—	—
Balance at end of period	36	36	36
Additional paid-in capital:			
Balance at beginning of period	41,716	41,716	41,716
Shares exercised under stock option plan	—	—	—
Balance at end of period	41,716	41,716	41,716
Accumulated other comprehensive income (loss):			
Unrealized gains (losses) on non-impaired securities:			
Balance at beginning of period	33,664	22,813	12,347
Change in unrealized gains (losses) during period	(59,536)	4,885	10,466
Reclassification to retained earnings (see Note 1)	(4,414)	5,966	—
Balance at end of period	(30,286)	33,664	22,813
Unrealized losses on impaired held to maturity securities:			
Balance at beginning of period	(10)	(203)	(240)
Amortization	9	(242)	72
Other-than-temporary impairments, non-credit, net of tax	—	631	—
Additional credit loss on previously impaired securities	—	—	—
Change in shadow deferred policy acquisition costs	(6)	(194)	(35)
Reclassification to retained earnings (see Note 1)	—	(2)	—
Balance at end of period	(7)	(10)	(203)

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next page)

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NATIONAL WESTERN LIFE GROUP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2018, 2017 and 2016
(In thousands)

	2018	2017	2016
Unrealized losses on impaired available for sale securities:			
Balance at beginning of period	(1	) (1	) (1
Change in shadow deferred policy acquisition costs	(1) —	—
Recoveries, net of tax	—	—	—
Reclassification to retained earnings (see Note 1)	—	—	—
Balance at end of period	(2	) (1	) (1
Foreign currency translation adjustments:			
Balance at beginning of period	3,223	2,661	2,825
Change in translation adjustments during period	1,354	(9	) (164
Reclassification to retained earnings (see Note 1)	—	571	—
Balance at end of period	4,577	3,223	2,661
Benefit plan liability adjustment:			
Balance at beginning of period	(22,595	) (14,718	) (14,602
Amortization of net prior service cost and net gain, net of tax	11,298	(3,873	) (116
Reclassification to retained earnings (see Note 1)	—	(4,004) —
Balance at end of period	(11,297	) (22,595	) (14,718
Accumulated other comprehensive income (loss) at end of period	(37,015	) 14,281	10,552
Retained earnings:			
Balance at beginning of period	1,776,141	1,669,524	1,569,905
Reclassification from accumulated other comprehensive income (loss) (see Note 1)	4,414	(2,531) —
Net earnings	116,758	110,421	100,892
Stockholder dividends	(1,273	) (1,273	) (1,273
Balance at end of period	1,896,040	1,776,141	1,669,524
Total stockholders' equity	\$ 1,900,777	1,832,174	1,721,828

See accompanying notes to Consolidated Financial Statements.

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NATIONAL WESTERN LIFE GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018, 2017 and 2016
(In thousands)

	2018	2017	2016
Cash flows from operating activities:			
Net earnings	\$ 116,758	110,421	100,892
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Universal life and annuity contract interest	136,055	437,019	248,390
Surrender charges and other policy revenues	(37,138)	(42,061)	(44,828)
Realized (gains) losses on investments	(8,423)	(14,763)	(13,070)
Accretion/amortization of discounts and premiums, investments	(424)	(281)	(176)
Depreciation and amortization	11,825	10,005	8,057
(Increase) decrease in value of equity securities	1,789	—	—
(Increase) decrease in value of derivatives	80,004	(222,875)	(28,364)
(Increase) decrease in deferred policy acquisition and sales inducement costs	43,479	21,554	9,206
(Increase) decrease in accrued investment income	480	2,427	374
(Increase) decrease in other assets	(6,068)	(6,769)	167
Increase (decrease) in liabilities for future policy benefits	(12,474)	7,694	8,988
(Decrease) increase in other policyholder liabilities	7,685	(15,382)	(11,871)
(Decrease) increase in Federal income tax liability	(20,635)	1,912	13,301
Increase (decrease) in deferred Federal income tax	26,438	(40,227)	10,152
(Decrease) increase in other liabilities	(12,728)	27,456	7,925
Net cash provided by operating activities	326,623	276,130	309,143
Cash flows from investing activities:			
Proceeds from sales of:			
Debt securities held to maturity	—	—	975
Debt securities available for sale	28,098	22,184	15,123
Other investments	6,460	10,008	5,116
Proceeds from maturities and redemptions of:			
Debt securities held to maturity	437,311	490,841	404,802
Debt securities available for sale	195,874	288,208	190,150
Derivatives, index options	191,031	219,865	21,848
Property and equipment	8	3,024	1,528
Purchases of:			
Debt securities held to maturity	(472,224)	(570,716)	(383,722)
Debt securities available for sale	(264,999)	(291,427)	(347,495)

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NATIONAL WESTERN LIFE GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018, 2017 and 2016
(In thousands)

	2018	2017	2016
Equity securities	(2,442)	(1,160)	(679)
Derivatives, index options	(86,692)	(75,330)	(74,658)
Other investments	(8,314)	(331)	(29,505)
Property and equipment	(3,138)	(9,116)	(50,214)
Principal payments on mortgage loans	35,159	25,901	18,469
Cost of mortgage loans acquired	(29,884)	(59,448)	(84,561)
(Increase) decrease in policy loans	1,681	2,294	3,258
Net cash provided by (used in) investing activities	27,929	54,797	(309,565)
Cash flows from financing activities:			
Dividends on common stock	(1,273)	(1,273)	(1,273)
Deposits to account balances for universal life and annuity contracts	560,583	728,873	847,147
Return of account balances on universal life and annuity contracts	(1,001,224)	(892,135)	(899,961)
Net cash provided by (used in) financing activities	(441,914)	(164,535)	(54,087)
Effect of foreign exchange	1,714	(15)	(251)
Net increase (decrease) in cash and cash equivalents	(85,648)	166,377	(54,760)
Cash and cash equivalents at beginning of year	217,624	51,247	106,007
Cash and cash equivalents at end of year	\$ 131,976	217,624	51,247

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the year for:

Interest	\$40	40	44
Income taxes	\$19,202	72,449	28,243

Noncash operating activities:

Deferral of sales inducements	\$(12,753)	(10,650)	(7,620)
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See accompanying notes to Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

(A) Principles of Consolidation. On October 1, 2015, National Western Life Insurance Company ("National Western") completed its previously announced holding company reorganization. As a result of the reorganization, National Western became a wholly owned subsidiary of National Western Life Group, Inc. ("NWLGI"), a Delaware Corporation, and NWLGI replaced National Western as the publicly held company.

The accompanying Consolidated Financial Statements included the accounts of National Western, NWL Services, Inc., and Regent Care San Marcos Holdings, LLC, the wholly owned subsidiaries of NWGLI, as well as the wholly owned subsidiaries of National Western: The Westcap Corporation, NWLSM, Inc., and NWL Financial, Inc. All significant intercorporate transactions and accounts have been eliminated in consolidation and references to the "Company" as contained herein refer to the consolidated entity.

(B) Basis of Presentation. The accompanying Consolidated Financial Statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Significant estimates in the accompanying Consolidated Financial Statements include (1) liabilities for future policy benefits, (2) valuation of derivative instruments, (3) recoverability and amortization of deferred policy acquisition costs, (4) commitments and contingencies, (5) valuation allowances for deferred tax assets, (6) other-than-temporary impairment losses on debt securities, and (7) valuation allowances for mortgage loans and real estate.

The table below shows the unrealized gains and losses on available-for-sale securities that were reclassified out of accumulated other comprehensive income for the years ended December 31, 2018, 2017 and 2016.

Affected Line Item In the Consolidated Statements of Earnings	Amount Reclassified from Accumulated Other Comprehensive Income Years Ended December 31,		
	2018	2017	2016
Other net investment gains (losses)	\$3,441	5,348	3,316
Net OTTI losses recognized in earnings	—	(112)	—
Earnings before Federal income taxes	3,441	5,236	3,316
Federal income taxes	723	1,833	1,161
Net earnings	\$2,718	3,403	2,155

National Western also files financial statements with insurance regulatory authorities which are prepared on the basis of statutory accounting practices prescribed or permitted by the Colorado Division of Insurance which are significantly different from Consolidated Financial Statements prepared in accordance with GAAP. These differences are described in detail in the statutory information section of this note.

Certain amounts in the prior year Consolidated Financial Statements have been reclassified to conform to the current year presentation.

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NATIONAL WESTERN LIFE GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(C) Investments. Investments in debt securities the Company purchases with the intent to hold to maturity are classified as securities held to maturity. The Company has the ability to hold the securities until maturity, as it would be unlikely that forced sales of securities would be required, prior to maturity, to cover payments of liabilities. As a result, securities held to maturity are carried at amortized cost less declines in fair value that are deemed other-than-temporary.

Investments in debt securities that are not classified as securities held to maturity are reported as securities available for sale. Securities available for sale are reported in the accompanying Consolidated Financial Statements at fair value. Valuation changes resulting from changes in the fair value of the securities are reflected as a component of stockholders' equity in accumulated other comprehensive income (loss). These unrealized gains or losses in stockholders' equity are reported net of taxes and adjustments to deferred policy acquisition costs.

Transfers of securities between categories are recorded at fair value at the date of transfer.

Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to yield using the effective interest method. For mortgage-backed and asset-backed securities, the effective interest method is used based on anticipated prepayments and the estimated economic life of the securities. When estimates of prepayments change, the effective yield is recalculated to reflect actual payments to date and anticipated future payments. The net investment in the securities is adjusted to the amount that would have existed had the new effective yield been applied at the time of acquisition (retrospective method). This adjustment is reflected in net investment income. For loan-backed securities not meeting the definition of "highly rated", the prospective method is evaluated and, if materially different from the retrospective method, utilized to account for these securities. The retrospective adjustment method has been used to value all loan-backed and structured securities included in the accompanying Consolidated Financial Statements.

Quarterly the Company reviews its investment portfolio for market value changes to identify changes caused by issuer credit deterioration, changes in market interest rates and changes in economic conditions. If this review indicates a decline in fair value that is other-than-temporary, the Company's carrying amount in the investment is reduced to its estimated fair value. In accordance with GAAP guidance the estimated credit versus non-credit components are bifurcated. The credit component is taken through earnings. The non-credit component is reclassified as unrealized loss in other comprehensive income. The Company would not recognize impairment of securities due to changing of interest rates or market dislocations unless the Company had the intent to sell the securities prior to recovery or maturity.

The Company considers a number of factors in determining whether the impairment is other-than-temporary. These include, but are not limited to: 1) actions taken by rating agencies, 2) default by the issuer, 3) the significance of the decline in fair value, 4) the intent and ability to hold the investment until recovery, 5) the time period during which the decline has occurred, 6) an economic analysis of the issuer's industry, and 7) the financial strength, liquidity, and recoverability of the issuer. Management performs a security-by-security review each quarter in evaluating the need for any other-than-temporary impairments. Although no set formula is used in this process, the investment performance, collateral position, and continued viability of the issuer are significant measures considered.

Realized gains and losses for securities available for sale and securities held to maturity are included in earnings and are derived using the specific identification method for determining the cost of securities sold or called. Prepayment

penalty fees received from issuers that call their securities before maturity are excluded from the calculation of realized gain or loss and are included as a component of investment income. Decline in the fair value of securities below their cost basis that are deemed other-than-temporary are bifurcated into separate credit and non-credit declinations. The noncredit related declines are reclassified as unrealized losses in accumulated other comprehensive income (loss). Credit losses are recorded in earnings and result in the establishment of a new cost basis for the security. The new discount or reduced premium amount is amortized over the remaining life of the impaired debt security prospectively based on the amount and timing of future estimated cash flows.

Mortgage loans and other long-term investments are stated at cost, less unamortized discounts, deferred fees, and allowances for possible losses. Policy loans are stated at their aggregate unpaid balances. Real estate is stated at the lower of cost or fair value less estimated costs to sell.

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Impaired loans are those loans where it is probable that all amounts due according to contractual terms of the loan agreement will not be collected. The Company has identified these loans through its normal loan review procedures. Impaired loans include: 1) nonaccrual loans, 2) loans which are 90 days or more past due, unless they are well secured and are in the process of collection, and 3) other loans which management believes are impaired. Impaired loans are measured based on: 1) the present value of expected future cash flows discounted at the loan's effective interest rate, 2) the loan's observable market price, or 3) the fair value of the collateral if the loan is collateral dependent. When the Company has loans considered impaired substantially all are measured at the fair value of the collateral. In limited cases, the Company may use other methods to determine the level of impairment of a loan if such loan is not collateral dependent.

While the Company closely manages its investment portfolio, future changes in issuer facts and circumstances can result in impairments beyond those currently identified.

(D) Cash and Cash Equivalents. For purposes of the Consolidated Statements of Cash Flows, the Company considers all short-term investments with a maturity at the date of purchase of three months or less to be cash equivalents.

(E) Derivatives. Fixed-index products combine features associated with traditional fixed annuities and universal life contracts, with the option to have interest rates linked in part to an underlying equity index. The equity return component of such policy contracts is identified separately and accounted for in future policy benefits as embedded derivatives on the Consolidated Balance Sheets. The remaining portions of these policy contracts are considered the host contracts and are recorded separately within future policy benefits as fixed annuity or universal life contracts. The host contracts are accounted for under debt instrument type accounting. The host contracts are recorded as discounted debt instruments that are accreted, using the effective yield method, to their minimum account values at their projected maturities or termination dates.

The Company purchases over-the-counter index options, which are derivative financial instruments, to hedge the equity return component of its index annuity and life products. The amounts which may be credited to policyholders are linked, in part, to the returns of the underlying index. The index options act as hedges to match closely the returns on the underlying index. Cash is exchanged upon purchase of the index options and no principal or interest payments are made by either party during the option periods. Upon maturity or expiration of the options, cash is paid to the Company based on the underlying index performance and terms of the contract. As a result, amounts credited to policyholders' account balances are substantially offset by changes in the value of the options.

The Company does not elect hedge accounting relative to derivative instruments. The derivatives are reported at their fair value in the accompanying Consolidated Financial Statements. Changes in the values of the index options and changes in the policyholder liabilities are both reflected in the Consolidated Statement of Earnings. Any gains or losses from the sale or expiration of the options, as well as period-to-period changes in values, are reflected as net investment income in the Consolidated Statement of Earnings. Any changes relative to the embedded derivatives associated with policy contracts are reflected in contract interest in the Consolidated Statement of Earnings.

Although there is credit risk in the event of nonperformance by counterparties to the index options, the Company does not expect any counterparties to fail to meet their obligations, given their high credit ratings. In addition, credit support agreements are in place with all counterparties for option holdings in excess of specific limits, which further reduces the Company's credit exposure. At December 31, 2018 and 2017, the fair value of index options owned by

the Company totaled \$14.7 million and \$194.7 million, respectively. Of these amounts, \$(72.3) million and \$119.4 million represent unrealized gains and losses on the options held at December 31, 2018 and 2017, respectively.

(F) Insurance Revenues and Expenses. Premiums on traditional life insurance products are recognized as revenues as they become due from policyholders. Benefits and expenses are matched with premiums in arriving at profits by providing for policy benefits over the lives of the policies and by amortizing acquisition costs over the premium-paying periods of the policies. For universal life and annuity contracts, revenues consist of policy charges for the cost of insurance, policy administration, and surrender charges assessed during the period. Expenses for these policies include interest credited to policy account balances, benefit claims incurred in excess of policy account balances and amortization of deferred policy acquisition costs and deferred sales inducements.

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Under GAAP, commissions, sales inducements, and certain expenses related to policy issuance and underwriting, all of which vary with and are related to the production of new business, are deferred. For traditional products, these costs are amortized over the premium-paying period of the related policies in proportion to the ratio of the premium earned to the total premium revenue anticipated, using the same assumptions as to interest, mortality, and withdrawals as were used in calculating the liability for future policy benefits. For universal life and annuity contracts, these costs are amortized in relation to the present value of expected gross profits on these policies. The Company evaluates the recoverability of deferred policy acquisition and sales inducement costs on a quarterly basis. In this evaluation, the Company considers estimated future gross profits or future premiums, as applicable for the type of contract. The Company also considers expected mortality, interest earned and credited rates, persistency, and expenses. In accordance with GAAP guidance, the Company must also write off deferred acquisition costs and unearned revenue liabilities upon internal replacement of certain contracts as well as annuitizations of deferred annuities.

A summary of information relative to deferred policy acquisition costs ("DPAC") is provided in the table below.

	Years Ended December 31,		
	2018	2017	2016
	(In thousands)		
Deferred policy acquisition costs, beginning of year	\$819,511	835,194	853,451
Policy acquisition costs deferred:			
Agents' commissions	75,899	95,088	112,048
Other	8,195	8,433	7,808
Total costs deferred	84,094	103,521	119,856
Amortization of deferred policy acquisition costs	(114,771)	(114,387)	(121,139)
Adjustments for unrealized (gains) losses on investment securities	52,870	(4,817)	(16,974)
Deferred policy acquisition costs, end of year	\$841,704	819,511	835,194

A summary of information relative to deferred sales inducements is provided in the table below.

	Years Ended December 31,		
	2018	2017	2016
	(In thousands)		
Deferred sales inducements, beginning of year	\$135,570	147,111	159,166
Sales inducement costs deferred	7,546	17,901	19,302
Amortization of sales inducements	(20,299)	(28,552)	(26,922)
Adjustments for unrealized (gains) losses on investment securities	10,897	(890)	(4,435)

Deferred sales inducements, end of year	\$133,714	135,570	147,111
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Amortization of deferred policy acquisition costs increased marginally to \$114.8 million in the year ended December 31, 2018 compared to \$114.4 million reported in 2017. Amortization expense in 2018 included \$1.0 million in net prospective unlocking adjustments which decreased amortization expense for the following: (a) mortality and withdrawal benefit election rate assumptions on indexed deferred annuities which decreased amortization expense by \$6.2 million; (b) mortality, surrender and annuitization rates, and the portfolio investment yield on non-indexed deferred annuities which increased amortization expense by \$4.0 million; and (c) mortality, extended death benefit reserves, and the portfolio investment yield on universal life products which increased amortization expense by \$1.2 million.

Amortization expense in 2017 included \$11.9 million in prospective unlocking adjustments which decreased amortization expense for the following: (a) reducing interest crediting rate spreads in the Domestic Life segment which increased amortization expense by \$0.8 million; (b) International Life segment for favorable mortality, improved lapse rates in certain markets, an interest rate clawback provision, and reducing interest crediting rate spreads, collectively decreasing amortization expense by \$(27.7) million; and (c) in the Annuity segment updating surrender and annuitization rates on two tier annuities, reducing interest crediting rate spreads, and adjusting withdrawal benefit assumptions, which collectively increased amortization expense by \$15.1 million.

Amortization expense in 2016 included \$13.8 million in prospective unlocking adjustments which decreased amortization expense for the following: (a) updating DPAC future gross profit projections for universal life insurance riders in the Domestic Life and International Life segments which had not been previously included in software models which decreased amortization expense by \$(2.1) million; (b) favorable mortality in the Domestic Life segment which decreased amortization expense by \$(8.2) million; (c) in the International segment favorable mortality, increased cost of insurance charges that had been implemented, and higher lapse rates for policies associated with the residents that the company ceased accepting applications from, collectively decreasing amortization expense by \$(7.3) million; and (d) updating surrender and annuitization rates on indexed, single tier, and two tier annuities which increased amortization expense by \$3.7 million.

Similar to deferred policy acquisition costs, amortization of deferred sales inducements includes unlocking adjustments. In 2018, the deferred sales inducement balance was unlocked for the indexed and non-indexed deferred annuity items discussed above which increased contract interest expense by \$1.3 million. In 2017, the deferred sales inducement balance was unlocked for updating surrender and annuitization rates on two tier annuities, reducing interest crediting rate spreads, and adjusting withdrawal benefit assumptions which increased contract interest expense by \$4.3 million. In 2016, the deferred sales inducement balance was unlocked for updating surrender and annuitization rates on annuities as discussed above which increased contract interest expense by \$1.7 million.

Under GAAP, the liability for future policy benefits on traditional products has been calculated using assumptions as to future mortality (based on the 1965-1970, 1975-1980, and 2001 Select and Ultimate mortality tables), interest ranging from 3.25% to 8.00%, and withdrawals based on Company experience. For universal life and annuity contracts, the liability for future policy benefits represents the account balance. Fixed-index products combine features associated with traditional fixed annuities and universal life contracts, with the option to have interest rates linked in part to an equity index. In accordance with GAAP guidance, the equity return component of such policy contracts must be identified separately and accounted for as embedded derivatives. The remaining portions of these policy contracts are considered the host contracts and are recorded separately as fixed annuity or universal life contracts. The host contracts are accounted for under GAAP guidance provisions that require debt instrument type accounting. The

host contracts are recorded as discounted debt instruments that are accreted, using the effective yield method, to their minimum account values at their projected maturities or termination dates. The embedded derivatives are recorded at fair value.

(G) Deferred Federal Income Taxes. Federal income taxes are accounted for under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance for deferred tax assets is provided if all or some portion of the deferred tax asset may not be realized. An increase or decrease in a valuation allowance that results from a change in circumstances that affects the realizability of the related deferred tax asset is included in income in the period the change occurs.

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