

NATIONAL WESTERN LIFE INSURANCE CO  
Form 10-Q  
August 08, 2014

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2014

o 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: 2-17039

NATIONAL WESTERN LIFE INSURANCE COMPANY  
(Exact name of Registrant as specified in its charter)

COLORADO  
(State of Incorporation)

84-0467208  
(I.R.S. Employer Identification Number)

850 EAST ANDERSON LANE  
AUSTIN, TEXAS 78752-1602  
(Address of Principal Executive Offices)

(512) 836-1010  
(Telephone Number)

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 R No £

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 R No £

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

Large accelerated filer £ Accelerated filer R Non-accelerated filer £

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

As of August 7, 2014, the number of shares of Registrant's common stock outstanding was: Class A – 3,436,166 and Class B - 200,000.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

ASSETS	(Unaudited) June 30, 2014	December 31, 2013
Investments:		
Securities held to maturity, at amortized cost (fair value: \$6,979,345 and \$6,656,144)	\$6,641,083	6,510,320
Securities available for sale, at fair value (cost: \$2,625,676 and \$2,535,264)	2,799,450	2,651,544
Mortgage loans, net of allowance for possible losses (\$650 and \$650)	152,208	132,765
Policy loans	64,988	65,969
Derivatives, index options	146,514	169,314
Other long-term investments	30,421	30,991
Total investments	9,834,664	9,560,903
Cash and short-term investments	133,506	120,859
Deferred policy acquisition costs	774,530	785,706
Deferred sales inducements	159,143	169,570
Accrued investment income	95,816	95,367
Federal income tax receivable	3,434	—
Other assets	94,988	98,011
Total assets	\$11,096,081	10,830,416

See accompanying notes to condensed consolidated financial statements (unaudited).

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CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	(Unaudited) June 30, 2014	December 31, 2013
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Future policy benefits:		
Universal life and annuity contracts	\$9,155,686	8,987,062
Traditional life reserves	137,099	138,072
Other policyholder liabilities	149,714	142,587
Deferred Federal income tax liability	30,256	7,199
Federal income tax payable	—	10,067
Other liabilities	107,429	97,481
Total liabilities	9,580,184	9,382,468
COMMITMENTS AND CONTINGENCIES (Note 8)		
STOCKHOLDERS' EQUITY:		
Common stock:		
Class A - \$1 par value; 7,500,000 shares authorized; 3,436,165 issued and outstanding in 2014 and 3,434,765 in 2013	3,436	3,435
Class B - \$1 par value; 200,000 shares authorized, issued, and outstanding in 2014 and 2013	200	200
Additional paid-in capital	38,116	37,767
Accumulated other comprehensive income	56,670	38,080
Retained earnings	1,417,475	1,368,466
Total stockholders' equity	1,515,897	1,447,948
Total liabilities and stockholders' equity	\$11,096,081	10,830,416

Note: The Condensed Consolidated Balance Sheet at December 31, 2013 has been derived from the audited Consolidated Financial Statements as of that date.

See accompanying notes to condensed consolidated financial statements (unaudited).

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CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

For the Three Months Ended June 30, 2014 and 2013

(Unaudited)

(In thousands, except per share amounts)

	2014	2013
Premiums and other revenues:		
Universal life and annuity contract charges	\$38,217	40,363
Traditional life premiums	5,169	5,218
Net investment income	155,179	129,687
Other revenues	5,211	5,990
Net realized investment gains (losses):		
Total other-than-temporary impairment (“OTTI”) gains (losses)	—	(72 )
Portion of OTTI (gains) losses recognized in other comprehensive income	—	(106 )
Net OTTI losses recognized in earnings	—	(178 )
Other net investment gains (losses)	3,065	1,779
Total net realized investment gains (losses)	3,065	1,601
 Total revenues	 206,841	 182,859
Benefits and expenses:		
Life and other policy benefits	14,796	18,450
Amortization of deferred policy acquisition costs	27,258	28,852
Universal life and annuity contract interest	102,429	71,438
Other operating expenses	19,500	24,843
 Total benefits and expenses	 163,983	 143,583
 Earnings before Federal income taxes	 42,858	 39,276
 Federal income taxes	 13,675	 12,285
 Net earnings	 \$29,183	 26,991
Basic earnings per share:		
Class A	\$8.26	\$7.64
Class B	\$4.13	\$3.82
Diluted earnings per share:		
Class A	\$8.25	\$7.62
Class B	\$4.13	\$3.82

See accompanying notes to condensed consolidated financial statements (unaudited).

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CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

For the Six Months Ended June 30, 2014 and 2013

(Unaudited)

(In thousands, except per share amounts)

	2014	2013
Premiums and other revenues:		
Universal life and annuity contract charges	\$76,222	78,262
Traditional life premiums	9,440	9,082
Net investment income	263,630	310,501
Other revenues	10,974	12,132
Net realized investment gains (losses):		
Total other-than-temporary impairment (“OTTI”) gains (losses)	(32	) 310
Portion of OTTI (gains) losses recognized in other comprehensive income	(3	) (549
Net OTTI losses recognized in earnings	(35	) (239
Other net investment gains (losses)	4,613	4,153
Total net realized investment gains (losses)	4,578	3,914
Total revenues	364,844	413,891
Benefits and expenses:		
Life and other policy benefits	27,759	31,140
Amortization of deferred policy acquisition costs	55,837	59,656
Universal life and annuity contract interest	165,365	211,738
Other operating expenses	42,963	46,767
Total benefits and expenses	291,924	349,301
Earnings before Federal income taxes	72,920	64,590
Federal income taxes	23,911	20,967
Net earnings	\$49,009	43,623
Basic earnings per share:		
Class A	\$13.86	\$12.34
Class B	\$6.93	\$6.17
Diluted earnings per share:		
Class A	\$13.86	\$12.32
Class B	\$6.93	\$6.17

See accompanying notes to condensed consolidated financial statements (unaudited).



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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the Three Months Ended June 30, 2014 and 2013

(Unaudited)

(In thousands)

	2014	2013	
Net earnings	\$29,183	26,991	
Other comprehensive income, net of effects of deferred costs and taxes:			
Unrealized gains (losses) on securities:			
Net unrealized holding gains (losses) arising during period	10,892	(33,107	)
Net unrealized liquidity gains (losses)	28	20	
Reclassification adjustment for net amounts included in net earnings	(1,946	)	(1,037 )
Amortization of net unrealized (gains) losses related to transferred securities	—	—	
Net unrealized gains (losses) on securities	8,974	(34,124	)
Foreign currency translation adjustments	(122	)	3
Benefit plans:			
Amortization of net prior service cost and net gain (loss)	(175	)	373
Other comprehensive income (loss)	8,677	(33,748	)
Comprehensive income (loss)	\$37,860	(6,757	)

See accompanying notes to condensed consolidated financial statements (unaudited).

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Six Months Ended June 30, 2014 and 2013

(Unaudited)

(In thousands)

	2014	2013	
Net earnings	\$49,009	43,623	
Other comprehensive income, net of effects of deferred costs and taxes:			
Unrealized gains (losses) on securities:			
Net unrealized holding gains (losses) arising during period	21,894	(34,232	)
Net unrealized liquidity gains (losses)	51	158	
Reclassification adjustment for net amounts included in net earnings	(2,371	)	(2,396
Amortization of net unrealized (gains) losses related to transferred securities	—	—	)
Net unrealized gains (losses) on securities	19,574	(36,470	)
Foreign currency translation adjustments	(633	)	593
Benefit plans:			
Amortization of net prior service cost and net gain (loss)	(351	)	754
Other comprehensive income (loss)	18,590	(35,123	)
Comprehensive income	\$67,599	8,500	

See accompanying notes to condensed consolidated financial statements (unaudited).

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CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the Six Months Ended June 30, 2014 and 2013

(Unaudited)

(In thousands)

	2014	2013	
Common stock:			
Balance at beginning of period	\$3,635	3,635	
Shares exercised under stock option plan	1	—	
Balance at end of period	3,636	3,635	
Additional paid-in capital:			
Balance at beginning of period	37,767	37,767	
Shares exercised under stock option plan	349	—	
Balance at end of period	38,116	37,767	
Accumulated other comprehensive income:			
Unrealized gains on non-impaired securities:			
Balance at beginning of period	46,693	91,972	
Change in unrealized gains (losses) during period, net of tax	19,523	(36,628)	)
Balance at end of period	66,216	55,344	
Unrealized losses on impaired held to maturity securities:			
Balance at beginning of period	(1,287)	(1,426)	)
Amortization	117	77	
Other-than-temporary impairments, non-credit, net of tax	—	23	
Additional credit loss on previously impaired securities	—	14	
Change in shadow deferred policy acquisition costs	(67)	(77)	)
Balance at end of period	(1,237)	(1,389)	)
Unrealized losses on impaired available for sale securities:			
Balance at beginning of period	(2)	(196)	)
Other-than-temporary impairments, non-credit, net of tax	—	—	
Change in shadow deferred policy acquisition costs	(1)	(123)	)
Recoveries, net of tax	2	244	
Balance at end of period	(1)	(75)	)



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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY(continued)  
 For the Six Months Ended June 30, 2014 and 2013  
 (Unaudited)  
 (In thousands)

	2014	2013
Foreign currency translation adjustments:		
Balance at beginning of period	3,241	2,589
Change in translation adjustments during period	(633	) 593
Balance at end of period	2,608	3,182
Benefit plan liability adjustment:		
Balance at beginning of period	(10,565	) (16,153
Amortization of net prior service cost and net loss, net of tax	(351	) 754
Balance at end of period	(10,916	) (15,399
Accumulated other comprehensive income at end of period	56,670	41,663
Retained earnings:		
Balance at beginning of period	1,368,466	1,273,492
Net earnings	49,009	43,623
Stockholder dividends	—	—
Balance at end of period	1,417,475	1,317,115
Total stockholders' equity	\$1,515,897	\$1,400,180

See accompanying notes to condensed consolidated financial statements (unaudited).

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Six Months Ended June 30, 2014 and 2013

(Unaudited)

(In thousands)

	2014	2013	
Cash flows from operating activities:			
Net earnings	\$49,009	43,623	
Adjustments to reconcile net earnings to net cash from operating activities:			
Universal life and annuity contract interest	165,365	211,738	
Surrender charges and other policy revenues	(9,104)	(7,105)	)
Realized (gains) losses on investments	(4,578)	(3,914)	)
Accretion/amortization of discounts and premiums, investments	(465)	(1,487)	)
Depreciation and amortization	1,741	2,813	
(Increase) decrease in value of derivatives	(45,799)	(91,124)	)
(Increase) decrease in deferred policy acquisition and sales inducement costs	(6,062)	(4,984)	)
(Increase) decrease in accrued investment income	(449)	(2,224)	)
(Increase) decrease in other assets	(1,635)	(2,594)	)
Increase (decrease) in liabilities for future policy benefits	1,344	5,349	
Increase (decrease) in other policyholder liabilities	7,127	16,669	
Increase (decrease) in Federal income taxes	(984)	(563)	)
Increase (decrease) in other liabilities	(2,806)	87	
Other, net	(1)	—	
Net cash provided by operating activities	152,703	166,284	
Cash flows from investing activities:			
Proceeds from sales of:			
Securities held to maturity	—	1,980	
Securities available for sale	5,334	9,670	
Other investments	1,016	9,945	
Proceeds from maturities and redemptions of:			
Securities held to maturity	360,420	710,366	
Securities available for sale	102,813	128,127	
Derivatives, index options	105,268	54,640	
Purchases of:			
Securities held to maturity	(477,353)	(970,658)	)
Securities available for sale	(195,023)	(191,387)	)
Derivatives, index options	(33,610)	(28,498)	)
Other investments	(296)	(15)	)
Principal payments on mortgage loans	10,240	25,490	
Cost of mortgage loans acquired	(29,611)	(2,419)	)
Decrease (increase) in policy loans	981	754	
Other, net	2	(4)	)
Net cash used in investing activities	(149,819)	(252,009)	)

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS, (continued)

For the Six Months Ended June 30, 2014 and 2013

(Unaudited)

(In thousands)

	2014	2013
Cash flows from financing activities:		
Deposits to account balances for universal life and annuity contracts	460,611	477,776
Return of account balances on universal life and annuity contracts	(450,565	) (448,973 )
Issuance of common stock under stock option plan	350	—
Net cash provided by (used in) financing activities	10,396	28,803
Effect of foreign exchange	(633	) 593
Net increase (decrease) in cash and short-term investments	12,647	(56,329 )
Cash and short-term investments at beginning of period	120,859	124,561
Cash and short-term investments at end of period	\$133,506	\$68,232
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	\$20	\$30
Income taxes	\$24,416	\$22,695
Noncash operating activities:		
Deferral of sales inducements	\$(4,851	) \$1,429

See accompanying notes to condensed consolidated financial statements (unaudited).



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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (UNAUDITED)

## (1) CONSOLIDATION AND BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for annual financial statements. In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments necessary to present fairly the financial position of National Western Life Insurance Company and its subsidiaries ("Company" or "National Western") as of June 30, 2014, and the results of its operations and its cash flows for the three and six months ended June 30, 2014 and 2013. The results of operations for the six months ended June 30, 2014 are not necessarily indicative of the results to be expected for the full year. It is recommended that these condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 accessible free of charge through the Company's internet site at [www.nationalwesternlife.com](http://www.nationalwesternlife.com) or the Securities and Exchange Commission internet site at [www.sec.gov](http://www.sec.gov). The condensed consolidated balance sheet at December 31, 2013 has been derived from the audited consolidated financial statements as of that date.

The accompanying unaudited condensed consolidated financial statements include the accounts of National Western Life Insurance Company and its wholly-owned subsidiaries: The Westcap Corporation, NWL Investments, Inc., NWL Services, Inc., NWL Financial, Inc., NWLSM, Inc. and Regent Care San Marcos Holdings, LLC. All significant intercorporate transactions and accounts have been eliminated in consolidation.

The preparation of financial statements in accordance with U.S. generally accepted accounting principles ("GAAP") requires 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 condensed 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) valuation allowances for deferred tax assets, (5) other-than-temporary impairment losses on debt securities, (6) commitments and contingencies, 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 three and six months ended June 30, 2014 and 2013.

Affected Line Item in the Statements of Earnings	Amount Reclassified From Accumulated Other Comprehensive Income			
	Three Months Ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	(In thousands)			
Other net investment gains (losses)	\$2,993	1,720	3,682	3,834
Net OTTI losses recognized in earnings	—	(125	) (35	) (148
Earnings before Federal income taxes	2,993	1,595	3,647	3,686

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Federal income taxes	1,047	558	1,276	1,290
Net earnings	\$1,946	1,037	2,371	2,396

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

(2) NEW ACCOUNTING PRONOUNCEMENTS

During February 2013, the Financial Accounting Standards Board ("FASB") issued new guidance related to the presentation of amounts reclassified out of accumulated other comprehensive income. The new guidance requires disclosure regarding the statement of income amounts affected by the reclassification. This information is provided in Note 1 of the condensed consolidated financial statements. Implementation of the new guidance did not have an impact on the Company's condensed consolidated financial statements and results of operations.

In July 2013, the FASB issued guidance to amend the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The new guidance states that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as reduction to deferred tax assets for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. This guidance is effective for annual reporting periods beginning on or after December 15, 2013 and interim periods within those annual periods. The Company adopted this guidance as of January 1, 2014 and the adoption did not have an effect on the deferred tax asset or liability classification on the Company's balance sheet and did not result in any additional disclosures to the financial statements.

In June 2014, the FASB issued guidance that applies to all reporting entities that grant their employees share-based payments in which the terms of the award provide that a performance target that affects vesting could be achieved after the requisite service period. It requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition and follows existing accounting guidance for the treatment of performance conditions. The standard will be effective for annual periods and interim periods within those annual periods beginning after December 15, 2015, with early adoption permitted. The Company's current employee share-based plans do not require performance targets and the adoption of this guidance is not expected to have a material impact on the Company's financial position or results of operations.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the American Institute of Certified Public Accountants ("AICPA"), and the SEC did not, or are not believed by management to, have a material impact on the Company's present or future condensed consolidated financial statements.

(3) STOCKHOLDERS' EQUITY

The Company is restricted by state insurance laws as to dividend amounts which may be paid to stockholders without prior approval from the Colorado Division of Insurance. The restrictions are based on the greater of statutory earnings from operations excluding capital gains or 10% of statutory capital and surplus of the Company. The maximum dividend payment which may be made without prior approval in 2014 is \$112.3 million. The Company did not declare or pay cash dividends on common stocks during the six months ended June 30, 2014 and 2013.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (UNAUDITED)

## (4) EARNINGS PER SHARE

Basic earnings per share of common stock are computed by dividing net income by the weighted-average basic common shares outstanding during the period. Diluted earnings per share assumes the issuance of common shares applicable to stock options in the denominator.

	Three Months Ended June 30,			
	2014		2013	
	Class A	Class B	Class A	Class B
	(In thousands except per share amounts)			
Numerator for Basic and Diluted Earnings Per Share:				
Net income	\$29,183		26,991	
Dividends - Class A shares	—		—	
Dividends - Class B shares	—		—	
Undistributed income	\$29,183		26,991	
Allocation of net income:				
Dividends	\$—	—	—	—
Allocation of undistributed income	28,358	825	26,227	764
Net income	\$28,358	825	26,227	764
Denominator:				
Basic earnings per share - weighted-average shares	3,435	200	3,435	200
Effect of dilutive stock options	2	—	7	—
Diluted earnings per share - adjusted weighted-average shares for assumed conversions	3,437	200	3,442	200
Basic Earnings Per Share	\$8.26	4.13	7.64	3.82
Diluted Earnings Per Share	\$8.25	4.13	7.62	3.82

Stock options that were outstanding during the three months ended June 30, 2014 and 2013, but were not included in the computation of diluted earnings per share because the effect was anti-dilutive were approximately 22,300 and 32,000, respectively.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (UNAUDITED)

	Six Months Ended June 30,			
	2014	2013		
	Class A	Class B	Class A	Class B
	(In thousands except per share amounts)			
Numerator for Basic and Diluted Earnings Per Share:				
Net income	\$49,009		43,623	
Dividends - Class A shares	—		—	
Dividends - Class B shares	—		—	
Undistributed income	\$49,009		43,623	
Allocation of net income:				
Dividends	\$—	—	—	—
Allocation of undistributed income	47,623	1,386	42,389	1,234
Net income	\$47,623	1,386	42,389	1,234
Denominator:				
Basic earnings per share - weighted-average shares	3,435	200	3,435	200
Effect of dilutive stock options	2	—	6	—
Diluted earnings per share - adjusted weighted-average shares for assumed conversions	3,437	200	3,441	200
Basic Earnings Per Share	\$13.86	6.93	12.34	6.17
Diluted Earnings Per Share	\$13.86	6.93	12.32	6.17

Stock options that were outstanding during the six months ended June 30, 2014 and 2013, but were not included in the computation of diluted earnings per share because the effect was anti-dilutive were approximately 22,300 and 32,000, respectively.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES  
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## (5) PENSION AND OTHER POSTRETIREMENT PLANS

## (A) Defined Benefit Pension Plans

The Company sponsors a qualified defined benefit pension plan covering substantially all employees. The plan provides benefits based on the participants' years of service and compensation. The Company makes annual contributions to the plan that complies with the minimum funding provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). On October 19, 2007, the Company's Board of Directors approved an amendment to freeze the Pension Plan as of December 31, 2007. The freeze 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. Going forward, future pension expense is projected to be minimal. Fair values of plan assets and liabilities are measured as of the prior December 31 for each respective year. The following table summarizes the components of net periodic benefit cost.

	Three Months Ended June 30, 2014		Six Months Ended June 30, 2014	
	2013	2013	2013	2013
	(In thousands)			
Service cost	\$42	47	84	95
Interest cost	239	218	479	436
Expected return on plan assets	(319	) (283	) (639	) (567
Amortization of prior service cost	1	1	2	2
Amortization of net loss	106	203	211	406
Net periodic benefit cost	\$69	186	137	372

The service costs shown in the above table represent plan expenses expected to be paid out of plan assets. Under clarification provided by the Pension Protection Act, plan expenses paid from plan assets are to be included in the plan's service cost component.

The Company's minimum required contribution for the 2014 plan year is \$0.7 million. In addition, the Company had a remaining contribution payable for the 2013 plan year of \$0.1 million as of June 30, 2014 which it will pay during the remainder of 2014. As of June 30, 2014, the Company had contributed a total of \$0.3 million to the plan for the 2014 and 2013 plan years.

The Company also sponsors a non-qualified defined benefit plan primarily for senior officers. The plan provides benefits based on the participants' years of service and compensation. The pension obligations and administrative responsibilities of the plan are maintained by a pension administration firm, which is a subsidiary of American National Insurance Company ("ANICO"). ANICO has guaranteed the payment of pension obligations under the plan. However, the Company has a contingent liability with respect to the plan should these entities be unable to meet their obligations under the existing agreements. Also, the Company has a contingent liability with respect to the plan in the event that a plan participant continues employment with the Company beyond age seventy, the aggregate average annual participant salary increases exceed 10% per year, or any additional employees become eligible to participate in the plan. If any of these conditions are met, the Company would be responsible for any additional pension obligations

resulting from these items. Amendments were made to the plan to allow an additional employee to participate and to change the benefit formula for the Chairman of the Company. As previously mentioned, these additional obligations are a liability to the Company. Effective December 31, 2004, this plan was frozen with respect to the continued accrual of benefits of the Chairman and the President of the Company in order to comply with law changes under the American Jobs Creation Act of 2004 ("Act").

Effective July 1, 2005, the Company established a second non-qualified defined benefit plan for the benefit of the Chairman of the Company. This plan is intended to provide for post-2004 benefit accruals that mirror and supplement the pre-2005 benefit accruals under the previously discussed non-qualified defined benefit plan, while complying with the requirements of the Act.

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Effective November 1, 2005, the Company established a third non-qualified defined benefit plan for the benefit of the President of the Company. This plan is intended to provide for post-2004 benefit accruals that supplement the pre-2005 benefit accruals under the first non-qualified defined benefit plan as previously discussed, while complying with the requirements of the Act.

The following table summarizes the components of net periodic benefit costs for the Chairman and President non-qualified defined benefit plans.

	Three Months Ended		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
	(In thousands)			
Service cost	\$74	45	147	89
Interest cost	251	200	502	400
Amortization of prior service cost	14	14	29	29
Amortization of net loss	324	293	647	587
Net periodic benefit cost	\$663	552	1,325	1,105

The Company expects to contribute \$2.0 million to these plans in 2014. As of June 30, 2014, the Company has contributed \$0.9 million to the plans.

**(B) Defined Benefit Postretirement Healthcare Plans**

The Company sponsors two healthcare plans to provide postretirement benefits to certain fully-vested individuals. The following table summarizes the components of net periodic benefit costs.

	Three Months Ended		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
	(In thousands)			
Interest cost	\$27	30	55	59
Amortization of prior service cost	26	25	52	51
Amortization of net loss	(1	) 8	(2	) 16
Net periodic benefit cost	\$52	63	105	126

The Company expects to contribute minimal amounts to the plan in 2014.



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## (6) SEGMENT AND OTHER OPERATING INFORMATION

The Company defines its reportable operating segments as domestic life insurance, international life insurance, and annuities. These segments are organized based on product types and geographic marketing areas. A summary of segment information for the quarters ended June 30, 2014 and June 30, 2013 is provided below.

## Selected Segment Information:

	Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
	(In thousands)				
June 30, 2014					
Condensed Consolidated Balance Sheet Items:					
Deferred policy acquisition costs and sales inducements	\$57,354	238,211	638,108	—	933,673
Total segment assets	670,565	1,229,589	8,749,666	274,434	10,924,254
Future policy benefits	581,946	934,791	7,776,048	—	9,292,785
Other policyholder liabilities	13,259	12,399	124,056	—	149,714
Three Months Ended					
June 30, 2014					
Condensed Consolidated Income Statements:					
Premiums and contract revenues	\$7,065	29,663	6,658	—	43,386
Net investment income	10,902	16,911	122,666	4,700	155,179
Other revenues	3	60	3	5,145	5,211
Total revenues	17,970	46,634	129,327	9,845	203,776
Life and other policy benefits	1,423	1,668	11,705	—	14,796
Amortization of deferred acquisition costs	1,780	8,808	16,670	—	27,258
Universal life and annuity contract interest	8,158	15,659	78,612	—	102,429
Other operating expenses	3,992	4,835	5,824	4,849	19,500
Federal income taxes (benefit)	851	4,963	5,227	1,561	12,602
Total expenses	16,204	35,933	118,038	6,410	176,585
Segment earnings (loss)	\$1,766	10,701	11,289	3,435	27,191



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	Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
			(In thousands)		
Six months ended June 30, 2014					
Condensed Consolidated Income Statements:					
Premiums and contract revenues	\$15,230	58,771	11,661	—	85,662
Net investment income	17,185	27,629	209,283	9,533	263,630
Other revenues	21	301	40	10,612	10,974
Total revenues	32,436	86,701	220,984	20,145	360,266
Life and other policy benefits	3,915	6,703	17,141	—	27,759
Amortization of deferred acquisition costs	4,180	15,553	36,104	—	55,837
Universal life and annuity contract interest	13,263	25,864	126,238	—	165,365
Other operating expenses	8,271	11,860	12,920	9,912	42,963
Federal income taxes (benefit)	916	8,722	9,329	3,342	22,309
Total expenses	30,545	68,702	201,732	13,254	314,233
Segment earnings (loss)	\$1,891	17,999	19,252	6,891	46,033

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## Selected Segment Information:

	Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
	(In thousands)				
June 30, 2013					
Condensed Consolidated Balance Sheet Items:					
Deferred policy acquisition costs and sales inducements	\$45,391	231,684	643,014	—	920,089
Total segment assets	522,003	1,134,181	8,420,780	253,831	10,330,795
Future policy benefits	454,359	875,672	7,477,608	—	8,807,639
Other policyholder liabilities	13,109	14,734	137,387	—	165,230
Three Months Ended					
June 30, 2013					
Condensed Consolidated Income Statements:					
Premiums and contract revenues	\$9,413	30,177	5,991	—	45,581
Net investment income	8,242	13,637	102,805	5,003	129,687
Other revenues	(3	) 108	(9	) 5,894	5,990
Total revenues	17,652	43,922	108,787	10,897	181,258
Life and other policy benefits	1,096	3,225	14,129	—	18,450
Amortization of deferred acquisition costs	2,210	7,926	18,716		