

NATIONAL WESTERN LIFE INSURANCE CO
Form 10-Q
May 17, 2010

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

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2010

- 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 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 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 No

As of May 11, 2010, the number of shares of Registrant's common stock outstanding was: Class A - 3,425,966 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) March 31, 2010	December 31, 2009
Investments:		
Securities held to maturity, at amortized cost (fair value: \$4,585,620 and \$4,331,077)	\$4,365,685	4,176,661
Securities available for sale, at fair value (cost: \$2,038,142 and \$1,967,365)	2,156,231	2,050,079
Mortgage loans, net of allowance for possible losses (\$5,418 and \$5,033)	108,659	98,200
Policy loans	79,294	78,336
Derivatives, index options	83,348	89,915
Other long-term investments	31,822	32,829
Total Investments	6,825,039	6,526,020
Cash and short-term investments	51,690	108,866
Deferred policy acquisition costs	624,025	626,440
Deferred sales inducements	122,810	122,232
Accrued investment income	76,571	71,572
Other assets	68,949	63,605
	\$7,769,084	7,518,735

See accompanying notes to condensed consolidated financial statements.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

	(Unaudited)	
LIABILITIES AND STOCKHOLDERS' EQUITY	March 31, 2010	December 31, 2009
LIABILITIES:		
Future policy benefits:		
Traditional life and annuity contracts	\$ 135,216	133,169
Universal life and annuity contracts	6,167,220	5,988,665
Other policyholder liabilities	143,121	128,931
Deferred Federal income tax liability	38,328	32,818
Federal income tax payable	9,622	13,197
Other liabilities	130,735	107,902
Total liabilities	6,624,242	6,404,682
COMMITMENTS AND CONTINGENCIES (Note 8)		
STOCKHOLDERS' EQUITY:		
Common stock:		
Class A - \$1 par value; 7,500,000 shares authorized; 3,425,966 issued and outstanding in 2010 and 2009	3,426	3,426
Class B - \$1 par value; 200,000 shares authorized, issued, and outstanding in 2010 and 2009	200	200
Additional paid-in capital	36,680	36,680
Accumulated other comprehensive income	30,141	17,760
Retained earnings	1,074,395	1,055,987
Total stockholders' equity	1,144,842	1,114,053
	\$ 7,769,084	7,518,735

Note: The condensed consolidated balance sheet at December 31, 2009, has been derived from the audited consolidated financial statements as of that date.

See accompanying notes to condensed consolidated financial statements.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

For the Three Months Ended March 31, 2010 and 2009

(Unaudited)

(In thousands, except per share amounts)

	2010	2009
Premiums and other revenue:		
Traditional life and annuity premiums	\$3,617	4,131
Universal life and annuity contract charges	32,094	38,571
Net investment income	102,850	70,606
Other income	6,152	3,594
Net realized investment losses:		
Total other-than-temporary impairment (“OTTI”) losses	(8,470)	(5,280)
Portion of OTTI losses recognized in other comprehensive income	8,248	-
Net OTTI losses recognized in earnings	(222)	(5,280)
Other net investment losses	(207)	(65)
Total net realized investment losses	(429)	(5,345)
Total revenues	144,284	111,557
Benefits and expenses:		
Life and other policy benefits	13,287	13,028
Amortization of deferred policy acquisition costs and deferred sales inducements	23,769	27,948
Universal life and annuity contract interest	62,701	35,266
Other operating expenses	17,316	12,713
Total benefits and expenses	117,073	88,955
Earnings before Federal income taxes	27,211	22,602
Federal income taxes	8,803	7,574
Net earnings	\$ 18,408	15,028
Basic Earnings Per Share:		
Class A	\$5.22	4.26
Class B	\$2.61	2.13
Diluted Earnings Per Share:		
Class A	\$5.20	4.26
Class B	\$2.61	2.13

See accompanying notes to condensed consolidated financial statements.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Three Months Ended March 31, 2010 and 2009
(Unaudited)
(In thousands)

	2010	2009
Net earnings	\$ 18,408	15,028
Other comprehensive income, net of effects of deferred costs and taxes:		
Unrealized gains on securities:		
Net unrealized holding gains arising during period	15,692	7,645
Net unrealized liquidity losses	(3,313)	-
Reclassification adjustment for net amounts included in net earnings	(141)	2,701
Amortization of net unrealized losses (gains) related to transferred securities	7	(32)
Net unrealized gains on securities	12,245	10,314
Foreign currency translation adjustments	(153)	(5)
Benefit plans:		
Amortization of net prior service cost and net gain	290	412
Other comprehensive gain	12,382	10,721
Comprehensive income	\$30,790	25,749

See accompanying notes to condensed consolidated financial statements.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Three Months Ended March 31, 2010 and 2009
(Unaudited)
(In thousands)

	2010	2009
Common stock:		
Balance at beginning of period	\$3,626	3,626
Shares exercised under stock option plan	-	-
Balance at end of period	3,626	3,626
Additional paid-in capital:		
Balance at beginning of period	36,680	36,680
Shares exercised under stock option plan	-	-
Balance at end of period	36,680	36,680
Accumulated other comprehensive income (loss):		
Unrealized gains (losses) on non-impaired securities:		
Balance at beginning of period	31,639	(53,770)
Change in unrealized gains (losses) during period	11,871	10,314
Balance at end of period	43,510	(43,456)
Unrealized losses on impaired held to maturity securities:		
Balance at beginning of period	(2,751)	-
Amortization	40	-
Other-than-temporary impairments	(26)	-
Additional credit loss on previously impaired securities	45	-
Change in shadow deferred policy acquisition costs	(18)	-
Balance at end of period	(2,710)	-
Unrealized losses on impaired available for sale securities:		
Balance at beginning of period	(562)	-
Other-than-temporary impairments	-	-
Recoveries	332	-
Balance at end of period	(230)	-
Foreign currency translation adjustments:		
Balance at beginning of period	2,893	2,966
Change in translation adjustments during period	(153)	(5)
Balance at end of period	2,740	2,961

Benefit plan liability adjustment:		
Balance at beginning of period	(13,459)	(14,554)
Amortization of net prior service cost and net gain	290	412
Balance at end of period	(13,169)	(14,142)
Accumulated other comprehensive income (loss) at end of period	30,141	(54,637)

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY, CONTINUED
 For the Three Months Ended March 31, 2010 and 2009
 (Unaudited)
 (In thousands)

	2010	2009
Retained earnings:		
Balance at beginning of period	1,055,987	1,011,265
Net earnings	18,408	15,028
Balance at end of period	1,074,395	1,026,293
Total stockholders' equity	\$1,144,842	1,011,962

See accompanying notes to condensed consolidated financial statements.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Months Ended March 31, 2010 and 2009

(Unaudited)

(In thousands)

	2010	2009
Cash flows from operating activities:		
Net earnings	\$ 18,408	15,028
Adjustments to reconcile net earnings to net cash from operating activities:		
Universal life and annuity contract interest	62,701	35,266
Surrender charges and other policy revenues	(9,767)	(15,598)
Realized losses on investments	429	5,345
Accrual and amortization of investment income	(559)	(1,427)
Depreciation and amortization	(2,173)	(2,062)
Decrease in value of index options	5,788	1,365
Increase in deferred policy acquisition and sales inducement costs	(14,218)	(4,516)
Increase in accrued investment income	(4,999)	(1,700)
Increase in other assets	(2,792)	(6,930)
Increase (decrease) in liabilities for future policy benefits	2,046	(170)
Increase in other policyholder liabilities	16,407	7,679
(Decrease) increase in Federal income tax liability	(4,657)	7,211
Increase in other liabilities	9,748	589
Other, net	-	29
Net cash provided by operating activities	76,362	40,109
Cash flows from investing activities:		
Proceeds from sales of:		
Securities available for sale	13,899	11,595
Other investments	1,172	1,820
Proceeds from maturities and redemptions of:		
Securities held to maturity	217,556	310,381
Securities available for sale	22,591	38,830
Index options	10,167	11,605
Purchases of:		
Securities held to maturity	(393,786)	(416,297)
Securities available for sale	(106,699)	(49,420)
Other investments	(9,912)	(10,120)
Principal payments on mortgage loans	9,017	1,493
Cost of mortgage loans acquired	(19,836)	(2,513)
(Increase) decrease in policy loans	(958)	1,978
Net cash used in investing activities	(256,789)	(100,648)

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED

For the Three Months Ended March 31, 2010 and 2009

(Unaudited)

(In thousands)

	2010	2009
Cash flows from financing activities:		
Deposits to account balances for universal life and annuity contracts	\$274,820	166,815
Return of account balances on universal life and annuity contracts	(151,416)	(145,978)
Net cash provided by financing activities	123,404	20,837
Effect of foreign exchange	(153)	(5)
Net decrease in cash and short-term investments	(57,176)	(39,707)
Cash and short-term investments at beginning of period	108,866	67,796
Cash and short-term investments at end of period	\$51,690	28,089

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the year for:		
Interest	\$10	10
Income taxes	13,700	582

See accompanying notes to condensed consolidated financial statements.

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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") as of March 31, 2010, and the results of its operations and its cash flows for the three months ended March 31, 2010 and 2009. The results of operations for the three months ended March 31, 2010 and 2009 are not necessarily indicative of the results to be expected for the full year. For further information, refer to the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009 accessible free of charge through the Company's internet site at www.nationalwesternlife.com or the Securities and Exchange Commission internet site at www.sec.gov.

The accompanying 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) 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 Company is implementing new actuarial reserving systems that enhance its ability to provide better estimates used in establishing future policy liabilities, monitor the deferred acquisition cost asset and the deferred sales asset as well as support other actuarial processes within the Company. The implementation of these new reserving systems for specific blocks of business began in the second quarter of 2009 and is expected to be completed in 2010. As the Company applies these new systems to a line of business, current reserving assumptions are reviewed and updated as appropriate. During the three months ended March 31, 2010 a correction was made to a surrender charge assumption for future years on one deferred annuity product line. This change resulted in an unlocking adjustment that increased the current period's Deferred Policy Acquisition Costs ("DPAC") amortization expense by \$2.7 million. As the amount of the correction was determined to have occurred over the course of multiple previous reported periods, it was concluded that the amount of the correction was immaterial to the financial results reported in any of these periods, as well as the current period.

Certain amounts in the prior year condensed consolidated financial statements have been reclassified to conform to the current year presentation.

(2) NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board (“FASB”) issued new guidance to provide a single definition of fair value, a framework for measuring fair value, and required additional disclosure about the use of fair value to measure assets and liabilities. The Company adopted it for its reporting of financial assets and financial liabilities on January 1, 2008. The effective date for implementation to non financial assets and non financial liabilities was delayed by the FASB until the first reporting period after November 15, 2008. The Company adopted this portion of the guidance effective January 1, 2009. The adoption of fair value measurements did not have a material impact on the Company’s consolidated financial statements and results of operations.

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

In December 2007, the FASB issued new guidance establishing accounting and reporting standards for entities that have equity investments that are not attributable directly to the parent, called noncontrolling interests or minority interests. More specifically, the guidance addresses where and how to report noncontrolling interests in the consolidated statements of financial position and operations, how to account for changes in noncontrolling interests and provides disclosure requirements. The Company adopted it effective January 1, 2009, and it did not have a material impact on the Company's consolidated financial condition and results of operations.

In December 2007, the FASB issued new guidance establishing how an entity accounts for the identifiable assets acquired, liabilities assumed, and any noncontrolling interests acquired, how to account for goodwill acquired and determines what disclosures are required as part of a business combination, and it applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company adopted this guidance effective January 1, 2009. Adoption of this guidance did not have an impact on the Company's consolidated financial condition or results of operations.

In March 2008, the FASB issued new guidance to require companies with derivative instruments to disclose information about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for, and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. This guidance became effective for financial statements issued for fiscal years beginning after November 15, 2008. The Company adopted it on January 1, 2009 with no material impact on the consolidated financial statements. See Note 10, Fair Values of Financial Instruments, for additional information pertaining to this guidance.

In September 2008, the FASB issued new guidance establishing disclosure requirements by entities that assume credit risk through the sale of credit derivatives, including credit derivatives embedded in a hybrid instrument, to enable users of financial statements to assess the potential effect on its financial position, financial performance, and cash flows from these credit derivatives, and requires additional disclosure about the current status of the payment/performance risk of a guarantee. The Company adopted the guidance effective January 1, 2009 and adoption of this guidance did not have a material effect on the Company's consolidated financial condition and results of operations.

In December 2008, the FASB issued new guidance which requires information to be disclosed on an annual basis pertaining to postretirement benefit plan assets. The Company would be required to separate plan assets into the three fair value hierarchy levels and provide a rollforward of the changes in fair value of plan assets classified as Level 3. The disclosures about plan assets were effective for fiscal years ending after December 15, 2009. Adoption of this guidance had no effect on the Company's consolidated financial condition and results of operations.

In January 2009, the FASB issued new guidance to enhance guidance on impairments to remove the exclusive reliance on a "market participant" estimate of future cash flows to a holder's estimate of whether there has been a "probable" adverse change in estimated cash flows. This allows management to apply reasonable judgment in assessing whether an other-than-temporary impairment has occurred. It was effective for the Company as of December 31, 2008 and its adoption did not have a significant impact on the consolidated financial statements of the Company.

In March 2009, the FASB issued new guidance establishing enhanced disclosures regarding an entity's derivative and hedging activity to enable investors to better understand the effects on an entity's financial position, financial performance, and cash flows. The Company adopted the guidance as of January 1, 2009. See Note 11, Derivative

Investments, for disclosures regarding derivative instruments and hedging activities.

On April 9, 2009 the FASB issued new guidance for estimating fair value when the volume and level of activity for an asset or liability have significantly decreased, and includes guidance on identifying circumstances that indicate a transaction is not orderly. This guidance emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability, and regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. This guidance is effective for interim and annual reporting periods ending after June 15, 2009. As further discussed in Note 10, Fair Values of Financial Instruments, the adoption of this guidance did not have a material impact on the Company's consolidated financial condition and results of operations.

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

On April 9, 2009 the FASB issued new guidance to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. It was effective for the Company as of June 30, 2009 and did not have a significant impact on the consolidated financial position or results of operations. See Note 10, Fair Values of Financial Instruments, for additional disclosures.

On April 9, 2009 the FASB issued new guidance which amended the other-than-temporary impairment guidance for debt securities to make the guidance more operational, and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. It did not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. This guidance was effective for the Company as of June 30, 2009. The impact of its adoption is discussed in Note 9, Investments.

On May 28, 2009 the FASB issued new guidance establishing general standards of accounting for the disclosure of events that occur after the balance sheet date, but before the financial statements are issued or are available to be issued. It was effective for the Company as of June 30, 2009 and did not have a significant impact on the consolidated financial position or results of operations.

On June 12, 2009 the FASB issued new guidance that changes the way entities account for securitizations and special purpose entities. The guidance is effective as of the beginning of the Company's first annual reporting period beginning after November 15, 2009. The adoption of this guidance did not have a significant impact on the consolidated financial position, results of operations, or disclosures.

During January 2010, FASB issued new guidance that requires more robust fair value disclosures about the different classes of assets and liabilities measured at fair value. The adoption of this guidance did not have a significant impact on the consolidated financial position or results of operations.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the AICPA, and the SEC did not, or are not believed by management to, have a material impact on the Company's present or future 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 statutory earnings and surplus levels of the Company. The maximum dividend payment which may be made without prior approval in 2010 is \$81.3 million. The Company did not pay cash dividends on common stock during the three months ended March 31, 2010 and 2009.

Change in Accounting Principles

During the second quarter of 2009, the Company reviewed all previously recorded other-than-temporary impairments of securities in compliance with newly issued GAAP guidance and estimated the credit versus the non-credit component consistent with the methodology used in the current period to analyze and bifurcate impairments into credit and non-credit components. As a result, the Company determined that \$0.8 million in previously recorded

other-than-temporary impairments had been due to non-credit impairments.

For each security, the Company developed its best estimate of the net present value of the cash flows expected to be received. The credit component of the impairment for these securities was determined to be the difference between the amortized cost of the security and the projected net cash flows. The non-credit component was determined to be the difference between projected net cash flows and fair value. The Company also determined whether management had the intent to sell the security, or if it was more likely than not that it will be required to sell the security, prior to the recovery of the non-credit component.

As a result of the implementation, during the second quarter of 2009, the Company recorded a net of tax opening balance adjustment that increased retained earnings in the amount of \$0.5 million and increased accumulated other comprehensive loss in the amount of \$0.5 million.

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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 March 31,			
	2010		2009	
	Class A	Class B	Class A	Class B
	(In thousands, except per share amounts)			
Numerator for Basic and Diluted Earnings Per Share:				
Net income	\$18,408		15,028	
Dividends – Class A shares	-		-	
Dividends – Class B shares	-		-	
Undistributed income	\$18,408		15,028	
Allocation of net income:				
Dividends	\$-	-	-	-
Allocation of undistributed income	17,886	522	14,602	426
Net income	\$17,886	522	14,602	426
Denominator:				
Basic earnings per share - weighted-average shares	3,426	200	3,426	200
Effect of dilutive stock options	14	-	3	-
Diluted earnings per share - adjusted weighted-average shares for assumed conversions	3,440	200	3,429	200
Basic Earnings Per Share	\$5.22	2.61	4.26	2.13
Diluted Earnings Per Share	\$5.20	2.61	4.26	2.13

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

(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 comply 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 March 31,	
	2010	2009
	(In thousands)	
Service cost	\$ -	-
Interest cost	259	262
Expected return on plan assets	(259)	(222)
Amortization of prior service cost	1	1
Amortization of net loss	124	148
Net periodic benefit cost	\$ 125	189

The Company expects to contribute \$776 thousand to the plan in 2010. During the three months ended March 31, 2010, the Company contributed \$126 thousand to the plan.

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 pension 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 plan, while complying with the requirements of the Act.

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 plan as previously discussed, while complying with the requirements of the Act.

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The following summarizes the components of net periodic benefit costs for these non-qualified plans.

	Three Months Ended March 31,	
	2010	2009
(In thousands)		
Service cost	\$ 13	37
Interest cost	266	308
Amortization of prior service cost	129	260
Amortization of net loss	164	198
Net periodic benefit cost	\$ 572	803

The Company expects to contribute \$2 million to these plans in 2010. During the three months ended March 31, 2010, the Company contributed \$495 thousand to the plans.

(B) Defined Benefit Postretirement Plans

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

	Three Months Ended March 31,	
	2010	2009
(In thousands)		
Interest cost	\$ 34	32
Amortization of net loss	-	-
Amortization of prior service cost	26	26
Net periodic benefit cost	\$ 60	58

The Company expects to contribute minimal amounts to the plan in 2010.

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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 March 31, 2010 and 2009 is provided below.

Selected Segment Information:

	Domestic Life Insurance	International Life Insurance	Annuities (In thousands)	All Others	Total
March 31, 2010:					
Selected Balance Sheet Items:					
Deferred policy acquisition costs and sales inducements	\$47,966	206,341	492,528	-	746,835
Total segment assets	397,745	1,085,261	6,214,584	-	7,697,590
Future policy benefits	323,675	662,901	5,315,860	-	6,302,436
Other policyholder liabilities	11,395	24,419	107,307	-	143,121
Three Months Ended					
March 31, 2010:					
Condensed Income Statements:					
Premiums and contract revenues	\$6,985	24,117	4,609	-	35,711
Net investment income	4,798	10,322	86,181	1,549	102,850
Other income	33	65	552	5,502	6,152
Total revenues	11,816	34,504	91,342	7,051	144,713
Policy benefits	3,250	9,140	897	-	13,287
Amortization of deferred acquisition costs	2,740	6,675	14,354	-	23,769
Universal life and investment annuity contract interest	2,462	10,149	50,090	-	62,701
Other operating expenses	2,913	6,556	3,707	4,140	17,316
Federal income taxes	146	643	7,221	943	8,953
Total expenses	11,511	33,163	76,269	5,083	126,026
Segment earnings	\$305	1,341	15,073	1,968	18,687

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Selected Segment Information:

	Domestic Life Insurance	International Life Insurance	Annuities	All Others	Total
	(In thousands)				
March 31, 2009:					
Selected Balance Sheet Items:					
Deferred policy acquisition costs and sales inducements	\$64,022	218,487	538,634	-	821,143
Total segment assets	389,812	983,113	5,298,071	134,691	6,805,687
Future policy benefits	317,526	599,477	4,690,822	-	5,607,825
Other policyholder liabilities	13,125	19,768	101,786	-	134,679
Three Months Ended					
March 31, 2009:					
Condensed Income Statements:					
Premiums and contract revenues	\$9,539	26,249	6,914	-	42,702
Net investment income	5,098	4,058	60,021	1,429	70,606
Other income	14	27	135	3,418	3,594
Total revenues	14,651	30,334	67,070	4,847	116,902
Policy benefits	3,821	7,724	1,483	-	13,028
Amortization of deferred acquisition costs	2,355	13,162	12,431	-	27,948
Universal life and investment annuity contract interest	2,272	3,720	29,274	-	35,266
Other operating expenses	2,730	3,506	3,194	3,283	12,713
Federal income taxes	1,173	746	6,988	538	9,445
Total expenses	12,351	28,858	53,370	3,821	98,400
Segment earnings	\$2,300	1,476	13,700	1,026	18,502

Reconciliations of segment information to the Company's condensed consolidated financial statements are provided below.

	Three Months Ended March 31,	
	2010	2009
	(In thousands)	
Premiums and Other Revenue:		
Premiums and contract revenues	\$ 35,711	42,702

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Net investment income	102,850	70,606
Other income	6,152	3,594
Realized losses on investments	(429)	(5,345)
Total consolidated premiums and other revenue	\$ 144,284	111,557

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	Three Months Ended March 31,	
	2010	2009
	(In thousands)	
Federal Income Taxes:		
Total segment Federal income taxes	\$ 8,953	9,445
Taxes on realized losses on investments	(150)	(1,871)
Total consolidated Federal income taxes	\$ 8,803	7,574

	Three Months Ended March 31,	
	2010	2009
	(In thousands)	
Net Earnings:		
Total segment earnings	\$ 18,687	18,502
Realized losses on investments, net of taxes	(279)	(3,474)
Total consolidated net earnings	\$ 18,408	15,028

	March 31,	
	2010	2009
	(In thousands)	
Assets:		
Total segment assets	\$ 7,697,590	6,805,687
Other unallocated assets	71,494	47,297
Total consolidated assets	\$ 7,769,084	6,852,984

(7) SHARE-BASED PAYMENTS

The Company has issued only nonqualified stock options and stock appreciation rights. The Company has a stock and incentive plan ("1995 Plan") which provides for the grant of any or all of the following types of awards to eligible employees: (1) stock options, including incentive stock options and nonqualified stock options; (2) stock appreciation rights, in tandem with stock options or freestanding; (3) restricted stock; and (4) performance awards. The 1995 Plan began on April 21, 1995, and was amended on June 25, 2004 to extend the termination date to April 20, 2010. The number of shares of Class A, \$1.00 par value, common stock which may be issued under the 1995 Plan, or as to which stock appreciation rights or other awards may be granted, may not exceed 300,000. Effective June 20, 2008, the Company's shareholders approved a 2008 Incentive Plan ("2008 Plan"). The 2008 Plan is substantially similar to the 1995 Plan and authorized an additional number of Class A, \$1.00 par value, common stock shares eligible for issue not to exceed 300,000. These shares may be authorized and unissued shares.

All of the employees of the Company and its subsidiaries are eligible to participate in the two Plans. In addition, directors of the Company are eligible to receive the same types of awards as employees except that they are not eligible to receive incentive stock options. Company directors, including members of the Compensation and Stock Option Committee, are eligible for nondiscretionary stock options. The directors' grants vest 20% annually following one full year of service to the Company from the date of grant. The employees' grants vest 20% annually following three full years of service to the Company from the date of grant. All grants issued expire after ten years. No awards were issued during the first quarter of 2010. On February 19, 2009, the Company awarded 29,393 stock appreciation rights to Company officers and 9,000 stock appreciation rights to Company directors at a market value price of \$114.64.

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Effective during March 2006, the Company adopted and implemented a limited stock buy-back program which provides option holders the additional alternative of selling shares acquired through the exercise of options directly back to the Company. Option holders may elect to sell such 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. The buy-back program did not alter the terms and conditions of the Plan; however the program necessitated a change in accounting from the equity classification to the liability classification.

In August 2008, the Company implemented another limited stock buy-back program, substantially similar to the 2006 program, for shares issued under the 2008 Plan.

The Company uses the current fair value method to measure compensation cost. As of March 31, 2010 the liability balance was \$6.1 million versus \$5.4 million at December 31, 2009. A summary of shares available for grant and stock option activity is detailed below.

	Shares Available For Grant	Options Outstanding Shares	Weighted- Average Exercise Price
Stock Options:			
Balance at January 1, 2010	292,400	104,577	\$174.24
Exercised	260	(260)	92.13
Forfeited	-	-	-
Granted	-	-	-
Balance at March 31, 2010	292,660	104,317	\$174.44

	Stock Appreciation Rights Awards	Outstanding Weighted- Average Exercise Price
Stock Appreciation Rights:		
Balance at January 1, 2010	41,143	\$ 123.40
Exercised	-	-
Forfeited	-	-
Granted	-	-
Balance at March 31, 2010	41,143	\$ 123.40

The total intrinsic value of options exercised was \$26 thousand and \$0 for the three months ended March 31, 2010 and 2009, respectively. The total share-based liabilities paid were \$26 thousand and \$0 for the three months ended March

31, 2010 and 2009, respectively. There were no amounts received from the exercise of option under the plan for the quarters ended March 31, 2010 and 2009. There were 1,800 shares vested during the first quarter of 2010.

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The following table summarizes information about stock options and stock appreciation rights outstanding at March 31, 2010.

	Number Outstanding	Weighted- Average Remaining Contractual Life	Options Exercisable
Exercise prices:			
\$ 92.13	9,699	1.0 years	9,699
95.00	6,000	1.2 years	6,000
150.00	51,850	4.1 years	32,650
255.13	27,768	8.0 years	-
208.05	9,000	8.2 years	1,800
236.00	1,250	8.4 years	-
251.49	1,000	8.4 years	-
256.00	500	8.5 years	-
114.64	38,393	8.9 years	1,800
Totals	145,460		51,949
Aggregate intrinsic value			
(In thousands)	\$ 5,888		\$ 2,678

The aggregate intrinsic value in the table above is based on the closing stock price of \$184.35 per share on March 31, 2010.

In estimating the fair value of the options outstanding at March 31, 2010 and December 31, 2009, the Company employed the Black-Scholes option pricing model with assumptions as detailed below.

	2010	2009
Expected term of options	1 to 8 years	1 to 9 years
Expected volatility:		
Range	28.45% to 78.07%	28.41% to 101.39%
Weighted-average	38.20 %	44.03 %
Expected dividend yield	0.20 %	0.30 %
Risk-free rate:		
Range	0.92% to 3.68%	1.58% to 2.89%
Weighted-average	2.31 %	2.27 %

The Company reviewed the contractual term relative to the options as well as perceived future behavior patterns of exercise. Volatility is based on the Company's historical volatility over the expected term of the option's expected exercise date.

The pre-tax compensation cost recognized in the financial statements related to the Plan was \$0.7 million and \$(2.2) million for the three months ended March 31, 2010 and 2009, respectively. The related tax benefit (expense) recognized was \$0.3 million and \$(0.8) million for the three months ended March 31, 2010 and 2009, respectively.

As of March 31, 2010, the total compensation cost related to nonvested options not yet recognized was \$3.3 million. This amount is expected to be recognized over a weighted-average period of 3.3 years. The Company recognizes compensation cost over the graded vesting periods.

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(8) COMMITMENTS AND CONTINGENCIES

(A) Legal Proceedings

The Company was a defendant in a class action lawsuit initially filed on September 17, 2004, in the Superior Court of the State of California for the County of Los Angeles. The California state court certified a class consisting of certain California policyholders age 65 and older alleging violations under California Business and Professions Code section 17200. The court additionally certified a subclass of 36 policyholders alleging fraud against their agent, and vicariously against the Company. The California Insurance Department had intervened in this case asserting that the Company has violated California insurance laws. The parties to this case had been involved in court-ordered mediation and ongoing negotiations. On February 22, 2010, the Company reported in a Form 8-K filing a settlement agreement with the plaintiffs and plaintiff in intervention providing a settlement benefit of approximately \$17 million which was included in the Company's legal accrual provision at December 31, 2009. The settlement agreement is subject to final court approval.

The Company is a defendant in a second class action lawsuit pending as of June 12, 2006, in the U.S. District Court for the Southern District of California. The case is titled In Re National Western Life Insurance Deferred Annuities Litigation and is in the discovery phase. The complaint asserts claims for RICO violations, Financial Elder Abuse, Violation of Cal. Bus. & Prof. Code 17200, et seq, Violation of Cal. Bus. & Prof. Code 17500, et seq, Breach of Fiduciary Duty, Aiding and Abetting Breach of Fiduciary Duty, Fraudulent Concealment, Cal. Civ. Code 1710, et seq, Breach of the Duty of Good Faith and Fair Dealing, and Unjust Enrichment and Imposition of Constructive Trust. The Company believes that it has meritorious defenses in this case and intends to vigorously defend itself against the asserted claims.

The Company is the named Defendant in the case of Sheila Newman vs. National Western Life Insurance Company which alleged mishandling of policyholder funds by an agent. On February 3, 2010, the 415th Judicial District Court of Parker County in Weatherford, Texas, entered a Final Judgment against the Company of approximately \$208,000 for actual damages, attorney's fees for preparation of trial, and prejudgment interest on the actual damages. In addition, the Final Judgment included \$150 million for exemplary damages. The Company will continue to vigorously defend this case and has filed a notice of appeal of the Final Judgment with the proper Court of Appeals in Texas. The Company believes the Final Judgment is inconsistent with current state and federal laws and intends to establish on appeal that it is not liable for the Plaintiff's actual or exemplary damages.

The Company is involved or may become involved in various other legal actions, in the normal course of its business, in which claims for alleged economic and punitive damages have been or may be asserted, some for substantial amounts. 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.

The amounts accrued in the financial statements at March 31, 2010 of \$23.4 million (\$23.0 million at December 31, 2009) for the foregoing represent estimates made by the Company based upon current information and are subject to change as facts and circumstances change and develop.

In January 2009, the SEC published its newly adopted Rule 151A, Indexed Annuities and Certain Other Insurance Contracts. This rule defines "indexed annuities to be securities and thus subject to regulation by the SEC under federal

securities laws”. Currently indexed annuities sold by life insurance companies are regulated by the States as insurance products and Section 3(a)(8) of the Securities Act of 1933 provides an exemption for certain “annuity contracts,” “optional annuity contracts,” and other insurance contracts. The Company and others subsequently filed suit in the U.S. Court of Appeals for the District of Columbia to overturn this rule. The new rule was scheduled to be effective January 12, 2011, but is currently subject to legal challenges by National Western and other companies regarding its validity. The SEC, in briefing regarding appropriate remedies, has “determined to consent to” a two year stay of Rule 151A’s effective date to run from the date of publication of a reissued or retained Rule 151A in the Federal Register. In the proposed “Restoring Financial Stability Act” bill currently pending in Congress an amendment has been included that would define indexed annuities as insurance products regulated by states and territories and nullify Rule 151A. In the event Rule 151A is not overturned, it could have a material effect on our business, results of operations and financial condition.

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(9) INVESTMENTS

(A) Investment Gains and Losses

The table below presents realized investment gains and losses, excluding impairment losses, for the periods indicated.

	Three months ended March 31,	
	2010	2009
(In thousands)		
Available for sale debt securities:		
Realized gains on disposal	\$238	58
Realized losses on disposal	-	(150)
Held to maturity debt securities:		
Realized gains on disposal	98	79
Realized losses on disposal	(6)	(5)
Equity securities realized gains (losses)	22	(41)
Real estate write-down	(174)	-
Mortgage loans write-downs	(385)	(6)
Other	-	-
Totals	\$(207)	(65)

The table below presents net impairment losses recognized in earnings for the periods indicated.

	Three months ended March 31,	
	2010	2009
(In thousands)		
Total other-than-temporary impairment losses on debt securities	\$(8,470)	(4,875)
Portion of loss recognized in comprehensive income	8,248	-
Net impairment losses on debt securities recognized in earnings	(222)	(4,875)
Equity securities impairments	-	(405)
Totals	\$(222)	(5,280)

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For the three months ended March 31, 2010, the Company recognized \$8.5 million as other-than-temporary impairments on four available for sale mortgage-backed securities and two held to maturity asset-backed securities of which \$0.2 million was recognized in earnings as a credit loss and the remaining \$8.2 million recognized in other comprehensive income as a non-credit loss. The credit component of the impairment was determined to be the difference between amortized cost and the present value of the cash flows expected to be received, discounted at the original yield. The significant inputs used to project cash flows are estimated future prepayment rates, default rates and default loss severity. Prior to adoption of the new guidance, the amount of impairment recognized in earnings was the difference between amortized cost and fair value.

The table below presents a roll forward of credit losses on securities for which the Company also recorded non-credit other-than-temporary impairments under the new guidance in other comprehensive loss.

	Three Months Ended March 31, 2010	Nine Months* Ended December 31, 2009
	(In thousands)	
Beginning balance, cumulative credit losses related to other-than-temporary impairments	\$ 327	28
Additions for credit losses not previously recognized in other-than-temporary impairments	222	299
Ending balance, cumulative credit losses related to other-than-temporary impairment.	\$ 549	327

*Since the adoption date of the new FASB GAAP guidance.

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(B) Debt and Equity Securities

The table below presents amortized costs and fair values of securities held to maturity at March 31, 2010.

	Amortized Cost	Securities Held to Maturity		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
		(In thousands)		
Debt securities:				
U.S. Government agencies	\$ 176,742	2,789	138	179,393
U.S. Treasury	1,914	400	-	2,314
States and political subdivisions	191,241	2,994	1,325	192,910
Foreign governments	9,964	944	-	10,908
Public utilities	595,648	39,291	688	634,251
Corporate	1,544,221	87,923	13,533	1,618,611
Mortgage-backed	1,794,173	107,616	2,921	1,898,868
Home equity	28,332	322	3,755	24,899
Manufactured housing	23,450	536	520	23,466
Totals	\$4,365,685	242,815	22,880	4,585,620

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The table below presents amortized costs and fair values of securities available for sale at March 31, 2010.

	Amortized Cost	Securities Available for Sale		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
(In thousands)				
Debt securities:				
U.S. Government agencies	\$-	-	-	-
U.S. Treasury	-	-	-	-
States and political subdivisions	8,474	-	362	8,112
Foreign governments	10,343	789	-	11,132
Public utilities	337,064	21,714	372	358,406
Corporate	1,423,310	92,256	6,902	1,508,664
Mortgage-backed	229,226	9,570	3,668	235,128
Home equity	13,350	-	4,458	8,892
Manufactured housing	10,331	734	-	11,065
	2,032,098	125,063	15,762	2,141,399
Equity private	195	7,370	-	7,565
Equity public	5,849	1,575	157	7,267
Totals	\$2,038,142	134,008	15,919	2,156,231

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The table below presents amortized costs and fair values of securities held to maturity at December 31, 2009.

	Amortized Cost	Securities Held to Maturity		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
(In thousands)				
Debt securities:				
U.S. Government agencies	\$ 103,176	2,450	810	104,816
U.S. Treasury	1,916	401	-	2,317
States and political subdivisions	140,393	2,379	1,054	141,718
Foreign governments	9,963	792	-	10,755
Public utilities	625,661	33,345	897	658,109
Corporate	1,511,565	71,255	27,804	1,555,016
Mortgage-backed	1,730,319	83,911	3,515	1,810,715
Home equity	28,910	196	5,853	23,253
Manufactured housing	24,758	384	764	24,378
Totals	\$4,176,661	195,113	40,697	4,331,077

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The table below presents amortized costs and fair values of securities available for sale at December 31, 2009.

	Amortized Cost	Securities Available for Sale		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
(In thousands)				
Debt securities:				
U.S. Government agencies	\$-	-	-	-
U.S. Treasury	-	-	-	-
States and political subdivisions	20,490	-	1,519	18,971
Foreign governments	10,358	959	-	11,317
Public utilities	322,653	16,845	769	338,729
Corporate	1,349,878	72,862	12,880	1,409,860
Mortgage-backed	233,841	8,661	5,518	236,984
Home equity	13,508	-	4,757	8,751
Manufactured housing	10,684	794	25	11,453
	1,961,412	100,121	25,468	2,036,065
Equity private	195	6,962	-	7,157
Equity public	5,758	1,277	178	6,857
Totals	\$1,967,365	108,360	25,646	2,050,079

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The following table shows the gross unrealized losses and fair values of the Company's held to maturity investments by investment category and length of time the individual securities have been in a continuous unrealized loss position at March 31, 2010.

	Less than 12 Months		Held to Maturity 12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In thousands)			
Debt securities:						
U.S. Government agencies	\$34,762	138	-	-	34,762	138
U.S. Treasury	-	-	-	-	-	-
State and political subdivisions	70,859	1,100	3,160	225	74,019	1,325
Foreign governments	-	-	-	-	-	-
Public utilities	37,358	365	9,639	323	46,997	688
Corporate bonds	67,538	368	163,532	13,165	231,070	13,533
Mortgage-backed	51,270	684	56,017	2,237	107,287	2,921
Home equity	3,007	871	13,381	2,884	16,388	3,755
Manufactured housing	54	-	7,728	520	7,782	520
Total temporarily impaired securities	\$264,848	3,526	253,457	19,354	518,305	22,880

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The following table shows the gross unrealized losses and fair values of the Company's available for sale investments by investment category and length of time the individual securities have been in a continuous unrealized loss position at March 31, 2010.

	Less than 12 Months		Available For Sale 12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Debt securities:						
U.S. Government agencies	\$-	-	-	-	-	-
U.S. Treasury	-	-	-	-	-	-
State and political subdivisions	-	-	8,112	362	8,112	362
Foreign governments	-	-	-	-	-	-
Public utilities	12,226	157	7,403	215	19,629	372
Corporate bonds	63,132	808	90,411	6,094	153,543	6,902
Mortgage-backed	21,235	119	21,173	3,549	42,408	3,668
Home equity	-	-	8,892	4,458	8,892	4,458
Manufactured housing	-	-	-	-	-	-
	96,593	1,084	135,991	14,678	232,584	15,762
Equity public	250	8	695	149	945	157
Total temporarily impaired securities	\$96,843	1,092	136,686	14,827	233,529	15,919

Debt securities. The gross unrealized losses for debt securities at March 31, 2010 are made up of 162 individual issues, or 18.3% of the total debt securities held by the Company. The market value of these bonds as a percent of amortized cost averages 95.1%. Of the 162 securities, 76, or approximately 46.9%, fall in the 12 months or greater aging category; of the 162 debt securities, 146 were rated investment grade at March 31, 2010. Additional information on debt securities by investment category is summarized below:

U.S. Treasury. No securities had a gross unrealized loss.

U.S. Government agencies. Two securities had unrealized losses. Both are rated AAA.

State and political subdivisions. The unrealized losses on these investments are the result of holdings in 43 securities. Of these securities, all are rated A or above. Based on these facts and the Company's intent to hold to maturity, no other-than-temporary loss was recognized as of March 31, 2010.

Foreign governments. No securities had a gross unrealized loss.

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Public utilities. Of the 17 securities, all are rated BBB or above except 1, which is priced at 96% of amortized cost. At this time, the Company does not consider any of these unrealized losses as other-than-temporary.

Corporate bonds. Corporate securities with unrealized losses are reviewed based on monitoring procedures including: review of the amount of the unrealized loss, the length of time that the issue has been in an unrealized loss position, credit ratings, analyst reports, and recent issuer financial information. A total of 63 securities had unrealized losses; with 10 issues rated below investment grade. More extensive analysis was performed on these 10 issues and based on the work performed, none of the unrealized losses are considered other-than-temporarily impaired at March 31, 2010.

Mortgage-backed securities. Of the 22 securities, all are rated AAA except 2, which are rated CCC. The Company generally purchases these investments at a discount relative to their face amount and it is expected that the securities will not be settled at a price less than the stated par. Because the decline in market value is attributable to the current illiquidity in the market and not credit quality, and because the Company has the ability and intent to hold these securities until a recovery of fair value, which may be maturity, and based on the lack of adverse changes in expected cash flows, the Company does not consider these AAA rated investments and 1 CCC rated investment to be other-than-temporarily impaired at March 31, 2010. The Company recognized an other-than-temporary loss at March 31, 2010 for the other CCC rated security.

Home equity. Of the 9 securities, 7 are rated AAA, 1 is rated AA and 1 is rated CC. The Company performs a quarterly cash flow analysis on asset-backed securities that are rated below AA. Based on the lack of adverse changes in expected cash flows, the 1 issue rated below AA is not considered impaired. One AAA security was other-than-temporarily impaired due to adverse cash flows.

Manufactured housing. Of the 6 securities with an unrealized loss, 3 are rated AAA and 3 are rated BBB or below. Based on lack of adverse changes in expected cash flows, 3 of the securities below A are not considered other-than-temporarily impaired.

Equity securities. The gross unrealized losses for equity securities are made up of 26 individual issues. These holdings are reviewed for impairment quarterly. During the three months ended March 31, 2010, the Company recorded no other-than-temporary impairments.

Management believes the declines in value are temporary for all of the securities for which other-than-temporary impairment has not been recorded and the Company has the intent and ability to hold the securities until a market price recovery.

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The following table shows the gross unrealized losses and fair values of the Company's held to maturity investments by investment category and length of time the individual securities have been in a continuous unrealized loss position at December 31, 2009.

	Less than 12 Months		Held to Maturity 12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(In thousands)						
Debt securities:						
U.S. Government agencies	\$69,188	810	-	-	69,188	810
U.S. Treasury	-	-	-	-	-	-
State and political subdivisions	60,382	954	3,284	100	63,666	1,054
Foreign governments	-	-	-	-	-	-