

NATIONAL WESTERN LIFE INSURANCE CO  
Form 10-K  
March 13, 2015

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

FORM 10-K

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

For the Fiscal Year Ended December 31, 2014

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)

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

Title of each class to be so registered:	Name of each exchange on which each class is to be registered:
Class A Common Stock, \$1.00 par value	The NASDAQ Stock Market LLC

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

None  
(Title of Class)

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

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

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

o

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated file" in Rule 12b-2 of the Exchange Act. (Check One) Large accelerated filer o Accelerated filer x Non-accelerated filer o Smaller reporting company o

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

The aggregate market value of the common stock (based upon the closing price) held by non-affiliates of the Registrant on June 30, 2014 was \$568,168,220.

As of March 9, 2015, the number of shares of Registrant's common stock outstanding was: Class A - 3,436,166 and Class B - 200,000.

#### DOCUMENTS INCORPORATED BY REFERENCE

Documents incorporated by reference: Portions of the registrant's definitive proxy statement for the annual meeting of shareholders to be held June 19, 2015, which will be filed within 120 days after December 31, 2014 are incorporated by reference into Part III of this report.

---

TABLE OF CONTENTS

PART I		Page
<u>Item 1.</u>	Business	<u>4</u>
<u>Item 1A.</u>	Risk Factors	<u>16</u>
<u>Item 1B.</u>	Unresolved Staff Comments	<u>24</u>
<u>Item 2.</u>	Properties	<u>24</u>
<u>Item 3.</u>	Legal Proceedings	<u>24</u>
<u>Item 4.</u>	Mine Safety Disclosures	<u>25</u>
PART II		
<u>Item 5.</u>	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	<u>26</u>
<u>Item 6.</u>	Selected Consolidated Financial Data	<u>29</u>
<u>Item 7.</u>	Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>30</u>
<u>Item 7A.</u>	Quantitative and Qualitative Disclosures About Market Risk	<u>69</u>
<u>Item 8.</u>	Financial Statements and Supplementary Data	<u>69</u>
<u>Item 9.</u>	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	<u>69</u>
<u>Item 9A.</u>	Controls and Procedures	<u>69</u>
<u>Item 9B.</u>	Other Information	<u>72</u>
PART III		
<p>The information required by Items 10 through 14 is incorporated by reference from our definitive proxy statement to be filed with the Commission pursuant to Regulation 14A within 120 days after December 31, 2014.</p>		
PART IV		
<u>Item 15.</u>	Exhibits and Financial Statement Schedules	<u>72</u>
	Signatures	<u>151</u>

Table of Contents

Cautionary Statement Regarding Forward Looking Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Table of Contents

PART I

ITEM 1. BUSINESS

General

National Western Life Insurance Company (hereinafter referred to as "National Western", "Company", or "Registrant") is a stock life insurance company, chartered in the State of Colorado in 1956, and doing business in forty-nine states, the District of Columbia, and four U.S. territories or possessions. National Western is also licensed in Haiti, and although not otherwise licensed, accepts applications from and issues policies to residents of various countries in Central and South America, the Caribbean, the Pacific Rim, Eastern Europe and Asia. Such policies are underwritten, accepted, and issued in the United States based upon applications submitted by independent contractors. The Company provides life insurance products for the savings and protection needs of approximately 126,700 policyholders and for the asset accumulation and retirement needs of 139,100 annuity contract holders.

The Company's total assets increased to \$11.4 billion at December 31, 2014, from \$10.8 billion at December 31, 2013. The Company generated revenues of \$708.8 million, \$860.3 million and \$664.7 million in 2014, 2013 and 2012, respectively. In addition, National Western generated net income of \$105.6 million, \$96.2 million and \$92.6 million in 2014, 2013 and 2012, respectively.

The Company's financial information, including information in this report filed on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to the above reports, are accessible free of charge through the Company's Internet site at [www.nationalwesternlife.com](http://www.nationalwesternlife.com) or may be viewed at the United States Securities and Exchange Commission ("SEC") Public Reference Room in Washington, D.C. or at the SEC's Internet site at [www.sec.gov](http://www.sec.gov).

Products

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

**Life Products.** The Company's life products provide protection for the life of the insured and, in some cases, allow for cash value accumulation on a tax-deferred basis. These product offerings include universal life insurance ("UL"), interest-sensitive whole life, and traditional products such as term insurance coverage. Interest sensitive products such as UL accept premiums that are applied to an account value. Deducted from the account value are costs of insurance charges which vary by age, gender, plan, and class of insurance, as well as various expense charges. Interest is credited to account values at a fixed interest rate generally determined in advance and guaranteed for a policy year at a time, subject to minimum guaranteed rates specified in the policy contract. A slight variation to this general interest crediting practice involves equity-indexed universal life ("EIUL") policies whose credited interest may be linked in part to an outside index such as the S&P 500<sup>®</sup> Composite Stock Price Index ("S&P 500 Index<sup>®</sup>") at the election of the policyholder. These products offer both flexible and fixed premium modes and provide policyholders with flexibility

in the available coverage, the timing and amount of premium payments and the amount of the death benefit, provided there are sufficient policy funds to cover all policy charges for the coming year. Traditional products generally provide for a fixed death benefit payable in exchange for regular premium payments.

Table of Contents

Annuity Products. Annuity products sold include flexible premium and single premium deferred annuities, equity-indexed (fixed-indexed) annuities, and single premium immediate annuities. These products can be tax qualified or nonqualified annuities. A fixed single premium deferred annuity ("SPDA") provides for a single premium payment at the time of issue, an accumulation period, and an annuity payout period commencing at some future date. A flexible premium deferred annuity ("FPDA") provides the same features but allows, generally with some conditions, additional payments into the contract. Interest is credited to the account value of the annuity initially at a current rate of interest which is guaranteed for a period of time, typically the first year. After this period, the interest credited is subject to change based upon market rates and product profitability subject to a minimum guaranteed rate specified in the contract. Interest accrues during the accumulation period generally on a tax-deferred basis to the contract holder. After a number of years specified in the annuity contract, the owner may elect to have the proceeds paid as a single payment or as a series of payments over a period of time. The owner is permitted at any time during the accumulation period to withdraw all or part of the annuity account balance subject to contract provisions such as surrender charges and market value adjustments. A fixed-indexed deferred annuity performs essentially in the same manner as SPDAs and FPDAs with the exception that, in addition to a fixed interest crediting option, the contract holder has the ability to elect an interest crediting mechanism that is linked, in part, to an outside index such as the S&P 500 Index<sup>®</sup>. A single premium immediate annuity ("SPIA") foregoes the accumulation period and immediately commences an annuity payout period.

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

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Annuities:			
Fixed-index deferred	\$730,693	717,258	656,185
Other deferred	70,505	74,834	159,157
Single premium immediate	15,313	13,380	39,321
Total annuities	\$816,511	805,472	854,663
Life:			
Fixed-index universal life insurance	\$34,239	35,643	26,991
Other universal life insurance	4,748	5,223	6,532
Traditional life and other	3,597	3,312	3,496
Total life	\$42,584	44,178	37,019

Table of Contents

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

	Insurance In Force as of December 31,	
	2014	2013
	(\$ in thousands)	
Universal life:		
Number of policies	50,950	54,090
Face amounts	\$6,819,120	\$7,058,580
Traditional life:		
Number of policies	37,310	39,060
Face amounts	\$3,585,380	\$3,419,810
Fixed-index life:		
Number of policies	38,480	36,480
Face amounts	\$9,693,530	\$9,150,750
Rider face amounts	\$2,982,970	\$2,743,660
Total life insurance:		
Number of policies	126,740	129,630
Face amounts	\$23,081,000	\$22,372,800

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

	Annuities In Force as of December 31,	
	2014	2013
	(\$ in thousands)	
Fixed-index annuities		
Number of policies	68,840	64,460
GAAP annuity reserves	\$5,221,891	\$4,782,159
Other deferred annuities		
Number of policies	54,460	58,580
GAAP annuity reserves	\$2,286,489	\$2,479,855
Immediate annuities		
Number of policies	15,830	17,060
GAAP annuity reserves	\$369,065	\$383,419
Total annuities		
Number of policies	139,130	140,100
GAAP annuity reserves	\$7,877,445	\$7,645,433



Table of Contents

## Operating Segments

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

**Domestic Insurance Operations.** The Company is currently licensed to do business in all states and the District of Columbia, except for New York. Products marketed are annuities, universal life insurance, and traditional life insurance, which include both term and whole life products. The majority of domestic sales are the Company's annuities. National Western markets and distributes its domestic products primarily through independent national marketing organizations ("NMOs"). These NMOs assist the Company in recruiting, contracting, and managing independent agents. The Company's agents are independent contractors who are compensated on a commission basis. At December 31, 2014, the Company's NMO relationships had contracted approximately 19,200 independent agents with the Company. Over 14% of these contracted agents submitted policy applications to the Company in the past twelve months. At December 31, 2014, the Company had 55,700 domestic life insurance policies in force representing \$3.1 billion in face amount of coverage and 139,100 annuity contracts representing account balances of \$7.9 billion.

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

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Fixed-index life	\$17,131	19,122	11,751
Universal life	177	211	200
Traditional life	96	67	130
Total	\$17,404	19,400	12,081

**International Insurance Operations.** National Western's international operations generally focus on foreign nationals in upper socioeconomic classes. Insurance products are issued primarily to residents of countries in Central and South America, the Caribbean, the Pacific Rim, Eastern Europe, and Asia. Issuing policies to residents of countries in these different regions provides diversification that helps to minimize large fluctuations that could arise due to various economic, political, and competitive pressures that may occur from one country to another. Products issued to international residents are almost entirely universal life and traditional life insurance products. However, certain annuity and investment contracts are also available. At December 31, 2014, the Company had approximately 71,000 international life insurance policies in force representing nearly \$20.0 billion in face amount of coverage.

International applications are submitted by independent contractors, consultants and broker-agents, many of whom have been submitting policy applications to National Western for 20 or more years. The Company had relationships with approximately 2,300 of these independent international individuals at December 31, 2014, 42% of which submitted policy applications to the Company in the past twelve months.



Table of Contents

The following table sets forth the Company's international life insurance sales as measured in annualized first year premium for the past three years.

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Fixed-index life	\$17,108	16,521	15,240
Universal life	4,571	5,012	6,332
Traditional life	3,501	3,245	3,366
Total	\$25,180	24,778	24,938

There are some inherent risks of accepting international applications which are not present within the domestic market that are reduced substantially by the Company in several ways. As previously described, the Company accepts applications from foreign nationals in upper socioeconomic classes who have substantial financial resources. This targeted customer base coupled with National Western's conservative underwriting practices have historically resulted in claims experience, due to natural causes, similar to that in the United States. The Company minimizes exposure to foreign currency risks by requiring payment of premiums and claims in United States dollars. In addition, experience with the international products for over fifty years and the Company's longstanding business relationships further serve to minimize risks.

The Company's implementation of commission caps on domestic policies in 2009 discouraged sales of larger face amounts resulting in lower sales levels and amounts of insurance per policy as shown below. While the average new policy face amounts subsequently declined, the increased sales activity in the past several years has produced a modest upward trend in this figure. The Company's sales to international residents have witnessed a steady growth in the average face amount of insurance coverage per policy over the same time period. Empirical evidence suggests that policy persistency generally improves with larger face amounts of insurance.

	Average New Policy Face Amount	
	Domestic	International
Year ended December 31, 2008	455,200	272,000
Year ended December 31, 2009	201,400	315,300
Year ended December 31, 2010	164,800	338,600
Year ended December 31, 2011	178,500	363,600
Year ended December 31, 2012	254,900	380,200
Year ended December 31, 2013	286,000	384,000
Year ended December 31, 2014	286,600	382,600

Table of Contents

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

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
United States domestic products:			
Annuities	\$828,982	811,339	860,880
Life insurance	142,640	155,620	101,247
Total domestic products	971,622	966,959	962,127
International products:			
Annuities	4,290	2,530	3,827
Life insurance	160,992	162,829	168,360
Total international products	165,282	165,359	172,187
Total direct premiums and deposits collected	\$1,136,904	\$1,132,318	1,134,314

Although many agents sell National Western's products, the Company's annuity sales in any year typically reflect several NMOs whose contracted independent agents sold 10% or more of the Company's total annuity sales. In 2014, there was one NMO that accounted for approximately 16% of the Company's annuity sales. Similarly, domestic life insurance sales in any year may include several NMOs who accounted for 10% or more of total domestic life insurance sales. In 2014, there were two NMOs who generated 19% and 17%, respectively, of total domestic life insurance sales. Given the historically lower level of domestic life insurance sales relative to international life sales and annuity sales, the proportionate percentage of domestic life sales for these particular NMOs is not considered a significant concentration of business within the total context of new business. In addition, with the independent distribution model the Company employs, the concentration of sales within a particular NMO is not as an acute concern as compared to other distribution channels given that the underlying agents are free to contract with the Company through any NMO the Company has a relationship with.

Applications submitted from residents of Latin America and the Pacific Rim perennially have comprised the majority of the Company's international life insurance sales. Several years ago, new sales efforts were directed toward the sale of a traditional endowment form of life insurance product for residents of Eastern Europe and the Commonwealth of Independent States (former Soviet Union). However, the Company has scaled back its efforts in these areas due to profitability concerns. As noted previously, the Company's international sales by geographic market tend to fluctuate with the socio and economic climates in these regions. The Company's mix of international sales by geographic region is as follows.

	Year Ended December 31,		
	2014	2013	
Percentage of International Sales:			
Latin America	84.4	% 90.5	%
Pacific Rim	12.5	6.9	
Eastern Europe	3.1	2.6	

Totals	100.0	% 100.0	%
--------	-------	---------	---

9

---

Table of Contents

International life insurance sales are much more diversified by independent consultants and contractors. In terms of sales to residents of international countries, Brazil, Venezuela, Peru, and Taiwan were the countries exceeding 10% of total international sales with shares of 23%, 15%, 13%, and 10%, respectively.

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

	Domestic Life Insurance (In thousands)	International Life Insurance	Annuities	All Others	Totals
Revenues, excluding realized gains (losses):					
2014	\$63,551	170,749	420,707	42,168	697,175
2013	63,414	181,471	563,353	43,376	851,614
2012	52,399	158,559	397,707	42,797	651,462
Segment earnings (losses): (A)					
2014	\$2,812	37,092	42,935	15,204	98,043
2013	2,094	35,718	37,725	15,085	90,622
2012	1,255	35,556	33,206	13,961	83,978
Segment assets: (B)					
2014	\$746,051	1,250,629	8,933,274	257,568	11,187,522
2013	610,570	1,200,347	8,586,871	260,007	10,657,795
2012	463,569	1,105,862	8,269,445	242,404	10,081,280

Notes to Table:

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

(B) Amounts exclude other unallocated assets.

Additional information concerning these industry segments is included in Note 13, Segment and Other Operating Information, of the accompanying consolidated financial statements.

### Competition and Ratings

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

conditions, interest rate levels and changes, performance of investments, and the maintenance of strong insurance ratings from independent rating agencies.

10

---

Table of Contents

In order to compete successfully, life insurers focus initiatives toward distribution, technology, defined end market targets, speed to the market in terms of product development, and customer relationship management as ways of gaining a competitive edge. The Company's management believes that it competes primarily on the basis of its longstanding reputation for commitment in serving international markets, its financial strength and stability, and its ability to attract and retain distribution based upon product and compensation. With respect to sales to residents of international countries, the Company is of the opinion that the home office and website infrastructure to support languages other than English, and the knowledge needed to effectively underwrite risks outside of the United States is a significant barrier to entry for potential competitors.

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

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

A.M. Best has 16 financial strength ratings assigned to insurance companies which currently range from A++ (Superior) to F (In Liquidation). Standard & Poor's has twenty-one financial strength ratings assigned to insurance companies ranging from "AAA" (Extremely Strong) to "R" (Regulatory Action). Both rating agencies further qualify their current ratings with outlook designations of "Positive", "Stable", and "Negative".

A.M. Best and Standard & Poor's ratings are an independent consideration of the Company's claims paying ability and are not a rating of the Company's investment worthiness. Accordingly, such ratings are not recommendations to buy, sell or hold securities. The rating agencies formally review the Company and its rating on an annual basis with interim analysis performed as necessary. In June 2009, A.M. Best upgraded the Company's rating to "A" from "A-". This was particularly noteworthy given the financial crisis backdrop that framed this time period and the number of companies that were negatively impacted, often significantly, during this time. In June 2010, Standard & Poor's upgraded its outlook of the Company from "negative" to "stable". Generally speaking, as ratings are subject to revision or withdrawal at any time by the rating agency, there is no assurance that the Company's ratings will continue for a certain period of time. In the event the Company's ratings are subsequently downgraded, the Company's business may be negatively impacted.

Table of Contents

## Risk Management

Similar to other insurers, the Company is exposed to a wide spectrum of financial, operational, and other risks as described in Item 1A “Risk Factors”. Effective enterprise risk management is a key concern for identifying, monitoring, measuring, communicating, and managing risks within limits and risk tolerances. The Company’s Board of Directors and senior management are knowledgeable of and accountable for key risks. The full Board of Directors meets at least every other month and regularly hears reports from the President and Chief Operating Officer, the Chief Financial Officer, the Chief Actuary, the Chief Investment Officer, and the Chief Compliance Officer. In addition, the Board has several committees which include the Audit Committee, the Investment Committee, and the Compensation and Stock Option Committee that regularly convene to address various aspects of risk.

## Enterprise Risk Management (ERM) Governance Framework

## Board of Directors and Sub-Committees of the Board

o

## Company Senior Management

o

## ERM Committees

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

## Corporate Risk Function

Insurance Risk	Market Risk	Credit Risk	Operational Risk	Strategy Risk
o	o	o	o	o

## Lines of Business / Functional Areas

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

The Company maintains a system of disclosure controls and procedures, including internal controls designed to provide reasonable assurance that assets are safeguarded and transactions are properly authorized, executed and recorded. The Company recognizes the importance of full and open presentation of its financial position and operating results and to this end maintains a Disclosure Controls and Procedures Committee comprised of senior executives who possess comprehensive knowledge of the Company’s business and operations. This Committee is responsible for evaluating disclosure controls and procedures and for the gathering, analyzing, and disclosing of information as required to be disclosed under the securities laws. It assists the Chief Executive Officer and Chief Financial Officer in their responsibilities for making the certifications required under the securities laws regarding the Company’s disclosure controls and procedures. It ensures that material financial information is properly communicated up the Company’s hierarchy to the appropriate person or persons and that all disclosures are made in a timely fashion. This Committee reports directly to the Audit Committee of the Company.

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

## Table of Contents

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

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

Substantially all products available to residents of other countries contain a currency clause stating that premium and claim "dollars" refer to lawful currency of the United States. Policy applications submitted through international insurance consultants are generally associated with individuals in upper socioeconomic classes who desire the stability and inflationary hedge of dollar denominated insurance products issued by the Company. The favorable demographics of this group typically results in a higher average policy size, and persistency and claims experience (from natural causes) similar to that in the United States. By accepting applications submitted on residents outside the United States, the Company is able to further diversify its revenue, earnings and insurance risk.

### Insurance Product Liabilities

At December 31, 2014, the Company's total balance for liabilities pertaining to insurance products was \$9.7 billion. These product liabilities are payable over an extended period of time for which the Company's product pricing includes in making certain assumptions for. The profitability of insurance products depends on this pricing and differences between the Company's expectations when the products are sold and the subsequent actual experience impacts future profitability.

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

Table of Contents

## Reinsurance

The Company follows the industry practice of reinsuring (ceding) portions of its insurance risks with a variety of reinsurance companies. All reinsurance is yearly renewable term. We do not use financial or surplus relief reinsurance. The use of reinsurance allows the Company to underwrite policies larger than the risk it is willing to retain on any single life and to continue writing a larger volume of new business. New sales of life insurance products are reinsured above prescribed limits and do not require the reinsurer's prior approval within certain guidelines. The maximum amount of life insurance the Company normally retains is \$500,000 on any one life. However, the use of reinsurance does not relieve the Company of its primary liability to pay the full amount of the insurance benefit in the event of the failure of a reinsurer to honor its contractual obligation. Consequently, the Company avoids concentrating reinsurance risk with any one reinsurer and only participates in reinsurance treaties with reputable carriers. No reinsurer of business ceded by the Company has failed to pay policy claims (individually or in the aggregate) with respect to our ceded business. The Company continuously monitors the financial strength of our reinsurers and has been able to obtain replacement coverages from financially responsible reinsurers when making changes. The Company's primary reinsurers as of December 31, 2014 were as follows.

Reinsurer	A.M. Best Rating	Amount of In Force Ceded (In thousands)
Hannover Life Reassurance Company (Florida)	A+	\$1,991,556
SCOR Global Life Americas Reinsurance (Delaware)	A	1,495,403
RGA Reinsurance Company (Missouri)	A+	935,318
Mapfre Re (Spain)	A	721,873
SCOR Global Life S.E. Branch (France)	A	134,622
All others		48,220
		\$5,326,992

## Regulatory and Other Issues

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

The Company's operations and financial records are subject to examination by these departments at regular intervals. Statutory financial statements are prepared in accordance with accounting practices prescribed or permitted by the Colorado Division of Insurance, the Company's principal insurance regulator. Prescribed statutory accounting practices are largely dictated by the Statutory Accounting Principles adopted by the National Association of Insurance Commissioners ("NAIC"). The NAIC, as well as state regulators, continually evaluates existing laws and regulations

pertaining to the operations of life insurers. To the extent that initiatives result as a part of this process, they may be adopted in the various states in which the Company is licensed to do business. It is not possible to predict the ultimate content and timing of new statutes and regulations adopted by state insurance departments and the related impact upon the Company's operations although it is conceivable that they may be more restrictive.

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

Table of Contents

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

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

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

Despite having been in place for several years, many of the key rules of the Dodd-Frank legislation have yet to be formalized, some of which may have an impact on insurers. To date, the Federal Insurance Office (FIO) has been established to accumulate information about the insurance industry. Its current mandate is very broad and covers a wide variety of topics although it is not empowered with any general regulatory authority over insurers.

The USA Patriot Act of 2001 ("Patriot Act") amended the Money Laundering Control Act of 1986 and the Bank Secrecy Act of 1970 to expand anti-money laundering ("AML") and financial transparency laws applicable to financial services companies, including insurance companies. Among other things, the Patriot Act seeks to identify parties involved in terrorism, money laundering or other illegal activities. The Company has adopted AML programs that include policies, procedures and controls to detect and prevent money laundering.

On August 10, 2012, the Iran Threat Reduction and Syria Human Rights Act of 2012 ("Iran Act") was signed into law. Section 219 of the Iran Act amended Section 13 of the Exchange Act to require an issuer filing periodic Exchange Act reports to provide disclosure whether during the reporting period it or any of its affiliates knowingly engaged in certain specified activities involving contacts with or support for Iran and other identified persons involved in terrorism or the creation of weapons of mass destruction. Such activities include, among other things, certain banking transactions supporting Iran's weapons of mass destruction activities and terrorism. The Company and its subsidiaries had no transactions or activities requiring disclosure under the Iran Act in this report filed on Form 10-K.

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

lower for items with less risk. The standards require life insurers to submit a report to state regulators on an annual basis regarding their risk-based capital.

The RBC requirements provide for four levels of regulatory attention, varying with the ratio of the insurer's ratio of total adjusted capital to its RBC as measured on December 31 of each year. In addition, the RBC requirements provide for a trend test if an insurer's total adjusted capital falls to a certain range of its ratio relative to its RBC as of the end of the year. The Company's statutory capital and surplus at December 31, 2014, was significantly in excess of the threshold RBC requirements for regulatory attention and trend test analysis.

Table of Contents

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

Employees. The Company had 264 employees as of December 31, 2014, substantially all of which worked in the Company's home office in Austin, Texas. None of the employees are subject to collective bargaining agreements governing their employment with the Company.

ITEM 1A. RISK FACTORS

Company performance is subject to varying risk factors including general business and financial risk. Any or all of these risks could have a material adverse effect on the business, financial condition or results of the Company or cause the trading price of the Company's Class A common shares to decline materially. This section provides an overview of possible risk exposures at this point in time that could impact Company performance in the future. While these scenarios do not represent expectations of future experience, they are intended to illustrate the potential impacts if any of the following risks were to manifest into actual occurrences.

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

The Company's results from operations are materially affected by economic conditions both in the U.S. and elsewhere around the world. From 2008 to 2010, the U.S. economy experienced severe credit and liquidity issues and experienced a recession. Although the recession has ended, the rate of recovery from the U.S. recession has been slower than historic averages as unemployment remains relatively high and business and consumer confidence has not reached the degree of stability comparable to pre-recession levels. Recent economic data seemingly points to an ongoing pattern of growth, but the future direction could be impacted by implementation of U.S. fiscal policies addressing significant national budget deficits and debt levels or by unforeseen reversals in macroeconomic trends. Globally, the disruption in foreign financial markets has lessened, but not all financial markets are functioning normally. Ongoing efforts by foreign financial authorities to address their plight through currency manipulation or similar versions of quantitative easing initiatives may serve to exacerbate the financial and economic headwinds. Other foreign governments have initiated austerity initiatives to combat their budget deficits which may have the unintended consequence of causing a decline in economic activity.

Even under more favorable economic conditions, general factors such as credit availability, willingness of business to invest, consumer spending, financial market conditions and inflation affect the Company's business. Demand for our products and ultimately the profitability of our business may be adversely affected by anemic activity in any or all of these areas. Our current policyholders may opt to defer or stop paying insurance premiums. Those holding interest-sensitive life insurance and annuity products of the Company may begin an elevated level of discretionary withdrawals of policy funds. Adverse changes as detailed above could negatively affect our net income and have a material effect on our business, results of operations and financial condition. The Company cannot foretell the occurrence of economic trends or the timing of changes in such trends.

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

The Company primarily invests monies received in investment grade, fixed income investment securities in order to meet its obligations to policyholders and provide a return on its deployed capital. Accordingly, our business is exposed to customary risks of debt markets including credit defaults and changes in fair value. Adverse market

conditions can affect the liquidity and value of our investments and we are subject to the credit risk that issuers of these securities may default on principal and interest payments, particularly in the event of an ongoing downturn in the economic and/or business climate. At December 31, 2014, approximately 1.5% of the Company's \$9.6 billion fixed income securities portfolio was comprised of issuers who were investment grade at the time the Company acquired them but were subsequently downgraded for various reasons. A substantial increase in defaults from these or other issuers could negatively impact the Company's financial position and results of operations.

For the Company's fixed-indexed products, over the counter derivative instruments (index options) are purchased from a number of highly-rated counterparties to fund the index credit to policyholders. These index options consist primarily of one-year call options. In the event that any of these counterparties fails to meet their contractual obligations under these derivative instruments, the Company would be financially at risk for providing the credits due that the counterparty reneged on. The Company attempts to offset this risk through careful credit evaluation of counterparties, diversification of holdings among numerous institutions, and use of credit support agreements requiring counterparties to provide collateral at specified threshold levels. The failure of counterparties to perform could negatively impact the Company's financial strength and reduce the Company's profitability.

Table of Contents

The concentration of the Company's portfolio in any particular issuer, asset classes, industries, or geographic areas could have an adverse effect on our investment portfolios and, therefore, the Company's results of operations and financial position. In order to minimize this risk, the Company's investment guidelines contain maximum exposure thresholds to concentrations of risk in order to promote a broadly diversified portfolio.

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

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

The Company makes assumptions regarding the fair value and expected performance of its investments. During periods of market disruption and volatility, it becomes more difficult to evaluate securities particularly if trading becomes less frequent or market data becomes less observable. As a result, valuations may include inputs and assumptions that are less observable or require greater estimation and judgment as well as valuation methods which are more complex. We also consider a wide range of factors about security issuers in evaluating the cause of a decline in the estimated fair value of a security and in assessing the prospects for recovery. Inherent in this evaluation are assumptions about the operations of the issuer and its future earnings potential. Such evaluations are revised as conditions change and new information becomes available. The decision on whether to record an other-than-temporary impairment is determined by our assessment of the financial condition and prospects of a particular issuer, projections of future cash flows and recoverability as well as our ability and intent to hold the securities to recovery or maturity. Expectations that the Company's investments in corporate debt securities will continue to perform in accordance with their contractual terms are based on evidence gathered through our normal credit surveillance process. However, historical trends may not be indicative of future impairments and our conclusions concerning the recoverability of any particular security's market price could ultimately prove to be invalid as facts and circumstances change. Rapidly changing and unprecedented credit market conditions make it possible that issuers of the Company's investments in corporate securities and/or debt obligations will perform worse than current expectations. Consequently, there can be no assurance that we have accurately assessed the level of impairments in our financial statements or that additional impairments may not need to be taken in the future. It is also possible that unanticipated events may lead the Company to dispose of such investments and recognize the effects of any market movements in its financial statements.

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

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

A rise in interest rates will increase the net unrealized loss position of our investment portfolio and may subject the Company to disintermediation risk. Disintermediation risk is the risk that in a change from a period of low interest rates to a period of significantly higher and increasing interest rates policyholders may surrender their contracts or make early withdrawals in order to increase their returns, requiring the Company to liquidate investments in an

unrealized loss position (i.e. the market value less than the carrying value of the investments). The Company manages its liabilities and configures its investment portfolio so as to provide and maintain sufficient liquidity to support expected withdrawal demands. If the Company experiences unexpected withdrawal or surrender activity, it could exhaust liquid assets and be forced to liquidate other assets at a loss or on other unfavorable terms. With respect to fixed income security investments the Company maintains in an "Available for Sale" category, rising interest rates will cause declines in the market value of these securities. These declines are reported in our financial statements as an unrealized investment loss and a reduction of stockholders' equity.

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

Table of Contents

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

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

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

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

The Company distributes its life and annuity products through independent broker-agents and consultants. These product distributors are not captive and may sell products of competitors of the Company. There is substantial competition, particularly in the Company’s domestic market, for independent broker-agents with the demonstrated ability to market and sell insurance products. Competition for these individuals or organizations typically centers on company reputation, products and their features, compensation, home office support services and the insurer’s financial position and independent strength ratings. Competitiveness for such individuals and organizations also depends upon the relationships the Company develops with them. The Company’s future sales and financial condition are dependent upon avoiding significant interruptions in attracting and retaining independent broker-agents and consultants.

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

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

Financial strength ratings are important criteria in establishing the competitive position of insurers. While financial strength ratings are not a recommendation to buy the Company's products, these ratings are important to maintaining public confidence in the Company, its products, and its competitive position. Ratings generally reflect the rating agencies' quantitative and qualitative view of a particular company's financial strength, operating performance, and ability to meet its obligations to policyholders. However, since some of the rating factors often relate to the particular and subjective views of the rating agency, their independent economic modeling, the general economic climate, and other circumstances, these are largely outside of the insurer's control. Accordingly, we cannot predict with any certainty what actions rating agencies may take. A downgrade in our financial strength rating, or an announced potential downgrade, could affect our competitive position and make it more difficult to market our products vis-à-vis competitors with higher financial strength ratings. In extreme situations, a significant downgrade action by one or more rating agencies could cause a decrease in the sale of our products, prompt defections within our independent sales force, and induce existing policyholders to cancel their policies and withdraw funds from the Company. Currently, the major rating agencies, including A.M. Best and Standard & Poor's, maintain stable outlooks on the U.S. life insurance industry. Regardless of their current view, these rating agencies could revise their benchmarks regarding levels of capital, earnings, and other metrics that align with particular rating levels and impact their rating assessments of U.S. life insurance companies. These events could have a material adverse effect on our financial position and liquidity.

Table of Contents

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

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

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

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

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

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

Insurance companies that do business in a particular state are subject to assessment up to certain prescribed limits by that state's insurance guaranty association to provide funds to help pay for policyholder losses or liabilities of insolvent insurance companies. The financial crisis of 2008 and 2009 weakened the financial condition of numerous insurers, including insurers already in the state of receivership, thus increasing the risk of sparking guaranty fund assessments. As the amount and timing of assessments by state insurance guaranty associations is outside of the Company's control, the liabilities provided for these potential assessments in our financial statements may differ from the amounts ultimately assessed.

Table of Contents

On July 21, 2010, the Dodd-Frank Act (“Dodd-Frank”) was enacted into law. Dodd-Frank calls for expansive changes in the regulation and oversight of the financial industry intended to provide for greater supervision of financial industry entities, reduction of risk in banking practices and in securities and derivatives trading, enhancement of public company corporate governance practices and executive compensation disclosures, and greater protections to individual consumers and investors. Numerous provisions of Dodd-Frank require adoption of implementing rules and/or regulations. The process of adopting these have been delayed beyond the timeframes imposed by Dodd-Frank. Dodd-Frank established a Federal Insurance Office with the Department of Treasury. The director of this office is required to conduct a study on how to modernize and improve the system of insurance regulation in the United States, accomplished by increased national uniformity through either a federal charter or effective action by the states. Until various final regulations are defined, the full impact of the regulations on the Company will remain unclear. Legislative or regulatory requirements imposed may impact the Company in a variety of ways including placing the Company at a competitive disadvantage relative to its competition or other financial service entities, changing the competitive framework of the financial services sector and/or life insurance industry, making it more expensive for the Company to conduct its business, or requiring the reallocation of Company resources to legal and compliance-related activities. Consequently, the impact of Dodd-Frank on the Company, as well as that on the financial industry and economy cannot be determined until all the rules and regulations called for under the Act have been finalized and implemented.

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

In addition, the Company has recently become aware that the Brazilian authorities have commenced an investigation into possible violations of Brazilian criminal law in connection with the issuance of the Company's insurance policies to Brazilian residents, and in assistance of such investigation a Commissioner appointed by the U.S District Court for the Western District of Texas has issued a subpoena upon the Company to provide information relating to such possible violations. Because the Company has only recently become aware of this investigation, no conclusion can be drawn at this time as to its outcome or how such outcome may impact the Company's business, results of operations or financial condition. For the year ended December 31, 2014, the Company generated approximately \$38.6 million of life insurance premiums and contract revenues from policies issued to Brazilian residents, which represented approximately 20% of total life insurance premiums and contract revenues. In the event that the ultimate outcome of the investigation were to adversely affect the Company's life insurance premiums and contracts revenues from policies issued to Brazilian residents, the loss of such revenues and premiums could have a material adverse effect on the Company's business, results of operations and financial condition.

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

The Company's financial statements are prepared in accordance with generally accepted accounting principles (“GAAP”) as delineated in the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“FASB ASC”). GAAP is subject to constant review by various policy-setting organizations to address emerging accounting

rules and issue interpretative accounting guidance. From time to time, the Company is required to adopt new or revised accounting standards or guidance that has been integrated into the FASB ASC. Future accounting standards required to be adopted could possibly change the current accounting treatment that the Company uses in its consolidated financial statements and such changes could possibly have a material adverse effect on our financial position and results of operations.

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

Table of Contents

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

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

Financial services companies are frequently targets of legal proceedings, including class action litigation. In the ordinary course of business, we are involved in various legal actions common to the life insurance industry, some of which may occasionally assert claims for large amounts. Companies in the life insurance and annuity lines of business have encountered litigation pertaining to allegations of improper sales practices in connection with the sale of life insurance, improper product design and disclosures, marketing unsuitable products to customers especially in the senior market, bad faith in the handling of insurance claims, and other similar pleas. In addition, life insurance companies are subject to risk of errors and misconduct of the agents selling their products for fraud, non-compliance with policies and recommending products or transactions that are not suitable in a particular situation. Often these legal proceedings have resulted in the award of substantial amounts disproportionate to the actual damages including material amounts of punitive compensatory damages. In some states, judges and juries have substantial discretion in awarding punitive and compensatory damages which creates the potential for material adverse judgments or awards. In the event of an unfavorable outcome in one or more matters, the ultimate liability may be in excess of the liabilities established in the Company's accounts. Given the inherent unpredictability of litigation, there can be no assurance that such litigation, current or in the future, will not have such a material adverse effect on the Company's results of operations or cash flows in any particular reporting period. In addition, the Company could also suffer significant harm to its reputation as a result of such litigation and the occurrence of such matters may become more frequent and/or severe in the event that general economic conditions deteriorate.

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

The Company cedes material amounts of insurance to other unaffiliated insurance companies through reinsurance. New sales of life products are reinsured within prescribed limits and do not require the reinsurer's prior approval within certain guidelines. The Company's maximum retention limit on an insured life is \$500,000. However, these reinsurance arrangements do not fully discharge the Company's obligation to pay benefits on the reinsured business. If a reinsurer fails to meet its obligations, the Company would be forced to cover these claims. In addition, if a reinsurer becomes insolvent, it may cause the Company to lose its reserve credits on the ceded business which require the establishment of additional reserves. To mitigate the risks associated with the use of reinsurance, the Company carefully monitors the ratings and financial condition of its reinsurers on a regular basis and attempts to avoid concentration of credit risks by spreading its business among several reinsurers in order to diversify its risk exposure.

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

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

The Company's earnings are significantly influenced by policy claims received and will vary from period to period depending upon the amount of claims incurred. In any given quarter or year, there is very limited predictability of claims experience. The liability established for future policy benefits is based upon a number of different factors. Our mortality experience could be adversely impacted by a catastrophic event such as a natural disaster, terrorist attack or pandemic event. In the event our future claim experience does not match our past results or pricing assumptions, our operating results could be materially and adversely affected.

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

Table of Contents

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

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

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

The occurrence of natural disasters and catastrophes, including earthquakes, hurricanes, floods, tornadoes, fires, explosions, pandemic disease and man-made disasters, including acts of terrorism and military actions, could adversely affect the financial condition or results of operations of the Company. Such disasters and catastrophes could impact the Company directly by damaging our facilities, preventing employees from performing their duties or otherwise disturbing the Company's ordinary business operations, as well as indirectly by changing the condition and behaviors of consumers, business counterparties and regulators and potentially causing declines or volatility in economic and financial markets. Disasters or a pandemic could disrupt public and private infrastructure, including communications and financial services, which could disrupt the Company's normal business operations. In addition, such events and conditions could result in a decrease or halt in economic activity in large geographic regions, adversely impacting the marketing of the Company's business within such geographic areas which in turn could have an adverse effect on the Company.

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

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

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

Table of Contents

The Company relies on its computer systems to conduct business and produce financial statements. While policies, procedures and back-up plans designed to prevent or minimize the effect of incapacity or failure are maintained, the Company's computer systems may be vulnerable to disruptions or breaches as a result of natural disasters, man-made disasters, criminal activity or other events beyond the Company's control. A computer virus, information security breach, disaster or unanticipated event could affect the data storage and processing systems of the Company, or its service providers, destroying or compromising valuable data or making it difficult to conduct business. The Company's computer systems may be inaccessible to its employees, business partners, and customers for an extended period of time. Even if employees of the Company are able to report to work, they may be unable to perform their duties if the Company's data or systems are disabled or destroyed. The failure or incapacity of any of the Company's computer systems could potentially disrupt operations, damage our reputation and adversely impact our profitability. Unanticipated problems with our disaster recovery or business continuity plans and systems could have a material adverse impact on our ability to resume and conduct business.

The Company retains confidential information on its systems, including customer information and proprietary business information, and relies on sophisticated commercial technologies and third parties to maintain the security of those systems and information. The increasing volume and sophistication of computer viruses, hackers and other external threats may increase the vulnerability of the Company's systems to data breaches. Preventive actions taken to reduce the risk of cyber-incidents and protect the Company's information may not be sufficient to prevent cyber-attacks or other security breaches. Anyone who is able to circumvent the Company's security measures could access, view, misappropriate, alter, or delete any information in the systems, including personally identifiable customer information, customer financial information, and proprietary business information. An increasing number of states require customers to be notified of any unauthorized access, use, or disclosure of their information. Any compromise of the security of the Company's technology systems that results in the disclosure of personally identifiable customer information could damage the Company's reputation, expose it to litigation, and result in significant technical, legal and other expenses.

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

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

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

In addition, the Company is subject to federal corporate income taxes but benefits from certain tax provisions, including but not limited to, dividends-received deductions and insurance reserve deductions. Due to a variety of factors including the current Federal budget deficit and ongoing proposals from the U.S. Department of Treasury, from time to time Congress and various state legislatures entertain revenue-raising proposals contrary to the life insurance industry and there is a risk that federal tax legislation could be enacted lessening or eliminating some or all of the tax advantages currently benefiting the Company and result in higher taxes. Provisions in the IRC currently require that a portion of expenses incurred in selling insurance products be deducted over a period of years rather than immediately deducted in the year such expenses are incurred (generally referred to as a "DAC tax" on insurance companies). The Company cannot predict what other changes to tax laws or interpretations of existing tax law may ultimately be enacted or adopted, or whether such changes will adversely affect the Company.

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

Table of Contents

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

The Company's current assessment of future taxable income in combination with the consideration of available tax planning opportunities has determined that it is more likely than not that it will generate sufficient taxable income to realize its deferred tax assets. This assessment of the realizability of our deferred tax assets requires significant judgment. If future events deviate from the Company's current assessment and cause a failure to achieve our projections, a valuation allowance may need to be established which could have a material adverse effect on the Company's results of operations and financial condition. The Company's year-end net deferred tax assets reflect the current top marginal corporate income tax rate of 35%. Any future reduction in this rate would cause a writedown of our deferred tax assets.

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Westcap Corporation, a wholly owned subsidiary, owns the Company's principal office location in Austin, Texas and two buildings adjacent to it, totaling approximately 93,000 square feet that are leased and utilized by the Company. The Company's affiliate, Regent Care Building, LP, owns a 65,000 square foot building in Reno, Nevada, which is leased and utilized by another of the Company's affiliates, Regent Care Operations, LP, for use in its nursing home operations. The Company's subsidiary, Regent Care San Marcos A-3 LP, owns a 74,000 square foot building in San Marcos, Texas, which is also used in nursing home operations. Lease costs and related operating expenses for facilities of the Company's subsidiaries are currently not significant in relation to the Company's consolidated financial statements. The intercompany lease costs related to The Westcap Corporation and the nursing homes have been eliminated for consolidated reporting purposes.

ITEM 3. LEGAL PROCEEDINGS

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

Table of Contents

During 2014, the Company resolved a class action lawsuit pending since June 12, 2006, in the U.S. District Court for the Southern District of California. The case was titled In Re National Western Life Insurance Deferred Annuities Litigation. The complaint asserted 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. On July 12, 2010 the Court certified a nationwide class of policyholders under the RICO allegation and a California class under all of the remaining causes of action except breach of fiduciary duty. The parties entered into a Settlement and Release Agreement in August of 2013 ("Settlement") which was finally approved by the Court on February 11, 2014. On February 12, 2014, the Court issued a redacted final approval order granting the Motion for Final Approval of Class Action Settlement. The Settlement became final and non-appealable on April 12, 2014. The Settlement Agreement and Plaintiffs' Request for Attorneys' Fees and Costs were approved by the Court, and the Company paid the Court-approved amount of attorneys' fees and costs in April 2014. The Company also made certain payments to surrendered and annuitized policyholders in June 2014. In addition, the Company agreed to provide bonuses on annuitization for active policyholders who choose a 10-year or a 20-year certain and life settlement option. The Company had held reserves of \$6.5 million for the matter at December 31, 2013 which approximated the ultimate settlement amounts described above.

In addition to the class action lawsuit described above, the Company was 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 including actual damages of \$113,000 and amounts for attorney's fees, and prejudgment interest on the actual damages. In addition, the Final Judgment included \$150 million for exemplary damages. The Company vigorously defended this case and appealed the Final Judgment to the Court of Appeals Second District of Texas in Fort Worth. The Court of Appeals on August 11, 2011, reversed the trial court judgment in its entirety and rendered a take nothing verdict in favor of National Western. Plaintiffs (Appellees) filed a motion for a rehearing which the Court ruled on October 13, 2011, that the trial court's judgment was still reversed and judgment was still entered that Newman take nothing, all in favor of National Western. The Plaintiffs (Appellees) filed a Motion for Reconsideration En Banc which the Court of Appeals denied on October 27, 2011. The Plaintiffs (Appellees) then filed a Motion for Rehearing of the Court's amended decision, which the Court of Appeals denied on December 22, 2011. On March 21, 2012, Plaintiffs (Appellees) filed a petition for review with the Texas Supreme Court and the Company filed its response on April 20, 2012. The Supreme Court asked the parties for briefs on the issues before deciding on whether to hear the case and both parties submitted their briefs. On February 14, 2013, the Supreme Court denied the Plaintiffs petition for review. On April 3, 2013, Plaintiff filed a Motion for Rehearing. The Supreme Court denied Plaintiff's Motion for Rehearing on June 7, 2013 thus ending the matter.

On October 26, 2011 the Brazilian Superintendence of Private Insurance ("SUSEP") attempted to serve the Company with a subpoena regarding an administrative proceeding initiated by SUSEP in which it alleged that the Company was operating as an insurance company in Brazil without due authorization. The Company had been informed that SUSEP was attempting to impose a penal fine of approximately \$6.0 billion on the Company. SUSEP unsuccessfully attempted to serve the Company with notice regarding this matter. The Company does not transact business in Brazil and has no officers, employees, property, or assets in Brazil. The Company believes that SUSEP has no jurisdiction over the Company, that SUSEP's attempts at service of process were invalid, and that any penal fine would be unenforceable. For the reasons described above, the Company does not believe that this matter meets the definition of a material pending legal proceeding as such term is defined in Item 103 of Regulation S-K but has included the foregoing description solely due to the purported amount of the fine sought at that time.

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.

Separately, the Company has recently become aware that the Brazilian authorities have commenced an investigation into possible violations of Brazilian criminal law in connection with the issuance of the Company's insurance policies to Brazilian residents, and in assistance of such investigation a Commissioner appointed by the U.S. District Court for the Western District of Texas has issued a subpoena upon the Company to provide information relating to such possible violations. Because the Company has only recently become aware of this investigation, no conclusion can be drawn at this time as to its outcome or how such outcome may impact the Company's business, results of operations or financial condition. The Company plans to cooperate with the relevant governmental authorities in regard to this matter.

#### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents

## PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY,  
RELATED STOCKHOLDER MATTERS AND ISSUER  
PURCHASES OF EQUITY SECURITIES

## Market Information

The principal market on which the Class A common stock of the Company trades is The NASDAQ - Stock Market® under the symbol "NWLI". The high and low sales prices for the Class A common stock for each quarter during the last two years and the cash dividends declared per common share are shown in the following table.

Class A Common Stock Data (per share)	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter	3 <sup>rd</sup> Quarter	4 <sup>th</sup> Quarter
2014:				
High	\$255.49	259.99	264.36	280.02
Low	204.00	227.61	229.99	229.32
Dividends Declared	—	—	0.36	—
2013:				
High	\$189.20	200.21	220.05	224.90
Low	157.56	170.00	191.44	197.51
Dividends Declared	—	—	0.36	—

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

## Equity Security Holders

The number of stockholders of record on March 9, 2015 was as follows:

Class A Common Stock	3,493
Class B Common Stock	2

## Dividends

Class B common stockholders receive dividends at one-half the rate declared on Class A common stock. During 2014, the Company paid cash dividends on its Class A and Class B common stock in the amounts of \$1,237,020 and \$36,000, respectively. During 2013, the Company also paid cash dividends on its Class A and Class B common stock in the amounts of \$1,236,515 and \$36,000, respectively. Payment of dividends is within the discretion of the Company's Board of Directors but subject to prescribed limitations set by the Colorado Division of Insurance without prior approval. The Company's general policy is to reinvest earnings internally to finance the development of new business.

## Securities Authorized For Issuance Under Equity Compensation Plans

The Company has two equity compensation plans that were approved by security holders. Under the two plans, a total of 29,768 shares of the Company's Class A common stock may be issued upon exercise of the outstanding options at December 31, 2014. The weighted average exercise price of the outstanding options is \$242.48 per option. Excluding

the outstanding options, 291,000 shares of Class A common stock remain available for future issuance under the plans at December 31, 2014.

Table of Contents

Performance Graph

The following graph compares the change in the Company's cumulative total stockholder return on its common stock with the NASDAQ - U.S. Companies Index and the NASDAQ - Insurance Stock Index. The graph assumes that the value of the Company's Class A common stock and each index was \$100 at December 31, 2009, and that all dividends were reinvested.

Issuer Purchases of Equity Securities

Effective March 10, 2006, the Company adopted and implemented a limited stock buy-back program associated with the Company's 1995 Stock Option and Incentive Plan ("Plan") 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. Effective August 22, 2008, the Company adopted and implemented another limited stock buy-back program substantially similar to the 2006 program for shares issued under the 2008 Incentive Plan.

Table of Contents

The following table sets forth the Company's issuance and repurchase activity of its Class A common shares from option holders for the quarter ended December 31, 2014.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May yet Be Purchased Under the Plans or Programs
October 1, 2014 through October 31, 2014	400	\$263.01	N/A	N/A
November 1, 2014 through November 30, 2014	—	—	N/A	N/A
December 1, 2014 through December 31, 2014	1,000	\$269.25	N/A	N/A
Total	1,400	\$267.47	N/A	N/A

Purchased shares are reported in the Company's consolidated financial statements as authorized and unissued.

Table of Contents

## ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following five-year financial summary includes comparative amounts derived from the audited consolidated financial statements.

	Years Ended December 31,				
	2014	2013	2012	2011	2010
	(In thousands except per share amounts)				
<b>Earnings Information:</b>					
<b>Revenues:</b>					
Universal life and annuity contract charges	\$ 150,596	148,388	149,328	132,133	127,192
Traditional life and annuity contract premiums	19,519	19,078	18,616	18,078	16,565
Net investment income	505,430	660,432	460,048	391,034	401,383
Other revenues	21,630	23,716	23,470	25,439	25,377
Net realized investment gains (losses)	11,605	8,653	13,200	6,063	5,475
<b>Total revenues</b>	<b>708,780</b>	<b>860,267</b>	<b>664,662</b>	<b>572,747</b>	<b>575,992</b>
<b>Benefits and expenses:</b>					
Life and other policy benefits	54,295	60,050	51,842	46,494	52,929
Amortization of deferred policy acquisition costs	115,154	108,233	121,922	133,088	96,449
Universal life and annuity contract interest	298,259	454,594	262,339	232,788	266,603
Other operating expenses	83,551	95,693	87,978	77,541	55,448
<b>Total benefits and expenses</b>	<b>551,259</b>	<b>718,570</b>	<b>524,081</b>	<b>489,911</b>	<b>471,429</b>
Earnings before Federal income taxes	157,521	141,697	140,581	82,836	104,563
Federal income taxes	51,933	45,450	48,023	27,209	31,666
<b>Net earnings</b>	<b>\$ 105,588</b>	<b>96,247</b>	<b>92,558</b>	<b>55,627</b>	<b>72,897</b>
<b>Basic Earnings Per Share:</b>					
Class A	\$ 29.87	27.23	26.19	15.74	20.67
Class B	\$ 14.93	13.61	13.09	7.87	10.33
<b>Diluted Earnings Per Share:</b>					
Class A	\$ 29.85	27.19	26.19	15.73	20.61
Class B	\$ 14.93	13.61	13.09	7.87	10.33
<b>Balance Sheet Information:</b>					
Total assets	\$ 11,351,892	10,830,416	10,263,858	9,727,999	8,773,948

Edgar Filing: NATIONAL WESTERN LIFE INSURANCE CO - Form 10-K

Total liabilities	\$9,795,572	9,382,468	8,872,178	8,451,214	7,555,157
Stockholders' equity	\$1,556,320	1,447,948	1,391,680	1,276,785	1,218,791
Book value per common share	\$428.01	398.36	382.88	351.27	335.83

29

---

Table of Contents

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

Forward-Looking Statements

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

Management's discussion and analysis of financial condition and results of operations ("MD&A") of National Western Life Insurance Company for the three years ended December 31, 2014 follows. This discussion should be read in conjunction with the Company's consolidated financial statements and related notes beginning on page 81 of this report.

Overview

The Company provides life insurance products on a global basis for the savings and protection needs of policyholders and annuity contracts for the asset accumulation and retirement needs of contract holders both domestically and internationally. The Company accepts funds from policyholders or contract holders and establishes a liability representing future obligations to pay the policy or contract holders and their beneficiaries. To ensure the Company will be able to pay these future commitments, the funds received as premium payments and deposits are invested in high quality investments, primarily fixed income securities.

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

- the level of sales and premium revenues collected
- persistency of policies and contracts
- return on investments sufficient to produce an acceptable spread margin over interest crediting rates
- investment credit quality which minimizes the risk of default or impairment
- levels of policy benefits and costs to acquire business
- the level of operating expenses
- effect of interest rate changes on revenues and investments including asset and liability matching
- maintaining adequate levels of capital and surplus
- actual levels of surrenders, withdrawals, claims and interest spreads and changes in assumptions for amortization of deferred policy acquisition expenses and deferred sales inducements
- change in the fair value of derivative index options and embedded derivatives pertaining to fixed-index life and annuity products

pricing and availability of adequate reinsurance

The Company monitors these factors continually as key business indicators. The discussion that follows in this Item 7 includes these indicators and presents information useful to an overall understanding of the Company's business performance in 2014, incorporating required disclosures in accordance with the rules and regulations of the SEC.

30

---

Table of Contents

Impact of Recent Business Environment

The Company's business is generally aided by an economic environment experiencing growth, whether moderate or vibrant, characterized by metrics which indicate improving employment data and increases in personal income growth. Conversely, an economy undergoing slow job growth and declining purchasing wherewithal by consumers could adversely impact the demand for the Company's products. The close of the 2014 year generally consisted of positive trends in the U.S. domestic economy. The U.S. stock market posted solid increases which were propelled by upward trending economic growth, consistent accretion in corporate earnings, and the Federal Reserve's accommodative intent to preserve liquidity with low interest rates. The Federal Reserve ceased its quantitative easing program of securities purchases in the fourth quarter pointing to "substantial improvement" in labor market conditions. The unemployment rate fell to 5.6% and the precipitous drop of oil prices by approximately 40% in the fourth quarter created seasonally adjusted inflation rates below zero percent. Observers generally estimate that the drop in oil prices will result in a net positive bump to U.S. GDP as consumers act on the sensation of having additional discretionary funds for purchases. Taken all together, economists generally believe that enough evidence exists to expect the U.S. economy to continue to gain momentum over the next several years.

The fixed income market, our primary investment source, is in the midst of an unprecedented period of low interest rates. Long-term U.S. Treasury rates fell in 2014 such that the Company's current reinvestment yields are lower than the Company's bond portfolio rate of return. Many market observers estimate that interest rates, especially those on the shorter duration end of the spectrum, will commence on an upward path but continue to remain below historic levels during 2015. The current interest rate environment with low yields on the investment-grade securities that the Company purchases exerts downward pressure on the Company's portfolio yield which in turn creates challenges in achieving targeted investment spreads. The Company's interest-sensitive life and annuity policies with guaranteed minimum crediting rates (floors that limit crediting rate reductions) are subject to adverse consequences by a prolonged low interest rate environment as the Company may not have the ability to reduce crediting rates sufficiently to maintain its investment spreads. For the past several years, we have intentionally managed annuity sales to lesser levels than achieved in previous years given the interest rate environment and the Company's desire to avoid adding blocks of business to its in force at historically low interest rate thresholds.

Industry analysts and observers generally agree that a sudden jump in interest rate levels would be harmful to life insurers with interest-sensitive products as it could provide an impetus for abnormal product surrenders and withdrawals at the same time fixed debt securities held by insurers declined in market value. The federal government's burgeoning deficit threatens to eventually push longer term interest rates higher by creating greater borrowing demand and fueling inflationary conditions. It is uncertain what direction and at what pace interest rate movements may occur in the future and what impact, if any, such movements would have on the Company's business, results of operations, cash flows or financial condition.

Our operating strategy continues to be to maintain capital levels substantially above regulatory and rating agency requirements. Our business model is predicated upon steady growth in invested assets while managing the block of business within profitability objectives. A key premise of our financial management is maintaining a high quality investment portfolio, well matched in terms of duration with the Company's policyholder obligations, that continues to outperform the industry with respect to adverse impairment experience. This discipline enables the Company to sustain resources more than adequate to fund future growth and absorb abnormal periods of cash outflows.

## Table of Contents

### Critical Accounting Policies

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

**Impairment of Investment Securities.** The Company's accounting policy requires that a decline in the value of a security below its amortized cost basis be evaluated to determine if the decline is other-than-temporary. The primary factors considered in evaluating whether a decline in value for fixed income and equity securities is other-than-temporary include: (a) the length of time and the extent to which the fair value has been less than cost, (b) the reasons for the decline in value (credit event, interest rate related, credit spread widening), (c) the overall financial condition as well as the near-term prospects of the issuer, (d) whether the debtor is current on contractually obligated principal and interest payments, and (e) that the Company does not intend to sell the investment prior to recovery. In addition, certain securitized financial assets with contractual cash flows are evaluated periodically by the Company to update the estimated cash flows over the life of the security. If the Company determines that the fair value of the securitized financial asset is less than its carrying amount and there has been a decrease in the present value of the estimated cash flows since the previous purchase or prior impairment, then an other-than-temporary impairment charge is recognized. The Company would recognize impairment of securities due to changing interest rates or market dislocations only if the Company intended to sell the securities prior to recovery. When a security is deemed to be impaired, a charge is recorded equal to the difference between the fair value and amortized cost basis of the security. In compliance with GAAP guidance the estimated credit versus the non-credit components are bifurcated, and the non-credit component is reclassified as unrealized losses in other comprehensive income. Once an impairment charge has been recorded, the fair value of the impaired investment becomes its new cost basis and the Company continues to review the other-than-temporarily impaired security for appropriate valuation on an ongoing basis. However, the new cost basis of an impaired security is not adjusted for subsequent increases in estimated fair value.

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

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

**Deferred Sales Inducements.** Costs related to sales inducements offered on sales to new customers, principally on investment type contracts and primarily in the form of additional credits to the customer's account value or

enhancements to interest credited for a specified period, which are beyond amounts currently being credited to existing contracts, are deferred and recorded as other assets. All other sales inducements are expensed as incurred and included in interest credited to contract holders' funds. Deferred sales inducements are amortized to income using the same methodology and assumptions as DPAC, and are included in interest credited to contract holders' funds. Deferred sales inducements are periodically reviewed for recoverability. For more information about accounting for DPAC see Note 1, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements.

Table of Contents

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

**Revenue Recognition.** Premium income for the Company's traditional life insurance contracts is generally recognized as the premium becomes due from policyholders. For annuity and universal life contracts, the amounts collected from policyholders are considered deposits and are not included in revenue. For these contracts, fee income consists of policy charges for policy administration, cost of insurance charges and surrender charges assessed against policyholders' account balances which are recognized in the period the services are provided.

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

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

The Company annually reviews its pension benefit plans' assumptions which include the discount rate, the expected long-term rate of return on plan assets, and the compensation increase rate. The assumed discount rate is set based on the rates of return on high quality long-term fixed income investments currently available and expected to be available during the period to maturity of the pension benefits. The assumed long-term rate of return on plan assets is generally set at the rate expected to be earned based on the long-term investment policy of the plans, the various classes of the

invested funds, input of the plan's investment advisors and consulting actuary, and the plan's historic rate of return. The compensation rate increase assumption is generally set at a rate consistent with current and expected long-term compensation and salary policy, including inflation. These assumptions involve uncertainties and judgment, and therefore actual performance may not be reflective of the assumptions.

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

Table of Contents

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

- exercise price
- expected term based on contractual term and perceived future behavior relative to exercise
- current price
- expected volatility
- risk-free interest rates
- expected dividends

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

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

## RESULTS OF OPERATIONS

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

## Consolidated Operations

Revenues. The following details Company revenues:

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Universal life and annuity contract charges	\$ 150,596	148,388	149,328
Traditional life and annuity premiums	19,519	19,078	18,616
Net investment income (excluding derivatives)	436,814	434,533	432,901
Other revenues	21,630	23,716	23,470
Operating revenues	628,559	625,715	624,315

Edgar Filing: NATIONAL WESTERN LIFE INSURANCE CO - Form 10-K

Derivative gain (loss)	68,616	225,899	27,147
Net realized investment gains (losses)	11,605	8,653	13,200
Total revenues	\$708,780	860,267	664,662

34

---

Table of Contents

Universal life and annuity contract revenues - Revenues for universal life and annuity contract charges increased slightly in 2014 compared to 2013 primarily due to higher surrender charge revenue from terminated policies as shown below. Revenues for universal life and annuity products consist of policy charges for the cost of insurance, administration charges, and surrender charges assessed against policyholder account balances, less reinsurance premiums as depicted in the following table.

Contract Charges:	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Cost of insurance and administrative charges	\$129,085	127,932	127,859
Surrender charges	39,051	37,038	39,156
Other charges	(1,776	) (830	) (757
Gross contract revenues	166,360	164,140	166,258
Reinsurance premiums	(15,764	) (15,752	) (16,930
Net contract charges	\$150,596	148,388	149,328

Cost of insurance charges were \$101.7 million in 2014 compared to \$99.3 million in 2013 and \$95.3 million in 2012. Cost of insurance charges typically trend with the size of the life insurance block in force. The increasing revenue from cost of insurance charges corresponds with the growth in life insurance in force. At December 31, 2014, the volume of life insurance in force increased to \$23.1 billion from \$22.4 billion as of the end of 2013. Administrative charges were \$27.4 million, \$28.6 million, and \$32.6 million for the years ended December 31, 2014, 2013 and 2012, respectively, and correlate with new life insurance business sales by the number of policies placed, the amount of premiums received and the volume of insurance issued. These levels in 2014 were down marginally in each instance. During 2013, due to the substantial increase in the Company's single premium life insurance sales, the Company began deferring the premium load associated with this product causing a decrease in administrative charge revenue compared to 2012. This reduction was largely offset by corresponding changes to deferred policy acquisition costs and death benefit reserves. Premium loads deferred during 2014 approximated the deferral level of 2013.

Surrender charges assessed against policyholder account balances upon withdrawal were \$39.1 million in 2014 compared to \$37.0 million in 2013 and \$39.2 million in 2012. While the Company earns surrender charge income that is assessed upon policy terminations, the Company's overall profitability is enhanced when policies remain in force and additional contract revenues are realized and the Company continues to make an interest rate spread equivalent to the difference it earns on its investment and the amounts that it credits to policyholders. Policy lapse rates by line of business in 2014 were generally consistent with those experienced in 2013 and the overall lapse rate was slightly lower. The higher surrender charge income recognized in 2014 reflects a slight change in the duration of policies at the time of surrender with earlier policy surrenders having a higher surrender charge assessed.

Traditional life and annuity premiums - Traditional life and annuity premiums increased 2% in 2014 compared to 2013. Traditional life insurance premiums for products such as whole life and term life are recognized as revenues over the premium-paying period. The Company's life insurance sales focus has been primarily centered around universal life products. Universal life products, especially the Company's equity-index universal life products which offer the opportunity for consumers to acquire life insurance protection and receive credited interest linked in part to an outside market index such as the S&P 500 Index<sup>®</sup>, have been more popular product offerings in the Company's markets. However, the global financial crisis generated renewed interest in the Company's term life insurance products particularly with residents outside of the United States leading to modest increases in subsequent periods.



Table of Contents

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

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Gross investment income:			
Debt securities	\$410,809	410,790	408,204
Mortgage loans	9,847	9,256	11,879
Policy loans	4,252	4,503	5,079
Short-term investments	401	252	936
Other invested assets	12,591	10,759	7,965
Total investment income	437,900	435,560	434,063
Less: investment expenses	1,086	1,027	1,162
Net investment income (excluding derivatives)	436,814	434,533	432,901
Derivative gain (loss)	68,616	225,899	27,147
Net investment income	\$505,430	660,432	460,048

Debt securities generated approximately 93.8% of total investment income, excluding derivative gains and losses, in 2014, consistent with prior years. The Company's strategy is to invest substantially all of its cash flows in fixed debt securities consistent with its guidelines for credit quality, duration, and diversification. In the wake of two record years in annuity sales in 2010 and 2011, and the substantial increases in single premium life insurance sales the past several years, the Company has experienced incremental cash flow for investing in debt securities which has caused the portfolio to grow from \$8.8 billion at December 31, 2012 to \$9.2 billion at December 31, 2013 and to \$9.6 billion at December 31, 2014. Despite the growth in the debt security portfolio, lower interest rate levels have persisted in accordance with Federal Reserve monetary policy which has depressed long-term U.S. Treasury rates. When combined with historically tight spreads of corporate securities over U.S. Treasury rate levels, this has resulted in lower yields on new investment purchases. The yield on debt security purchases to fund insurance operations rebounded somewhat to 3.68% in 2014 from 3.53% in 2013 but was still below yields of 4% to 6% attained in 2007 through 2011. Also impacting bond portfolio returns has been the volume of higher yielding debt securities maturing or being called by borrowers with the proceeds being reinvested into lower yielding securities.

The Company's new mortgage loan activity has been relatively low by historical standards in recent years given the low level of rates and the higher level of risk associated with commercial properties in the current economic environment. Policy loan and other invested asset balances outstanding have remained relatively stable declining modestly over the past few years. The increase in investment income for other invested assets during 2014 and 2013 reflects real estate profits participation loans held in a subsidiary company which received payments of \$3.0 million and \$2.3 million, respectively, in these periods.

Table of Contents

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

	Years Ended December 31,			
	2014	2013	2012	
	(In thousands except percentages)			
Excluding derivatives:				
Net investment income	\$436,814	434,533	432,901	
Average invested assets, at amortized cost	\$9,663,880	9,144,120	8,677,522	
Yield on average invested assets	4.52	% 4.75	% 4.99	%
Including derivatives:				
Net investment income	\$505,430	660,432	460,048	
Average invested assets, at amortized cost	\$9,805,680	9,257,722	8,721,889	
Yield on average invested assets	5.15	% 7.13	% 5.27	%

The decline in average invested asset yield, excluding derivatives, from 2012 to 2013 and to 2014 is due to the Company obtaining lower yields on newly invested cash inflows. As described above, the Company invests substantially all of its net cash flows in debt securities whose new money yields, as noted previously, have decreased during this period to levels below the weighted average portfolio yield. The pattern in average invested asset yield, including derivatives, incorporates increases and decreases in the fair value of index options purchased by the Company to support its fixed-index products. Fair values of the purchased call options have oscillated over the past few years with gains recorded in each of the three years shown corresponding to increases in the S&P 500 Index<sup>®</sup> during these periods, the primary index the Company's fixed-index products employ. Refer to the derivatives discussion following this section for a more detailed explanation.

Other revenues - Other revenues primarily pertain to the Company's two nursing home operations in Reno, Nevada and San Marcos, Texas. Revenues associated with these operations were \$21.1 million, \$23.3 million and \$22.8 million in 2014, 2013 and 2012, respectively.

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

Gains and losses from index options are due to changes in equity market conditions. Index options are intended to act as hedges to match the returns on the product's underlying reference index and the rise or decline in the index relative to the index level at the time of the option purchase which causes option values to likewise rise or decline. As income from index options fluctuates with the underlying index, the contract interest expense to policyholder accounts for the Company's fixed-index products also fluctuates in a similar manner and direction. During 2012 through 2014, the reference indices increased and the Company recorded each year an overall gain from index options with a corresponding increase in contract interest expense in an amount relative to the gains recorded.



Table of Contents

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

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Derivatives:			
Unrealized gain (loss)	\$(67,547	) 106,514	36,639
Realized gain (loss)	136,163	119,385	(9,492
			)
Total gain (loss) included in net investment income	\$68,616	225,899	27,147
Total contract interest	\$298,259	454,594	262,339

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

Net realized investment gains (losses) - Realized gains (losses) on investments include impairment write-downs on real estate and investments in debt and equity securities. The net investment gains reported in 2014 consisted of gross gains of \$12.3 million, primarily from calls of debt securities, offset by gross losses of \$0.7 million, which include other-than-temporary impairment losses described below.

The Company records impairment write-downs when a decline in value is considered to be other-than-temporary and full recovery of the investment is not expected. Impairments due to credit factors are recorded in the Company's consolidated statement of earnings while non-credit (liquidity) impairment losses are included in other comprehensive income (loss). Impairment and valuation write-downs reflected in the consolidated statements of earnings are summarized in the following table.

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Impairment or valuation write-downs:			
Debt securities	\$7	242	1,243
Equities	143	63	97
Mortgage loans	—	—	637
Real estate	—	—	214
Total	\$150	305	2,191

Debt security impairments in 2014, 2013 and 2012 primarily pertain to write-downs on asset-backed securities whose cash flows and fair values did not support the amortized cost basis at which the instruments were recorded in the financial statements.

Equity impairments (common stocks) represent a mark-to-market write-down on securities in which the market discount to book value was significant and had been maintained for several reporting periods. Equity securities represent 0.1% of invested assets and individual holdings have an average cost basis of approximately \$43,000.

Table of Contents

The mortgage loan valuation write-down in 2012 of \$650,000 represents a general valuation allowance established for the Company's mortgage loan portfolio based upon the Company's loss experience over the past ten years. It is not identified with a specific underlying asset.

Benefits and Expenses. The following details benefits and expenses.

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Life and other policy benefits	\$54,295	60,050	51,842
Amortization of deferred policy acquisition costs	115,154	108,233	121,922
Universal life and annuity contract interest	298,259	454,594	262,339
Other operating expenses	83,551	95,693	87,978
Totals	\$551,259	718,570	524,081

Life and other policy benefits - Life and other policy benefits include death claims of \$31.7 million, \$36.9 million and \$31.8 million for 2014, 2013 and 2012, respectively. While death claim amounts are subject to variation from period to period, the Company's mortality experience has generally been consistent with or better than its product pricing assumptions. Although not utilized previously, the Company initiated a project during 2012 to identify unreported death claims by researching the Social Security Administration master data base for deceased individuals matching with insureds under in force policies of the Company. The Company identified death claims of \$2.5 million in 2012 through this initiative for deaths incurred over the past decade and prior in some cases. Going forward, new state regulations require the Company to continue this program as frequently as quarterly in order to identify unreported death claims.

During 2013, annuity policy benefit obligations were increased \$4.0 million pertaining to the market value adjustment feature on annuity contract surrenders and partial withdrawals transacted over a number of years. The amount of the market value adjustment for any single reporting period was not material given the length of time over which the transactions occurred. These incremental obligations were paid out during 2014.

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



Table of Contents

The following table identifies the effects of unlocking and true-up adjustments on DPAC balances recorded through amortization expense for 2014, 2013 and 2012.

Increase (Decrease) in DPAC Balance	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Unlocking	\$1,430	—	—
True-up	7,181	15,842	12,820
Totals	\$8,611	15,842	12,820

During the third quarter of 2014, the Company unlocked the DPAC balance associated with its International Life segment for premium load increases implemented on several international universal life products. The effect of the prospective unlocking was to increase DPAC balances by \$1.4 million (and decrease amortization expense). No unlocking adjustments were made by the Company in 2013 or 2012.

True-up adjustments are recorded quarterly and the adjustments in 2014, 2013 and 2012 relate to changes in expense ratios, partial surrender rates, mortality rates, credited interest rates and earned rates for the current year's experience. The true-up adjustments for the life insurance lines of business were positive (decrease to amortization expenses) during these periods, whereas the true-up adjustments for the annuity line of business were negative in these same periods incrementally adding to amortization expense. During 2014, the Company identified certain renewal trail commission arrangements not meeting the criteria for deferral that incrementally added to the negative true-up adjustment for the annuity line of business. The true-up adjustments by line of business are as shown in the following table.

True-up Adjustments	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Annuities	\$(10,860	) (3,553	) (5,886
International life	9,140	11,306	12,696
Domestic life	8,901	8,089	6,010
Totals	\$7,181	15,842	12,820

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

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

December 31,			December 31,		
2014	2013	2012	2014	2013	2012
(Excluding fixed-index products)			(Including fixed-index products)		

Edgar Filing: NATIONAL WESTERN LIFE INSURANCE CO - Form 10-K

Annuity	2.52	% 2.63	% 2.88	% 2.86	% 4.73	% 2.87	%
Interest sensitive life	3.77	% 3.88	% 4.06	% 5.54	% 8.40	% 5.48	%

40

---

Table of Contents

Contract interest including fixed-index products also encompasses the performance of the index options associated with the Company's fixed-index products. As previously noted, the market performance of these derivative features resulted in net realized and unrealized gains in 2014, 2013 and 2012 of \$68.6 million, \$225.9 million and \$27.1 million, respectively.

Similar to deferred policy acquisition costs the Company defers sales inducements in the form of first year interest bonuses on annuity products that are directly related to the production of new business. These charges are deferred and amortized using the same methodology and assumptions used to amortize other capitalized acquisition costs and the amortization is included in contract interest. In addition, deferred sales inducement balances are also reviewed periodically to ascertain whether actual experience has deviated significantly from that assumed (unlock) and are adjusted to reflect current policy lapse or termination rates, expense levels and credited rates on policies compared to anticipated experience (true-up). These adjustments, plus or minus, are included in contract interest expense. In the years ended December 31, 2014, 2013, and 2012 the Company recorded true-ups adjustments of its deferred sales inducement balances resulting in additional contract interest expense of \$1.6 million, \$0.8 million and \$5.5 million, respectively.

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

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
General insurance expense	\$18,420	29,916	24,028
Nursing home expenses	19,541	21,230	21,620
Compensation expense	28,207	28,202	23,120
Commission expense	11,090	9,478	11,607
Taxes, licenses and fees	6,293	6,867	7,603
Totals	\$83,551	95,693	87,978

General insurance expenses include amounts provided for various legal matters and outstanding litigation. As more fully described in Item 3. Legal Proceedings of this report, the Company entered into a settlement agreement pertaining to a class action lawsuit which was approved by the U.S. District Court in February 2014. Included in general insurance expense for 2013 is an accrual of \$6.5 million related to this settlement which approximated the ultimate amounts paid out during 2014. With the resolution of this matter and a lack of other significant litigation, the Company's legal expenses, excluding the class action lawsuit accrual, declined approximately \$1.6 million from the amount in 2013.

General insurance expense includes amortization expense associated with capitalized system costs. The Company has been involved in major information system initiatives to enhance actuarial, accounting, policy acquisition, and policy administration processes. Costs related to these systems are capitalized during the development process and then amortized once they are placed into service and used in operations. Amortization expense in association with these system implementations was \$1.4 million, \$2.5 million, and \$3.5 million in 2014, 2013, and 2012, respectively. During 2013, some components became fully amortized and one component was written off, increasing other operating expense by \$1.0 million.

Nursing home expenses include the Company's two facilities in Reno, Nevada and San Marcos, Texas. These two entities have operationally functioned at consistent levels of residents over the past several years. Certain higher acuity resident services were discontinued at the Reno facility resulting in lower expenses.

Compensation expense includes share based compensation costs related to outstanding vested and unvested stock options and stock appreciation rights (SARs) under the Company's long-term equity incentive compensation plans. As these costs vary in tandem with the Company's Class A common share price as a result of marking the stock options and SARs to fair value under the liability method of accounting, the related expense amount varies positive or negative in any given period. For the three years shown, share based compensation expense totaled \$4.4 million in 2014, \$5.7 million in 2013 and \$1.1 million in 2012. The expense increases in 2013 and 2014 reflect an escalation in the Company's Class A common share price from \$157.74 at December 31, 2012 to \$223.55 at December 31, 2013 and to \$269.25 at December 31, 2014.

Table of Contents

At year-end 2012, the Company was informed by the California Life and Health Guaranty Fund Association that it would be assessing the Company approximately \$1.8 million for its pro rata share as part of the finalization of the Executive Life Insurance Company insolvency of twenty years ago. The entire amount was accrued at December 31, 2012 and included in taxes, licenses and fees expense. The assessment was paid in the first half of 2013.

## Segment Operations

## Summary of Segment Earnings

A summary of segment earnings from continuing operations for the years ended December 31, 2014, 2013 and 2012 is provided below. The segment earnings exclude realized gains and losses on investments, net of taxes.

	Domestic Life Insurance (In thousands)	International Life Insurance	Annuities	All Others	Totals
Segment earnings (loss):					
2014	\$2,812	37,092	42,935	15,204	98,043
2013	2,094	35,718	37,725	15,085	90,622
2012	1,255	35,556	33,206	13,961	83,978

## Domestic Life Insurance Operations

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

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Premiums and other revenue:			
Premiums and contract charges	\$28,801	29,567	31,143
Net investment income	34,695	33,818	21,194
Other revenues	55	29	62
Total premiums and other revenue	63,551	63,414	52,399
Benefits and expenses:			
Life and other policy benefits	11,856	11,660	10,633
Amortization of deferred policy acquisition costs	6,913	6,738	7,461
Universal life insurance contract interest	27,050	26,427	17,507
Other operating expenses	13,547	15,515	14,895
Total benefits and expenses	59,366	60,340	50,496
Segment earnings (loss) before Federal income taxes	4,185	3,074	1,903
Federal income taxes (benefit)	1,373	980	648

Segment earnings (loss)	\$2,812	2,094	1,255
-------------------------	---------	-------	-------

Table of Contents

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

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Universal life insurance revenues	\$28,505	31,192	32,655
Traditional life insurance premiums	6,687	4,386	4,640
Reinsurance premiums	(6,391	) (6,011	) (6,152
Totals	\$28,801	29,567	31,143

The Company's domestic life insurance in force policy count has been declining several years resulting in lower universal life contract revenue charges. The pace of new policies issued has lagged the number of policies terminating from death or surrender over the three years shown causing a declining level of insurance in force from which contract revenue is received. This ratio improved somewhat during 2012 to a three-to-one relationship and in 2013 and 2014 to a two-to-one ratio. Nonetheless, the number of domestic life insurance policies has declined from 60,000 at December 31, 2012 to 57,700 at December 31, 2013 and to 55,700 at December 31, 2014. Policy lapse rates in 2014 improved to 6.2% from 6.7% and 6.5% in 2013 and 2012, respectively.

Universal life insurance revenues are also generated with the issuance of new business based upon amounts per application and percentages of the face amount (volume) of insurance issued. The number of domestic policies issued during 2014 was 11% lower than in 2013 and the volume of insurance issued was 10% less than that in 2013. As noted in the discussion of Consolidated Operations results, in 2013 the Company began deferring the premium load on its most popular domestic product, single pay life insurance. This served to contain the level of universal life insurance revenues in comparison to prior year levels.

Premiums collected on universal life products are not reflected as revenues in the Company's consolidated statements of earnings in accordance with GAAP. Actual domestic universal life premiums are detailed below.

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Universal life insurance:			
First year and single premiums	\$115,928	129,518	76,545
Renewal premiums	20,181	19,849	18,428
Totals	\$136,109	149,367	94,973

Sales the past several years have been substantially weighted toward single premium policies which do not have recurring premium payments. These products target wealth transfer strategies involving the movement of accumulated wealth in alternative investment vehicles, including annuities, into life insurance products. The Company launched a series of recurring premium payment whole life and term policies during 2014 which are expected to augment renewal

premium levels in the future.

43

---

Table of Contents

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

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Net investment income (excluding derivatives)	\$30,340	24,253	20,205
Derivative gain (loss)	4,355	9,565	989
Net investment income	\$34,695	33,818	21,194

For liability purposes, the embedded option in the Company's policyholder obligations for this feature is bifurcated and separately reserved for. Accordingly, a comparable impact for the derivative component in fixed-index universal life products is reflected in the contract interest expense for each respective period.

Life and policy benefits for a smaller block of business are subject to variation from period to period. Claim activity during 2014 was essentially flat compared to 2013 with both years consistent compared to historical trends. The Company's overall mortality experience for this segment is in line with pricing assumptions.

As noted previously in the discussion of results from consolidated operations, the Company records true-up adjustments to DPAC balances each period to reflect current policy lapse or termination rates, expense levels and credited rates on policies as compared to anticipated experience with the adjustment reflected in current period amortization expense. To the extent required, the Company may also record unlocking adjustments to DPAC balances. The following table identifies the effects of unlocking and true-up adjustments on domestic life insurance DPAC balances recorded through amortization expense for 2014, 2013 and 2012.

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Increase (Decrease) in DPAC Balance			
Unlocking	\$—	—	—
True-up	8,901	8,089	6,010
Totals	\$8,901	8,089	6,010

The true-up adjustments recorded in each year increased the DPAC balance which conversely reduced amortization expense by a like amount for each year. These true-up adjustments reflect favorable outcomes compared to anticipated experience.

Operating expenses are allocated to lines of business based upon a functional cost analysis of the business activity giving rise to incurred expenses. As the Company's overall operating expense levels declined in 2014 from the prior year and the level of domestic life new business activity and in force activity declined, operating expenses for this segment were lower.



Table of Contents

## International Life Insurance Operations

The Company's international life operations have been a steady contributor to the Company's overall earnings performance and represents a niche where the Company believes it has a competitive advantage. A stable population of distribution relationships has been developed given the Company's longstanding reputation for supporting its international life products coupled with the instability of competing insurers.

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

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Premiums and other revenue:			
Premiums and contract charges	\$118,838	117,668	114,605
Net investment income	51,539	63,504	43,469
Other revenues	372	299	485
Total premiums and other revenue	170,749	181,471	158,559
Benefits and expenses:			
Life and other policy benefits	24,034	25,706	20,877
Amortization of deferred policy acquisition costs	21,807	18,946	18,103
Universal life insurance contract interest	46,255	58,757	39,639
Other operating expenses	23,449	25,624	26,007
Total benefits and expenses	115,545	129,033	104,626
Segment earnings before Federal income taxes	55,204	52,438	53,933
Federal income taxes	18,112	16,720	18,377
Segment earnings	\$37,092	35,718	35,556

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

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Universal life insurance revenues	\$115,378	112,874	111,407
Traditional life insurance premiums	12,833	14,692	17,119
Reinsurance premiums	(9,373	) (9,898	) (13,921
Totals	\$118,838	117,668	114,605



Table of Contents

In general, universal life revenues and operating earnings are anticipated to emerge with the amount of international life insurance in force and a steady growth in new sales. Over the past three years, the volume of insurance in force has grown from \$19.2 billion at December 31, 2012 to \$19.6 billion at December 31, 2013 and to \$20.0 billion at December 31, 2014 promoting an increasing trend in revenues. Universal life insurance revenues are also generated with the issuance of new business based upon amounts per application and percentages of the face amount (volume) of insurance issued. During 2014, the number of international life policies and the volume of insurance issued both increased approximately 1% from the prior year.

International universal life revenues also include surrender charges assessed upon surrender of contracts by policyholders. In the midst of the financial crisis during 2008 through 2010, the Company's international policyholders in particular exhibited concern regarding the developments in U.S. financial markets. This evidenced itself in the Company's termination activity in its international life policies in force with the high point occurring in 2009 and the Company recognizing increased surrender charge fee income. This level of termination activity subsequently subsided in 2011 with the termination activity over the past few years remaining relatively level. The following table illustrates the Company's international life termination experience over the past five years.

Volume In Force Terminations	Amount in \$'s (millions)	Annualized Termination Rate	
Year Ended December 31, 2014	\$1,825.5	8.4	%
Year Ended December 31, 2013	1,838.5	8.6	%
Year Ended December 31, 2012	1,828.4	8.7	%
Year Ended December 31, 2011	1,465.1	7.3	%
Year Ended December 31, 2010	1,721.8	9.0	%

As described previously, premiums collected on universal life products are not reflected as revenues in the Company's consolidated statements of earnings in accordance with GAAP. Actual international universal life premiums collected are detailed below.

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Universal life insurance			
First year and single premiums	\$29,688	28,328	32,293
Renewal premiums	115,019	118,661	120,876
Totals	\$144,707	146,989	153,169

The Company's most popular international products have been its fixed-index universal life products in which the policyholder can elect to have the interest rate credited to their policy account values linked in part to the performance of the S&P 500 Index<sup>®</sup>. Included in the totals in the above table are collected premiums for fixed-index universal life products of \$94.9 million, \$93.4 million and \$97.8 million for the years ended 2014, 2013 and 2012, respectively.



Table of Contents

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

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Net investment income (excluding derivatives)	\$38,903	34,181	39,074
Derivative gain (loss)	12,636	29,323	4,395
Net investment income	\$51,539	63,504	43,469

As noted in the Domestic Life Insurance discussion, for liability purposes, the embedded option in the Company's policyholder obligations for this feature is bifurcated and separately reserved for. Accordingly, a comparable impact for the derivative component in the equity-index universal life product is reflected in the contract interest expense for each respective period.

Life and policy benefits primarily consist of death claims on policies. The Company's clientele for international products are generally wealthy individuals with access to U.S. dollars and quality medical care. Consequently, the amounts of coverage purchased tend to be larger amounts than those for domestic life insurance. In the year ended December 31, 2014, the average face amount of insurance purchased was approximately \$383,000, reflecting a consistent level with that of the previous year. While life and policy benefit expense for the international life segment reflects the larger policies purchased, mortality due to natural causes is comparable to that in the United States. During 2013, the Company incurred a higher than normal volume of international life claims which increased the related benefit expense during this period relative to 2014 and 2012. The Company's maximum risk exposure per insured life is capped at \$500,000. Measured over a period of years, the Company's international life mortality experience has generally been better than product pricing assumptions.

The Company records true-up adjustments to DPAC balances each period to reflect current policy lapse or termination rates, expense levels and credited rates on policies as compared to anticipated experience as well as unlocking adjustments as necessary. The following table identifies the effects of unlocking and true-up adjustments on international life insurance DPAC balances recorded through amortization expense for 2014, 2013 and 2012.

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Increase (Decrease) in DPAC Balance			
Unlocking	\$1,430	—	—
True-up	9,140	11,306	12,696
Totals	\$10,570	11,306	12,696

Similar to domestic life results, the true-up adjustments recorded for the periods shown increased the DPAC balance which conversely reduced amortization expense by a like amount for the year. The unlocking adjustment in 2014 came about as the Company implemented premium load increases on several international universal life products. The

effect of the prospective unlocking was to increase DPAC balances by \$1.4 million (and decrease amortization expense).

As indicated in the discussion concerning net investment income, contract interest expense includes fluctuations that are the result of the performance of underlying equity indices associated with fixed-index universal life products. The derivative gain (loss) realized on purchased call options is included in the amounts the Company credits to policyholders. For more details about the Company's use of index options to hedge the performance of equity indices refer to the derivative gain (loss) discussion in the Consolidated Operations section of this Item 7.

Table of Contents

## Annuity Operations

The Company's annuity operations are almost exclusively in the United States. Although some of the Company's investment contracts are available to international residents, current sales are small relative to total annuity sales. A comparative analysis of results of operations for the Company's annuity segment is detailed below.

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Premiums and other revenue:			
Premiums and contract charges	\$22,476	20,231	22,196
Net investment income	398,163	543,077	375,431
Other revenues	68	45	80
Total premiums and other revenue	420,707	563,353	397,707
Benefits and expenses:			
Life and other policy benefits	18,405	22,684	20,332
Amortization of deferred policy acquisition costs	86,434	82,549	96,358
Annuity contract interest	224,954	369,410	205,193
Other operating expenses	27,015	33,325	25,456
Total benefits and expenses	356,808	507,968	347,339
Segment earnings before Federal income taxes	63,899	55,385	50,368
Federal income taxes	20,964	17,660	17,162
Segment earnings	\$42,935	37,725	33,206

Premiums and contract charges primarily consist of surrender charge income recognized on terminated policies. The amount of surrender charge income recognized is determined by the volume of surrendered contracts as well as the duration of each contract at the time of surrender given the pattern of declining surrender charge rates over time that is common to most annuity contracts. The Company's lapse rate for annuity contracts during 2014 was 6.6%, a slight increase from a rate of 6.5% in 2013 and 6.1% in 2012.

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

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Fixed-index annuities	\$748,022	717,630	680,210
Other deferred annuities	66,997	78,579	145,785
Immediate annuities	18,254	17,671	38,722

Totals	\$833,273	813,880	864,717
--------	-----------	---------	---------

48

---

Table of Contents

Fixed-index products are more attractive for consumers when interest rate levels remain low and equity markets produce positive returns. Since the Company does not offer variable products or mutual funds, fixed-index products provide an important alternative to the Company's existing fixed interest rate annuity products. Fixed-index annuity deposits as a percentage of total annuity deposits were 90%, 88% and 79% for the years ended December 31, 2014, 2013 and 2012, respectively. The increasing percentage of fixed-index products to total annuity deposits reflects the low interest rate environment and the current bull market in equities.

As a selling inducement, some of the deferred products, as well as the fixed-index annuity products, include a first year interest bonus ranging from 1% to 7% depending upon the product, in addition to the base first year interest rate. Other products include a premium bonus ranging from 2% to 10% which is credited to the account balance when premiums are applied. These bonus rates are deferred in conjunction with other capitalized policy acquisition costs. The amount deferred to be amortized over future periods amounted to approximately \$18.4 million, \$26.2 million and \$31.8 million for the years ended December 31, 2014, 2013 and 2012, respectively. Amortization of deferred sales inducements is included as a component of annuity contract interest as described later in this discussion of annuity operations.

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

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Net investment income (excluding derivatives)	\$346,538	356,067	353,668
Derivative gain (loss)	51,625	187,010	21,763
Net investment income	\$398,163	543,077	375,431

As previously described, derivatives are call options purchased to hedge the equity return component of the Company's fixed-index annuity products with any gains or losses from the sale or expiration of the options, as well as period-to-period changes in fair values, reflected in net investment income. Given the bifurcation of the embedded option in the determination of the contract reserve liability, a comparable impact for the derivative component in fixed-index annuity products is reflected in contract interest expense.

Life and policy benefits primarily consists of death claim benefits paid on annuity policies. In 2013, this amount also includes a \$4.0 million liability increase pertaining to the market value adjustment on surrenders and partial withdrawals on certain annuity policy that were transacted over a period of years. This liability was paid during the course of 2014.

Consistent with the domestic and international life segments, the Company records true-up adjustments to DPAC balances each period to reflect current policy lapse or termination rates, expense levels and credited rates on policies as compared to anticipated experience as well as unlocking adjustments as necessary. The following table identifies the effects of unlocking and true-up adjustments on annuity DPAC balances recorded through amortization expense for 2014, 2013 and 2012.

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Increase (Decrease) in DPAC Balance			

Edgar Filing: NATIONAL WESTERN LIFE INSURANCE CO - Form 10-K

Unlocking	\$—	—	—
True-up	(10,860	) (3,553	) (5,886 )
Totals	\$(10,860	) (3,553	) (5,886 )

As the true-up adjustments in each period decreased DPAC balances a corresponding increase in DPAC amortization expense was recorded. The true-up adjustments in 2014, 2013 and 2012 relate to policy lapse or termination rates, renewal trail commissions, expense levels, investment yields and interest credited rates compared to anticipated experience. There was no unlocking for the years ended December 31, 2014, 2013 and 2012.

Table of Contents

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

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Fixed-indexed annuities	\$ 127,672	259,981	107,046
All other annuities	89,391	110,342	102,757
Gross contract interest	217,063	370,323	209,803
Bonus interest deferred and capitalized	(18,355	) (26,159	) (31,758
Bonus interest amortization	26,246	25,246	27,150
Total contract interest	\$ 224,954	369,410	205,195

The fluctuation in reported contract interest amounts for fixed-indexed annuities is driven by sales levels, the level of the business in force and the positive or negative performance of equity markets on option values. The derivative gain (loss) information included in the net investment income discussion above is largely reflected in the amounts shown for contract interest for fixed-indexed annuities.

True-up adjustments for the deferred sales inducement balance are done each period similar to that done with respect to DPAC balances. For the years ended December 31, 2014, 2013, and 2012 deferred sales inducement balances were reduced by \$1.6 million, \$0.8 million and \$5.5 million, respectively, with a corresponding increase to bonus interest amortization.

The majority of litigation and legal matters the Company is involved with emanate from annuity products. Accordingly, the \$6.5 million addition to the liability for legal matters during 2013 discussed in the Consolidated Operations section of this report was allocated to the Annuity Operations segment and is included in other operating expenses.

#### Other Operations

The Company's primary business encompasses its domestic and international life insurance operations and its annuity operations. However, the Company also has small real estate, nursing home, and other investment operations through its wholly-owned subsidiaries. Nursing home operations generated \$1.6 million, \$2.1 million and \$1.2 million of operating earnings in 2014, 2013, and 2012, respectively. The remaining earnings in Other Operations of \$13.6 million, \$13.0 million, and \$12.8 million for the years ended December 31, 2014, 2013, 2012, respectively, represent investment income from real estate, municipal bonds, and common and preferred equities held in subsidiary company portfolios principally for tax-advantage purposes. Included in these amounts are semi-annual distributions from a life interest in the Libby Shearn Moody Trust which is an asset held in NWLSM, Inc. Pretax distributions from this trust were \$6.0 million, \$5.4 million, and \$4.9 million in 2014, 2013, and 2012, respectively.

## INVESTMENTS

### General

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

Table of Contents

The Company's overall conservative investment philosophy is reflected in the allocation of its investments, which is detailed below as of December 31, 2014 and 2013. The Company emphasizes investment grade debt securities, with smaller holdings in mortgage loans and policy loans, and purchases index call options to support its fixed-index policyholder contract obligations.

	December 31, 2014		December 31, 2013	
	Carrying Value	%	Carrying Value	%
	(In thousands)		(In thousands)	
Debt securities	\$9,552,920	96.2	\$9,146,986	95.7
Mortgage loans	149,503	1.5	132,765	1.4
Policy loans	63,645	0.6	65,969	0.7
Derivatives, index options	114,287	1.2	169,314	1.8
Real estate	16,741	0.2	18,191	0.2
Equity securities	17,303	0.2	14,878	0.1
Other	12,033	0.1	12,800	0.1
Totals	\$9,926,432	100.0	\$9,560,903	100.0

The Company's investment portfolio increased 4% to \$9.9 billion at December 31, 2014 compared to \$9.6 billion at December 31, 2013 due to positive cash flows from operating and financing activities. The primary driver of the increase was investable funds generated from single premium life insurance and annuity sales. Annuity production was again managed to a constant level with approximately \$0.8 billion in annuity deposits collected in 2014. The increase in the portfolio balance also reflects the unrealized gain position of the Company's securities available for sale portfolio, which is reported at fair market value, as it increased from \$116.3 million at December 31, 2013 to \$138.6 million at December 31, 2014 due to the decrease in interest rates during 2014 (which serves to increase market values).

Derivatives, index options, are call options purchased to hedge the interest crediting mechanism associated with the Company's fixed-index universal life and annuity policies. These options are reported on the balance sheet at fair value in accordance with GAAP. The unrealized gain position of options held at December 31, 2014 of \$40.3 million was \$67.6 million lower than the unrealized gain position at December 31, 2013 of \$107.9 million as a result of equity markets increasing at a lesser rate during 2014 as compared to 2013.

Table of Contents

## Debt and Equity Securities

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

	December 31, 2014		December 31, 2013	
	Carrying Value	%	Carrying Value	%
	(In thousands)		(In thousands)	
Corporate	\$6,208,241	65.1	\$5,752,432	62.8
Mortgage-backed securities	1,693,372	17.7	1,770,726	19.4
Public utilities	1,158,063	12.1	1,111,729	12.2
States & political subdivisions	432,739	4.5	423,770	4.6
U.S. agencies	10,061	0.1	23,088	0.3
Asset-backed securities	38,199	0.4	43,556	0.5
Foreign governments	10,325	0.1	19,772	0.2
U.S. Treasury	1,920	—	1,913	—
Totals	\$9,552,920	100.0	\$9,146,986	100.0

Substantially all of the Company's investable cash flows are directed toward the purchase of debt securities. The Company's investment policy calls for investing in debt securities that are investment grade, meet quality and yield objectives, and provide adequate liquidity for obligations to policyholders. Debt securities with intermediate maturities are targeted by the Company as they more closely match the intermediate nature of the Company's policy liabilities and provide an appropriate strategy for managing cash flows. With the advent of the Federal Reserve's low interest rate environment, the percentage of mortgage-backed securities in the Company's investment portfolio has declined over the past few years reflecting fewer new purchases of these instruments as well as increased prepayment activity. The Company holds minimal levels of U.S. Treasury securities due to their low yields and deposits most of these holdings with various state insurance departments in order to meet security deposit on hand requirements in these states.

Debt securities purchased to fund insurance company operations are summarized below.

	Year Ended December 31		
	2014	2013	
	(Dollars in thousands)		
Cost of acquisitions	\$1,166,112	\$1,691,809	
Average S&P quality	A-	A	
Effective annual yield	3.68	% 3.53	%
Spread to treasuries	1.12	% 1.21	%
Effective duration	8.5 years	8.5 years	



Table of Contents

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

In addition to diversification, an important aspect of the Company's investment approach is managing the credit quality of its investments in debt securities. Thorough credit analysis is performed on potential corporate investments including examination of a company's credit and industry outlook, financial ratios and trends, and event risks. This emphasis is reflected in the high average credit rating of the Company's debt securities portfolio with 98.5% held in investment grade securities. In the table below, investments in debt securities are classified according to credit ratings by Standard and Poor's ("S&P®"), or other nationally recognized statistical rating organizations if securities were not rated by S&P®.

	December 31, 2014		December 31, 2013	
	Carrying Value	%	Carrying Value	%
	(In thousands)		(In thousands)	
AAA	\$105,973	1.1	\$110,688	1.2
AA	2,519,235	26.4	2,608,156	28.5
A	3,216,935	33.7	2,848,866	31.1
BBB	3,563,641	37.3	3,400,650	37.2
BB and other below investment grade	147,136	1.5	178,626	2.0
Totals	\$9,552,920	100.0	\$9,146,986	100.0

The Company's investment guidelines do not allow for the purchase of below investment grade securities. The investments held in debt securities below investment grade are the result of subsequent downgrades of the securities. These holdings are further summarized below.

	Below Investment Grade Debt Securities				
	Amortized Cost	Carrying Value	Fair Value	% of Invested Assets	
	(In thousands except percentages)				
December 31, 2014	\$146,143	147,136	152,586	1.5	%
December 31, 2013	\$173,974	178,626	183,874	1.9	%

The Company's percentage of below investment grade securities compared to total invested assets at December 31, 2014 decreased from year-end 2013 due mostly to upgrades of securities to investment grade and disposals of below-investment grade securities during the year. The Company's holdings of below investment grade securities are relatively small and as a percentage of total invested assets low compared to industry averages.



Table of Contents

Holdings in below investment grade securities by category as of December 31, 2014 are summarized below, including 2014 and 2013 fair values for comparison. The Company continually monitors developments in these industries for issues that may affect security valuation.

Industry Category	Below Investment Grade Debt Securities			
	Amortized Cost 2014 (In thousands)	Carrying Value 2014	Fair Value 2014	Fair Value 2013
Retail	\$ 14,969	15,600	15,600	18,188
Telecommunications	5,050	5,650	5,650	11,889
Asset-backed securities	5,941	5,942	7,743	8,863
Mortgage-backed	6,921	6,989	7,244	12,402
Transportation	—	61	61	171
Manufacturing	50,897	51,898	54,823	55,535
Banking/finance	18,014	18,102	16,583	32,312
Other	44,351	42,894	44,882	44,514
Totals	\$ 146,143	147,136	152,586	183,874

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

With the precipitous drop in oil prices over the past year, the oil and gas industry has been experiencing a severe downturn which may consequently affect the credit quality of individual companies included in the Company's debt security portfolio. At December 31, 2014, the Company's aggregate holdings in this sector approximated \$802 million. These holdings represented debt securities issued by forty-two companies in the oil and gas industry, all of which are investment grade as of the balance sheet date.

Certain European countries have experienced varying degrees of financial stress. Risks from the continued debt crisis in Europe could continue to disrupt financial markets and have a detrimental impact on global conditions as well as on sovereign and non-sovereign obligations. The Company has no exposure to the sovereign debt of Portugal, Ireland, Italy, Greece or Spain. These countries in particular are experiencing significant economic, fiscal and political strains that increase the likelihood of default for these countries. Additionally, the Company has no exposure to the debt of financial institutions domiciled in these countries.

However, the Company does have exposure to the debt of non-financial companies in certain of these countries. The following table shows bond holdings at December 31, 2014 of non-financial companies that are domiciled in Portugal, Ireland, Italy, Greece or Spain held in the available for sale and held to maturity debt security portfolios.

## Securities Available for Sale:

Company	S&P Rating (In thousands)	Amortized Cost 2014	Fair Value 2014	Country Domiciled
---------	------------------------------	---------------------------	--------------------	----------------------

Edgar Filing: NATIONAL WESTERN LIFE INSURANCE CO - Form 10-K

Covidien	A	\$24,160	25,202	Ireland
CRH	BBB+	3,999	4,593	Ireland
Telefonica	BBB	11,776	12,922	Spain
Totals		\$39,935	42,717	

54

---

Table of Contents

## Securities Held to Maturity:

Company	S&P Rating (In thousands)	Amortized Cost 2014	Fair Value 2014	Country Domiciled
Covidien	A	\$4,990	4,907	Ireland
EDP	BB+	17,250	18,606	Portugal
Enel	BBB	19,938	22,174	Italy
Finmeccanica	BB+	15,018	16,350	Italy
Iberdrola Finance	BBB	2,925	3,310	Spain
Kerry Group	BBB+	21,955	21,523	Ireland
Telefonica	BBB	8,102	9,105	Spain
Perrigo	BBB	25,814	26,646	Ireland
Totals		\$115,992	122,621	

Generally accepted accounting principles require that investments in debt securities be written down to fair value when declines in value are judged to be other-than-temporary. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price methodology). Refer to Note 14, Fair Values of Financial Instruments, of the accompanying consolidated financial statements for further discussion.

During the year ended December 31, 2014, the Company recorded minimal other-than-temporary impairment ("OTTI") credit related write-downs on debt securities and a separate \$0.1 million on equity securities. The only debt security impairment during 2014 pertained to one asset-backed security whose fair value and present value of future cash flows fell below the amortized cost of the security. See Note 3, Investments Debt and Equity Securities, of the accompanying consolidated financial statements for further discussion.

Since the Company's adoption of the GAAP guidance and accounting for other-than-temporary impairments due to credit loss versus non-credit loss, the Company recognized a total of \$6.3 million of other-than-temporary impairments of which \$2.5 million was deemed credit related and recognized as realized investment losses in earnings, and \$3.8 million was deemed a non-credit related impairment and recognized in other comprehensive income.

Table of Contents

The Company is required to classify its investments in debt and equity securities into one of three categories: (a) trading securities; (b) securities available for sale; or (c) securities held to maturity. The Company purchases securities with the intent to hold to maturity and accordingly does not maintain a portfolio of trading securities. Of the remaining two categories, available for sale and held to maturity, the Company makes a determination on categorization based on various factors including the type and quality of the particular security and how it will be incorporated into the Company's overall asset/liability management strategy. As shown in the table below, at December 31, 2014, approximately 27.6% of the Company's total debt and equity securities, based on fair values, were classified as securities available for sale. These holdings in available for sale provide flexibility to the Company to react to market opportunities and conditions and to practice active management within the portfolio to provide adequate liquidity to meet policyholder obligations and other cash needs.

	December 31, 2014		
	Fair Value	Amortized Cost	Unrealized Gains
	(In thousands)		
Securities held to maturity:			
Debt securities	\$7,175,443	6,841,543	333,900
Securities available for sale:			
Debt securities	2,711,377	2,577,275	134,102
Equity securities	17,303	12,799	4,504
Totals	\$9,904,123	9,431,617	472,506

## Asset-Backed Securities

The Company holds approximately \$38.2 million in asset-backed securities as of December 31, 2014. This portfolio includes \$7.4 million of manufactured housing bonds and \$30.8 million of home equity loans (also referred to as subprime securities). The Company does not have any holdings in collateralized bond obligations ("CBO"s), collateralized debt obligations ("CDO"s), or collateralized loan obligations ("CLO"s). Principal risks in holding asset-backed securities are structural, credit, and capital market risks. Structural risks include the securities' priority in the issuer's capital structure, the adequacy of and ability to realize proceeds from collateral and the potential for prepayments. Credit risks include corporate credit risks or consumer credit risks for financing such as subprime mortgages. Capital market risks include the general level of interest rates and the liquidity for these securities in the marketplace.

Table of Contents

During the second quarter of 2014, the Company sold its one remaining Alt-A security. The Alt-A sector is a sub-sector of the jumbo prime MBS sector. The Company's exposure to the subprime sector is limited to investments in the senior tranches of subprime residential mortgage loans. The subprime sector is generally categorized under the asset-backed sector. This sector lends to borrowers who do not qualify for prime interest rates due to poor or insufficient credit history. Subprime borrowers generally have FICO scores of 660 or below. The slowing housing market, rising interest rates, and relaxed underwriting standards for loans originated after 2005 resulted in higher delinquency rates and losses beginning in 2007. These events caused illiquidity in the market and volatility in the market prices of subprime securities. With the government intervention initiatives in 2009, the housing market began to stabilize. There was an improvement in the prices of subprime securities as the bond market also became more liquid. All of the loans classified as subprime in the Company's portfolio as of December 31, 2014 were underwritten prior to 2005 as noted in the table below.

Investment Origination Year	December 31, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)			
Subprime:				
1998	\$3,322	3,275	4,033	4,161
2003	3,709	5,469	3,930	5,424
2004	23,773	26,737	24,533	27,617
Subtotal subprime	\$30,804	35,481	32,496	37,202
Alt A:				
2004	\$—	—	3,535	3,535

As of December 31, 2014, 2 of the subprime securities were rated AA, 4 were rated BBB, 1 was rated B, 2 were rated CC, and 1 was not rated.

#### Mortgage Loans and Real Estate

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

The Company requires a minimum specified yield on mortgage loan investments. During the past several years, the low interest rate environment has resulted in fewer loan opportunities being available that meet the Company's required rate of return. Mortgage loans originated by the Company totaled \$37.1 million and \$34.1 million for the years 2014 and 2013, respectively.

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

Table of Contents

The Company's direct investments in real estate are not a significant portion of its total investment portfolio as most of these investments were acquired through mortgage loan foreclosures. For the years ended December 31, 2014 and 2013, there were no real estate properties acquired through mortgage loan foreclosure. The Company also participates in several real estate joint ventures and limited partnerships that invest primarily in income-producing retail properties.

The Company held net investments in mortgage loans, after allowances for possible losses, totaling \$149.5 million and \$132.8 million at December 31, 2014 and 2013, respectively. The diversification of the portfolio by geographic region, property type, and loan-to-value ratio was as follows:

	December 31, 2014		December 31, 2013	
	Amount	%	Amount	%
	(In thousands)		(In thousands)	
<b>Mortgage Loans by Geographic Region:</b>				
West South Central	\$97,918	65.2	\$79,702	59.7
East South Central	14,137	9.4	10,098	7.6
New England	12,155	8.1	17,400	13.0
East North Central	10,714	7.1	10,607	8.0
Pacific	10,282	6.9	10,364	7.8
Mountain	3,050	2.0	3,239	2.4
Middle Atlantic	1,897	1.3	2,005	1.5
Gross balance	150,153	100.0	133,415	100.0
Allowance for possible losses	(650)	(0.4)	(650)	(0.5)
Totals	\$149,503	99.6	\$132,765	99.5
	December 31, 2014		December 31, 2013	
	Amount	%	Amount	%
	(In thousands)		(In thousands)	
<b>Mortgage Loans by Property Type:</b>				
Retail	\$130,544	86.9	\$103,487	77.6
Apartments	7,333	4.9	15,275	11.4
Land/Lots	3,333	2.2	3,155	2.4
Hotel/Motel	1,600	1.1	3,742	2.8
Office	893	0.6	1,313	1.0
All other	6,450	4.3	6,443	4.8
Gross balance	150,153	100.0	133,415	100.0
Allowance for possible losses	(650)	(0.4)	(650)	(0.5)
Totals	\$149,503	99.6	\$132,765	99.5

Table of Contents

	December 31, 2014		December 31, 2013	
	Amount (In thousands)	%	Amount (In thousands)	%
Mortgage Loans by Loan-to-Value Ratio (1):				
Less than 50%	\$52,564	35.0	\$57,445	43.0
50% to 60%	50,553	33.7	23,339	17.5
60% to 70%	14,567	9.7	20,120	15.1
70% to 80%	12,656	8.4	9,723	7.3
80% to 90%	5,399	3.6	—	—
Greater than 90%	14,414	9.6	22,788	17.1
Gross balance	150,153	100.0	133,415	100.0
Allowance for possible losses	(650	) (0.4	) (650	) (0.5
Totals	\$ 149,503	99.6	\$ 132,765	99.5

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

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

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

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

The Company recognized valuation losses of \$0 million, \$0 million and \$0.65 million for the years ended December 31, 2014, 2013 and 2012, respectively. The mortgage loan valuation write-down in 2012 represents a general valuation allowance established for the Company's mortgage loan portfolio based upon the Company's loss experience for more than ten years and is not specifically identified to individual loans.

The following table represents the mortgage loan allowance for the years ended December 31, 2014 and 2013:

	2014 (In thousands)	2013
Balance, beginning of period	\$650	650

Edgar Filing: NATIONAL WESTERN LIFE INSURANCE CO - Form 10-K

Provision	—	—
Releases	—	—
Balance, end of period	\$650	650

59

---

Table of Contents

The Company does not recognize interest income on loans past due ninety days or more. The Company had no mortgage loans past due six months or more at December 31, 2014 and 2013. There was no interest income not recognized in 2014, 2013 and 2012.

The contractual maturities of mortgage loan principal balances at December 31, 2014 and 2013 were as follows:

	December 31, 2014		December 31, 2013	
	Amount	%	Amount	%
	(In thousands)		(In thousands)	
Principal Balance by Contractual Maturity:				
Due in one year or less	\$ 16,390	10.9	\$ 10,491	7.8
Due after one year through five years	83,965	55.7	51,304	38.3
Due after five years through ten years	30,591	20.3	51,839	38.7
Due after ten years through fifteen years	—	—	—	—
Due after fifteen years	19,813	13.1	20,300	15.2
Totals	\$ 150,759	100.0	\$ 133,934	100.0

The Company's real estate investments total approximately \$16.7 million at December 31, 2014 and \$18.2 million at December 31, 2013, and consist primarily of income-producing properties which are being operated by a wholly-owned subsidiary of the Company. The Company recognized operating income on these properties of approximately \$1.7 million, \$1.7 million and \$1.6 million for the years ended December 31, 2014, 2013 and 2012, respectively. The Company monitors the conditions and market values of these properties on a regular basis and makes repairs and capital improvements to keep the properties in good condition. The Company recorded net realized investment gains of \$1.0 million, \$0.3 million and \$2.6 million associated with these properties in the years ended December 31, 2014, 2013 and 2012, respectively.

#### Derivatives, Index Options

The Company offers fixed-index universal life and annuity products that guarantee the return of principal to policyholders and, at the policyholder's election, credit interest based on a percentage gain in a specified market index, typically the S&P 500 Index® (policyholders may alternatively elect a fixed interest rate). Premiums and deposits received on these products are predominantly invested in investment grade fixed income securities with a portion used to purchase derivatives consisting of call options on the applicable market index to fund the index credits due to fixed-index policyholders. The call options purchased are one-year over-the-counter option contracts coinciding with the initial issuance of the policy and annual renewal periods in order to match the Company's funding requirements for the underlying policies. On the respective anniversary dates of the index policies, the index used to compute the annual index credit is reset and a new one-year call option is purchased to fund the next annual index credit.

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

The Company's design of its fixed-index products incorporates a budget for the purchase of over-the-counter call options to fund the index credits due to policyholders. Management monitors current prices of these call options and

manages the cost of purchases through the terms of the policy contracts. These terms permit the Company to change caps, participation rates, and asset fees, subject to guaranteed minimums, thus managing the cost of the call options quoted by counterparties. In addition, the Company's product terms allow for the Company to withdraw from offering a particular index option at any time effective on the next policy anniversary date.

The fair value of derivative instruments presented in the Company's consolidated financial statements totaling \$114.3 million at December 31, 2014 and \$169.3 million at December 31, 2013 pertain to notional policyholder account values of \$3.2 billion and \$2.6 billion at December 31, 2014 and 2013, respectively, electing interest credits based upon applicable market index performance.

Table of Contents

## Market Risk

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

## Interest Rate Risk

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

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

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

	December 31,			
	2014	2013		
	(In thousands except percentages)			
Debt securities - fair value	\$9,886,820	9,292,810		
Debt securities - amortized cost	\$9,418,818	9,034,438		
Fair value as a percentage of amortized cost	104.97	% 102.86		%
Unrealized gains at year-end	\$468,002	258,372		
Ten-year U.S. Treasury bond - increase (decrease) in yield for the year	(0.86	)% 1.27		%
	Unrealized Gains Balance			
	Net Balance at	Net Balance at		
	December 31,	December 31,	Change in Net	
	2014	2013	Balance	
	(In thousands)			
Debt securities held to maturity	\$333,900	145,824	188,076	

Edgar Filing: NATIONAL WESTERN LIFE INSURANCE CO - Form 10-K

Debt securities available for sale	134,102	112,548	21,554
Totals	\$468,002	258,372	209,630

61

---

Table of Contents

Debt securities held to maturity are recorded at their amortized cost basis. Accordingly, the unrealized gain amounts shown in the table above are not incorporated into the Company's consolidated financial statements at December 31, 2014 and 2013, respectively.

Changes in interest rates typically have a sizable effect on the fair values of the Company's debt securities. During 2014, market interest rates of the ten-year U.S. Treasury bond decreased roughly 86 basis points from year end 2013. Therefore, the increase in unrealized gains of \$209.6 million was primarily the result of the decrease in interest rates.

The Company would expect similar results in the future from a significant upward or downward movement in market rates. However, since the majority of the Company's debt securities are classified as held to maturity, which are recorded at amortized cost, changes in fair values have relatively small effects on the Company's financial results.

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

The Company has the ability to adjust interest rates, participation rates, and asset fees and caps, as applicable, in response to changes in investment portfolio yields for a substantial portion of its business in force. The ability to adjust these rates is subject to competitive forces in the market for the Company's products. Surrender rates could increase and new sales could be negatively affected if crediting rates are not competitive with the rates offered on competing products offered by other insurance companies and financial service entities. The Company designs its products with features encouraging policy persistency. Interest sensitive life and annuity products have surrender and withdrawal penalty provisions. Depending on the products, surrender charge rates on annuity contracts sold or in force range up to 25% and surrender charge periods up to 15 years. Typically, surrender charge rates gradually decrease each year the contract is in force.

The Company seeks to minimize the impact of interest rate risk through surrender charges that are imposed to discourage policy surrenders and to offset unamortized acquisition costs. Certain products, such as supplementary contracts with life contingencies, are not subject to surrender or discretionary withdrawal. The Company also includes a market value adjustment ("MVA") feature on many of its annuity products which may increase or decrease the amount paid to contract holders upon surrender of their contract as a means to further mitigate interest rate risk. The MVA is a mathematical formula which uses changes in interest rates since the inception of a contract (typically linked to U.S. Treasury interest rates) to the date of surrender and will decrease the amount paid upon surrender when interest rates rise or increase the amounts paid when interest rates decline. As noted above, the value of the Company's fixed debt securities decline in a rising interest rate environment and the MVA feature which decreases amounts paid upon surrender in a rising rate environment serves to discourage this activity. Conversely, in a decreasing interest rate environment surrender activity poses less of a risk to the Company as the value of its fixed debt securities backing the contracts increases. If necessary, the securities backing the contracts surrendered could be sold at a gain offsetting the increased amount paid upon surrender due to the MVA.

Table of Contents

The following table profiles the Company's insurance liabilities at December 31, 2014 for annuities, deposit-type contracts and supplementary contracts with life contingencies by surrender and discretionary withdrawal characteristics.

	December 31, 2014	
	Amount	%
	(In thousands)	
Subject to discretionary withdrawal:		
With market value adjustment	\$1,531,199	20.6
With surrender charge of 5% or more	5,046,711	68.0
With surrender charge of 5% or less	425,884	5.8
Not subject to discretionary withdrawal	418,024	5.6
Total	\$7,421,818	100.0

## Interest Rate Sensitivity

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

	Fair Values of Assets				
	Changes in Interest Rates in Basis Points				
	-100	0	+100	+200	+300
	(In thousands)				
Debt and equity securities	\$10,409,533	9,904,123	9,397,642	8,904,497	8,435,875
Mortgage loans	162,848	156,548	150,678	145,196	140,065
Other loans	2,334	2,300	2,266	2,233	2,200
Derivatives	112,856	114,287	118,915	123,641	128,407

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

Mortgage and other loans were modeled by discounting scheduled cash flows through the scheduled maturities of the loans, starting with interest rates currently being offered for similar loans to borrowers with similar credit

ratings. Policy loans were modeled by discounting estimated cash flows using U.S. Treasury Bill interest rates as the base rates at December 31, 2014. The estimated cash flows include assumptions as to whether such loans will be repaid by the policyholders or settled upon payment of death or surrender benefits on the underlying insurance contracts and incorporate both Company experience and mortality assumptions associated with such contracts.

Table of Contents

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

The Company's market risk liabilities, which include policy liabilities for annuity and supplemental contracts, are managed for interest rate risk through cash flow testing as previously described. As part of this cash flow testing, the Company has analyzed the potential impact on net earnings of a 100 basis point decrease and increases in increments of 100 basis points in the U.S. Treasury yield curve as of December 31, 2014. The potential impact on net earnings from these interest rate changes are summarized below.

	Changes in Interest Rates in Basis Points			
	-100	+100	+200	+300
	(In thousands)			
Impact on net earnings	\$1,481	1,216	1,999	2,259

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

The above described scenarios produce estimated changes in cash flows as well as cash flow reinvestment projections. Estimated cash flows in the Company's model assume cash flow reinvestments, which are representative of the Company's current investment strategy. Calls and prepayments include scheduled maturities and those expected to occur which would benefit the security issuers. Assumed policy surrenders consider differences and relationships between credited interest rates and market interest rates as well as surrender charges on individual policies. The impact to earnings also includes the expected effects on amortization of deferred policy acquisition costs. The model considers only annuity and supplemental contracts in force at December 31, 2014, and does not consider new product sales or the possible impact of interest rate changes on sales.

### Credit Risk

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

In connection with the Company's use of call options to hedge the equity return component of its fixed-indexed annuity and life products, the Company is exposed to the risk that a counterparty fails to perform under terms of the option contract. The Company purchases one-year option contracts from multiple counterparties and evaluates the creditworthiness of all counterparties prior to the purchase of the contracts. For consideration in contracting with a counterparty the rating required by the Company is a Standard & Poor's credit rating of "A" or higher and a Moody's rating of "A2" or higher. Accordingly, all options are purchased from nationally recognized financial institutions with a demonstrated performance for honoring their financial obligations and possessing substantial financial capacity. In addition, each counterparty is required to execute a credit support agreement obligating the counterparty to provide

collateral to the Company when the fair value of the Company's exposure to the counterparty exceeds specified amounts. The amount of collateral to be provided is based upon a sliding scale tied to the credit rating of the counterparty. As of December 31, 2014 the counterparty thresholds ranged from \$0 to \$10 million. Counterparty credit ratings and credit exposure are monitored continuously by the Company's Investment department with adjustments to collateral levels managed as per the credit support agreements.

Table of Contents

The Company's net exposure to loss due to credit risk if the option counterparties failed to completely perform according to the terms of the one-year contracts is as follows at December 31, 2014 and 2013.

Counterparty	Moody/ S&P Rating	December 31, 2014		
		Fair Value (In thousands)	Collateral Held	Net Exposure
Credit Suisse	A1/A	\$23,957	28,367	—
Wells Fargo	Aa3/AA-	28,298	20,826	7,472
Bank of America	A2/A	19,125	17,900	1,225
Barclays Bank	A2/A	17,397	19,527	—
BNP Paribas	A1/A+	15,232	17,608	—
JPMorgan Chase	Aa3/A+	4,741	521	4,220
Royal Bank of Canada	Aa3/AA-	5,537	5,859	—
		\$114,287	110,608	12,917
Counterparty	Moody/ S&P Rating	December 31, 2013		
		Fair Value (In thousands)	Collateral Held	Net Exposure
Credit Suisse	A1/A	\$37,135	37,342	—
Wells Fargo	Aa3/AA-	20,580	12,389	8,191
Bank of America	A2/A	33,159	28,548	4,611
Barclays Bank	A2/A	33,140	23,195	9,945
BNP Paribas	A2/A+	20,075	20,522	—
JPMorgan Chase	Aa3/A+	11,809	6,641	5,168
Royal Bank of Canada	Aa3/AA-	13,416	12,811	605
		\$169,314	141,448	28,520

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

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

Table of Contents

## LIQUIDITY AND CAPITAL RESOURCES

## Liquidity

Liquidity requirements are met primarily by funds provided from operations. Premium deposits and annuity considerations, investment income, and investment maturities and prepayments are the primary sources of funds while investment purchases, policy benefits in the form of claims, and payments to policyholders and contract holders in connection with surrenders and withdrawals as well as operating expenses are the primary uses of funds. To ensure the Company will be able to pay future commitments, the funds received as premium payments and deposits are invested in high quality investments, primarily fixed income securities. Funds are invested with the intent that the income from investments, plus proceeds from maturities, will meet the ongoing cash flow needs of the Company. The approach of matching asset and liability durations and yields requires an appropriate mix of investments. Although the Company historically has not been put in the position of having to liquidate invested assets to provide cash flow, its investments consist primarily of marketable debt securities that could be readily converted to cash for liquidity needs. The Company may also borrow up to \$40 million on its bank line of credit for short-term cash needs. There were no borrowings outstanding under the line of credit at December 31, 2014.

A primary liquidity concern for life insurers is the risk of an extraordinary level of early policyholder withdrawals, particularly with respect to annuity products whose funds tend to move more rapidly with interest rate changes. The Company includes provisions within its annuity and universal life insurance policies, such as surrender and market value adjustments, that help limit and discourage early withdrawals. The following table sets forth withdrawal characteristics of the Company's annuity reserves and deposit liabilities (based on statutory liability values) as of the dates indicated.

	December 31, 2014		December 31, 2013		
	Amount	% of Total	Amount	% of Total	
	(In thousands except percentages)				
Not subject to discretionary withdrawal provisions	\$418,024	5.6	% \$434,997	6.1	%
Subject to discretionary withdrawal, with adjustment:					
With market value adjustment	1,531,199	20.6	% 1,663,460	23.3	%
At contract value less current surrender charge of 5% or more	5,046,711	68.0	% 4,662,884	65.2	%
Subtotal	6,995,934	94.2	% 6,761,341	94.6	%
Subject to discretionary withdrawal at contract value with no surrender charge or surrender charge of less than 5%	425,884	5.8	% 386,785	5.4	%
Total annuity reserves and deposit liabilities	\$7,421,818	100.0	% \$7,148,126	100.0	%

Table of Contents

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

	December 31,		
	2014	2013	2012
	(In thousands)		
Product Line:			
Traditional Life	\$5,763	4,862	4,913
Universal Life	67,186	56,663	50,905
Annuities	487,313	471,588	458,249
Total	\$560,262	533,113	514,067

The above contractual withdrawals, as well as the level of surrenders experienced, were generally consistent with the Company's assumptions in asset-liability management, and the associated cash outflows did not have an adverse impact on overall liquidity. The nominal increase in annuity dollar outflows coincides with a growing block of business which added approximately \$2.5 billion in deposits over the past three years. Individual life insurance policies are less susceptible to withdrawal than annuity reserves and deposit liabilities because policyholders may incur surrender charges and undergo a new underwriting process in order to obtain a new insurance policy. Cash flow projections and tests under various market interest rate scenarios are also performed to assist in evaluating liquidity needs and adequacy. The Company currently expects available liquidity sources and future cash flows to be more than adequate to meet the demand for funds.

Cash flows from the Company's insurance operations have historically been sufficient to meet current needs. Cash flows from operating activities were \$313.3 million, \$253.6 million, and \$290.3 million in 2014, 2013, and 2012, respectively. The Company also has significant cash flows from both scheduled and unscheduled investment security maturities, redemptions, and prepayments. These cash flows totaled \$0.8 billion, \$1.5 billion, and \$1.8 billion in 2014, 2013, and 2012, respectively. Cash flows from security maturities, redemptions, and prepayments coincide primarily with scheduled maturity dates of securities given the Company buy and hold investment philosophy but may become amplified during periods of significant declines in interest rates. Conversely, these cash flow items could experience reduced levels of activity if interest rates rise in the future. Net cash flows from the Company's universal life and annuity deposit product operations totaled \$104.3 million, \$106.6 million, and \$144.2 million in 2014, 2013, and 2012, respectively.

### Capital Resources

The Company relies on stockholders' equity for its capital resources as there is no long-term debt outstanding and the Company does not anticipate the need for any long-term debt in the near future. As of December 31, 2014, the Company had no commitments beyond its normal operating and investment activities. The Company has declared and paid an annual dividend on its common shares since 2005 although its practice remains to substantially reinvest earnings internally to finance the development of new business. Despite the fact the Company's market price of its Class A common shares has been trading at a discount to the book value for several years, there are no imminent plans for the Company to repurchase its shares as the Board of Directors has adopted a strategic policy of building a strong capital base to maintain high financial strength ratings and the ability to take competitive advantages as they arise.

The capacity to pay dividends is limited by law in the state of Colorado to earned profits (statutory unassigned surplus). At December 31, 2014, the maximum amount legally available for distribution without further regulatory approval is \$118.2 million.

OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

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

Table of Contents

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

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

	Payment Due by Period				
	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
	(In thousands)				
Loan commitments	\$7,029	7,029	—	—	—
Operating lease obligations (1)	1,094	214	476	380	24
Life claims payable (2)	56,022	56,022	—	—	
Other long-term reserve liabilities reflected on the balance sheet under GAAP (3)	10,954,373	948,744	1,855,012	1,879,569	6,271,048
<b>Total</b>	<b>\$11,018,518</b>	<b>\$1,012,009</b>	<b>\$1,855,488</b>	<b>\$1,879,949</b>	<b>\$6,271,072</b>

(1) Refer to Note 9, Commitments and Contingencies, of the accompanying consolidated financial statements relating to Company leases.

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

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

## ACCOUNTING STANDARDS AND CHANGES IN ACCOUNTING

### Recently Issued Accounting Standards

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 on the statement of income amounts reclassified. As the Company already reports reclassifications on its Consolidated Statements of Earnings and Consolidated Statements of Comprehensive Income (Loss), the new guidance did not have a significant impact on the Company's consolidated financial statements.

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.

Table of Contents

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 consolidated financial statements.

Correction of Errors

None.

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

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

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

See Attachment A, Index to Financial Statements and Schedules.

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

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

On January 10, 2014, management of the Company notified KPMG LLP ("KPMG") that the Company would not be renewing the engagement of KPMG as independent accountants beginning with the audit of its consolidated financial statements for the year ending December 31, 2014. KPMG's dismissal was effective with the Company's filing of the Form 10-K for the year ended December 31, 2013 and issuance of the statutory financial statement audit reports for the same period. The Company's Audit Committee of the Board of Directors approved the dismissal of KPMG as the Company's independent accountants based upon the results of a competitive proposal process. Also on January 10, 2014, management of the Company notified BKD LLP ("BKD") of its engagement as the Company's independent registered public accounting firm which was approved by the Company's Audit Committee that same day. BKD's engagement for the audit of the Company's consolidated financial statements for the year ended December 31, 2014 was effective with their first quarter review for the period ended March 31, 2014. The Company provided notice of the foregoing via a Form 8-K filing dated January 16, 2014.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

## Table of Contents

Internal controls over financial reporting change as the Company modifies and enhances its systems and processes to meet business needs. Any significant changes in controls are evaluated prior to implementation to help ensure continued effectiveness of internal controls and the control environment. During the quarter ended June 30, 2013, the Company implemented a new investment accounting system. During the quarter ended December 31, 2013, the Company implemented a new share-based (stock option and stock appreciation rights) compensation accounting system. These implementations constitute a change in the Company's internal controls over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Prior to each implementation, the Company performed conversion testing, evaluated and tested internal controls and determined that each change did not materially affect, nor will reasonably likely materially affect, the Company's internal controls over financial reporting.

While other changes have taken place in internal controls during the year ended December 31, 2014, none of these changes have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of this examination.

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

### Management's Report on Internal Control Over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles. Under the supervision and participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2014 was conducted based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control - Integrated Framework (1992). Based on the Company's assessment under the criteria of this framework, management concluded that the Company maintained effective internal control over financial reporting as of December 31, 2014.

### Attestation Report of the Company's Registered Public Accounting Firm

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

### Changes in Internal Control Over Financial Reporting

Internal controls over financial reporting change as the Company modifies and enhances its systems and processes to meet business needs. Any significant changes in controls are evaluated prior to implementation to help ensure continued effectiveness of internal controls and the control environment. As noted above, during 2013 the Company implemented two accounting systems that provide information necessary for financial reporting which the Company vetted and determined did not materially affect the Company's internal controls over financial reporting. No other changes have taken place in internal controls during the year ended December 31, 2014, that have materially affected,

or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of this examination.

70

---

Table of Contents

Report of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors and Stockholders  
National Western Life Insurance Company

We have audited National Western Life Insurance Company's (the Company) internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, National Western Life Insurance Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (1992), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of National Western Life Insurance Company and subsidiaries as of December 31, 2014 and the related consolidated statements of earnings, comprehensive income (loss), changes in stockholders' equity, and cash flows for the year ended December 31, 2014, and our report dated March 13, 2015 expressed an unqualified opinion on those consolidated financial statements.

/S/BKD LLP

Little Rock, Arkansas  
March 13, 2015

71

---

Table of Contents

ITEM 9B. OTHER INFORMATION

There is no information required to be disclosed on Form 8-K for the quarter ended December 31, 2014 which has not been previously reported.

PART III

The information required by Part III is incorporated by reference from our definitive proxy statement for our annual meeting of shareholders to be held June 19, 2015 to be filed with the Commission pursuant to Regulation 14A within 120 days after December 31, 2014.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Listing of Financial Statements

See Attachment A, Index to Financial Statements and Schedules, on page 80 for a list of financial statements included in this report.

(a) 2. Listing of Financial Statement Schedules

See Attachment A, Index to Financial Statements and Schedules, on page 80 for a list of financial statement schedules included in this report.

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

(a) 3. Listing of Exhibits

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

Exhibit 2	-	Order Confirming Third Amended Joint Consensual Plan of Reorganization Proposed By The Debtors And The Official Committee Of Unsecured Creditors (As Modified As of August 28, 1998) (incorporated by reference to Exhibit 2 to the Company's Form 8-K dated August 28, 1998).
Exhibit 3(a)	-	Restated Articles of Incorporation of National Western Life Insurance Company dated April 10, 1968 (incorporated by reference to Exhibit 3(a) to the Company's Form 10-K for the year ended December 31, 1995).
Exhibit 3(b)	-	Amendment to the Articles of Incorporation of National Western Life Insurance Company dated July 29, 1971 (incorporated by reference to Exhibit 3(b) to the Company's Form 10-K for the year ended December 31, 1995).

- Exhibit 3(c) - Amendment to the Articles of Incorporation of National Western Life Insurance Company dated May 10, 1976 (incorporated by reference to Exhibit 3(c) to the Company's Form 10-K for the year ended December 31, 1995).
- Exhibit 3(d) - Amendment to the Articles of Incorporation of National Western Life Insurance Company dated April 28, 1978 (incorporated by reference to Exhibit 3(d) to the Company's Form 10-K for the year ended December 31, 1995).

Table of Contents

- Exhibit 3(e) - Amendment to the Articles of Incorporation of National Western Life Insurance Company dated May 1, 1979 (incorporated by reference to Exhibit 3(e) to the Company's Form 10-K for the year ended December 31, 1995).
- Exhibit 3(f) - Bylaws of National Western Life Insurance Company as amended through April 24, 1987 (incorporated by reference to Exhibit 3(f) to the Company's Form 10-K for the year ended December 31, 1995).
- Exhibit 3ii(h) - Bylaws of National Western Life Insurance Company dated March 22, 2010 (incorporated by reference to Exhibit 3ii(h) to the Company's Form 8-K dated March 22, 2010).
- Exhibit 10(a) - National Western Life Insurance Company Non-Qualified Defined Benefit Plan dated July 26, 1991 (incorporated by reference to Exhibit 10(a) to the Company's Form 10-K for the year ended December 31, 1995).
- Exhibit 10(c) - National Western Life Insurance Company Non-Qualified Deferred Compensation Plan, as amended and restated, dated March 27, 1995 (incorporated by reference to Exhibit 10(c) to the Company's Form 10-K for the year ended December 31, 1995).
- Exhibit 10(d) - First Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective July 1, 1995 (incorporated by reference to Exhibit 10(d) to the Company's Form 10-K for the year ended December 31, 1995).
- Exhibit 10(e) - National Western Life Insurance Company 1995 Stock and Incentive Plan (incorporated by reference to Exhibit 10(e) to the Company's Form 10-K for the year ended December 31, 1995).
- Exhibit 10(f) - First Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective December 17, 1996 (incorporated by reference to Exhibit 10(f) to the Company's Form 10-K for the year ended December 31, 1996).
- Exhibit 10(g) - Second Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective December 17, 1996 (incorporated by reference to Exhibit 10(g) to the Company's Form 10-K for the year ended December 31, 1996).
- Exhibit 10(h) - Second Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective December 17, 1996 (incorporated by reference to Exhibit 10(h) to the Company's Form 10-K for the year ended December 31, 1996).
- Exhibit 10(i) - Third Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective December 17, 1996 (incorporated by reference to Exhibit 10(i) to the Company's Form 10-K for the year ended December 31, 1996).
- Exhibit 10(j) - Fourth Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective June 20, 1997 (incorporated by reference to Exhibit 10(j) to the Company's Form 10-K for the year ended December 31, 1997).
- Exhibit 10(k) - First Amendment to the National Western Life Insurance Company 1995 Stock and Incentive Plan effective June 19, 1998 (incorporated by reference to Exhibit 10(k) to the Company's Form

10-Q for the quarter ended June 30, 1998).

Exhibit 10(m) - Fifth Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective July 1, 1998 (incorporated by reference to Exhibit 10(m) to the Company's Form 10-Q for the quarter ended September 30, 1998).

Table of Contents

- Exhibit 10(n) - Sixth Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective August 7, 1998 (incorporated by reference to Exhibit 10(n) to the Company's Form 10-K for the year ended December 31, 1998).
- Exhibit 10(o) - Third Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective August 7, 1998 (incorporated by reference to Exhibit 10(o) to the Company's Form 10-K for the year ended December 31, 1998).
- Exhibit 10(p) - Exchange Agreement by and among National Western Life Insurance Company, NWL Services, Inc., Alternative Benefit Management, Inc., and American National Insurance Company effective November 23, 1998 (incorporated by reference to Exhibit 10(p) to the Company's Form 10-K for the year ended December 31, 1998).
- Exhibit 10(s) - Seventh Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective August 7, 1998 (incorporated by reference to Exhibit 10(s) to the Company's Form 10-K for the year ended December 31, 2000).
- Exhibit 10(u) - Eighth Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective December 1, 2000 (incorporated by reference to Exhibit 10(u) to the Company's Form 10-K for the year ended December 31, 2000).
- Exhibit 10(v) - Fourth Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective December 1, 2000 (incorporated by reference to Exhibit 10(v) to the Company's Form 10-K for the year ended December 31, 2000).
- Exhibit 10(w) - Second Amendment to the National Western Life Insurance Company 1995 Stock and Incentive Plan (incorporated by reference to Exhibit 10(w) to the Company's Form 10-Q for the quarter ended September 30, 2001).
- Exhibit 10(z) - Fifth Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective January 1, 2001 (incorporated by reference to Exhibit 10(z) to the Company's Form 10-K for the year ended December 31, 2001).
- Exhibit 10(ae) - Sixth Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective August 23, 2002 (incorporated by reference to Exhibit 10(ae) to the Company's Form 10-Q for the quarter ended September 30, 2002).
- Exhibit 10(af) - Seventh Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective October 18, 2002 (incorporated by reference to Exhibit 10(af) to the Company's Form 10-Q for the quarter ended September 30, 2002).
- Exhibit 10(ai) - Eighth Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective January 1, 2003 (incorporated by reference to Exhibit 10(ai) to the Company's Form 10-K for the year ended December 31, 2002).
- Exhibit 10(am)- Ninth amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective November 1, 2003 (incorporated by reference to Exhibit 10(am) to the Company's Form 10-K for the year ended December 31, 2003).

Exhibit 10(an) - Ninth amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective December 5, 2003 (incorporated by reference to Exhibit 10(an) to the Company's Form 10-K for the year ended December 31, 2003.)

Exhibit 10(ar) - Third Amendment to the National Western Life Insurance Company 1995 Stock and Incentive Plan (incorporated by reference to Exhibit 10(ar) to the Company's Form 10-Q for the quarter ended September 30, 2004).

Table of Contents

- Exhibit 10(as) - Amendment to the National Western Life Insurance Company Group Excess Benefit Plan effective December 15, 2004 (incorporated by reference to Exhibit 10(as) to the Company's Form 10-K for the year ended December 31, 2004).
- Exhibit 10(at) - The National Western Life Insurance Company Employee Health Plan was amended and restated effective August 20, 2004 (incorporated by reference to Exhibit 10(at) to the Company's Form 10-K for the year ended December 31, 2004).
- Exhibit 10(au) - Tenth Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective December 31, 2004 (incorporated by reference to Exhibit 10(au) to the Company's Form 10-K for the year ended December 31, 2004).
- Exhibit 10(az) - National Western Life Insurance Company Non-Qualified Defined Benefit Plan for Robert L. Moody (Exhibit 10(az) to Form 8-K dated July 1, 2005).
- Exhibit 10(ba) - First Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan for Robert L. Moody (Exhibit 10(ba) to Form 8-K dated August 22, 2005).
- Exhibit 10(bb) - Second Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan for Robert L. Moody (Exhibit 10(bb) to Form 8-K dated December 15, 2005).
- Exhibit 10(bc) - Tenth Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan (Exhibit 10(bc) to Form 8-K dated December 15, 2005).
- Exhibit 10(bd) - National Western Life Insurance Company Retirement Bonus Program for Robert L. Moody (Exhibit 10(bd) to Form 8-K dated December 15, 2005).
- Exhibit 10(be) - Eleventh Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan (Exhibit 10(be) to Form 8-K dated December 15, 2005).
- Exhibit 10(bf) - Non-Qualified Defined Benefit Plan for the President of National Western Life Insurance Company (Exhibit 10(bf) to Form 8-K dated December 15, 2005).
- Exhibit 10(bg) - National Western Life Insurance Company 2006 Executive Officer Bonus Program (Exhibit 10(bg) to Form 8-K dated February 17, 2006).
- Exhibit 10(bh) - National Western Life Insurance Company 2006 Executive Officer Bonus Program (as amended) (Exhibit 10(bh) to Form 8-K dated April 21, 2006).
- Exhibit 10(bi) - 2006 International Marketing Officer Bonus Program (Exhibit 10(bi) to Form 8-K dated June 23, 2006).
- Exhibit 10(bj) - 2006 Domestic Marketing Officer Bonus Program (Exhibit 10(bj) to Form 8-K dated June 23, 2006).
- Exhibit 10(bk) - National Western Life Insurance Company Harvest Nonqualified Deferred Compensation Plan (Exhibit 10(bk) to Form 8-K dated June 23, 2006).

Exhibit 10(bl) - Amendment No. 16 to Loan Agreement (Exhibit 10(bl) to Form 8-K dated July 31, 2006).

Exhibit 10(bm)- Life Systems, Incorporated Termination Agreement (Exhibit 10(bm) to Form 8-K dated March 30, 2007).

75

---

Table of Contents

- Exhibit 10(bn) - National Western Life Insurance Company 2007 Executive Officer Bonus Program (Exhibit 10(bn) to Form 8-K dated April 19, 2007).
- Exhibit 10(bo) - National Western Life Insurance Company 2007 Domestic Marketing Officer Bonus Program (Exhibit 10(bo) to Form 8-K dated April 19, 2007).
- Exhibit 10(bp) - National Western Life Insurance Company 2007 International Marketing Officer Bonus Program (Exhibit 10(bp) to Form 8-K dated April 19, 2007).
- Exhibit 10(bq) - National Western Life Insurance Company 2008 Executive Officer Bonus Program (Exhibit 10(bq) to Form 8-K dated March 17, 2008).
- Exhibit 10(br) - National Western Life Insurance Company 2008 Domestic Marketing Officer Bonus Program (Exhibit 10(br) to Form 8-K dated August 22, 2008).
- Exhibit 10(bs) - National Western Life Insurance Company 2008 International Marketing Officer Bonus Program (Exhibit 10(bs) to Form 8-K dated August 22, 2008).
- Exhibit 10(bt) - National Western Life Insurance Company 2008 Domestic Marketing Officer Bonus Program (as amended) (Exhibit 10(bt) to Form 8-K dated October 16, 2008).
- Exhibit 10(bu) - National Western Life Insurance Company 2008 Incentive Plan (Exhibit 10(bu) to S-8 dated September 2, 2008).
- Exhibit 10(bv) - National Western Life Insurance Company 2008 Senior Vice President Bonus Program (incorporated by reference to Exhibit 10(bv) to the Company's Form 10-K for the year ended December 31, 2008).
- Exhibit 10(bw) - National Western Life Insurance Company 2009 Executive Officer Bonus Program (Exhibit 10(bw) to Form 8-K dated February 19, 2009).
- Exhibit 10(bx) - National Western Life Insurance Company 2009 Domestic Marketing Officer Bonus Program (Exhibit 10(bx) to Form 8-K dated February 19, 2009).
- Exhibit 10(by) - National Western Life Insurance Company 2009 International Marketing Officer Bonus Program (Exhibit 10(by) to Form 8-K dated February 19, 2009).
- Exhibit 10(bz) - National Western Life Insurance Company 2009 Senior Vice President Bonus Program (Exhibit 10(bz) to Form 8-K dated February 19, 2009).
- Exhibit 10(ca) - National Western Life Insurance Company Non-Qualified Defined Benefit Plan for Robert L. Moody As Amended and Restated Effective as of January 1, 2009 (incorporated by reference to Exhibit 10(ca) to the Company's Form 10-K for the year ended December 31, 2008).
- Exhibit 10(cb) - Non-Qualified Defined Benefit Plan for the President of National Western Life Insurance Company As Amended and Restated Effective as of January 1, 2009 (incorporated by reference to Exhibit 10(cb) to the Company's Form 10-K for the year ended December 31, 2008).

Exhibit 10(cc) - National Western Life Insurance Company Grandfathered Non-Qualified Defined Benefit Plan  
As Amended and Restated Effective as of December 31, 2004 (incorporated by reference to  
Exhibit 10(cc) to the Company's Form 10-K for the year ended December 31, 2008).

Table of Contents

- Exhibit 10(cd) - National Western Life Insurance Company Non-Qualified Defined Benefit Plan As Amended and Restated Effective as of January 1, 2009 (incorporated by reference to Exhibit 10(cd) to the Company's Form 10-K for the year ended December 31, 2008).
- Exhibit 10(ce) - National Western Life Insurance Company Grandfathered Non-Qualified Deferred Compensation Plan As Amended and Restated Effective as of December 31, 2004 (incorporated by reference to Exhibit 10(ce) to the Company's Form 10-K for the year ended December 31, 2008).
- Exhibit 10(cf) - National Western Life Insurance Company Non-Qualified Deferred Compensation Plan As Amended and Restated Effective as of January 1, 2009 (incorporated by reference to Exhibit 10(cf) to the Company's Form 10-K for the year ended December 31, 2008).
- Exhibit 10(cg) - First Amendment to The National Western Life Insurance Company Pension Plan As Amended and Restated Effective as of January 1, 2007 (incorporated by reference to Exhibit 10(cg) to the Company's Form 10-K for the year ended December 31, 2008).
- Exhibit 10(ch) - Amended National Western Life Insurance Company Group Excess Benefit Plan, effective May 1, 2009 (incorporated by reference to Exhibit 10(ch) to the Company's Form 10-Q for the quarter ended March 31, 2009).
- Exhibit 10(ci) - Revolving Credit Loan Agreement with Moody National Bank (Exhibit 10(ci) to Form 8-K dated August 31, 2009).
- Exhibit 10(cj) - National Western Life Insurance Company 2010 Executive Officer Bonus Program (Exhibit 10(cj) to Form 8-K dated December 16, 2009).
- Exhibit 10(ck) - National Western Life Insurance Company 2010 Domestic Marketing Officer Bonus Program (Exhibit 10(ck) to Form 8-K dated December 16, 2009).
- Exhibit 10(cl) - National Western Life Insurance Company 2010 International Marketing Officer Bonus Program (Exhibit 10(cl) to Form 8-K dated December 16, 2009).
- Exhibit 10(cm) - National Western Life Insurance Company 2010 Officer President Bonus Program (Exhibit 10(cm) to Form 8-K dated December 16, 2009).
- Exhibit 10(cn) - Master Service Agreement between National Western Life Insurance Company and Flexible Architecture and Simplified Technology, Inc. dated March 30, 2010 (Exhibit 10(cn) to Form 8-K dated March 30, 2010).
- Exhibit 10(co) - Amended National Western Life Insurance Company Pension Plan, effective January 1, 2008. (incorporated by reference to Exhibit 10(co) to the Company's Form 10-Q for the quarter ended March 31, 2010).
- Exhibit 10(cp) - Management/Consultant Agreement dated March 29, 2000 by and between Regent Care Operations, Limited Partnership and Regent Management Services, Limited Partnership. (incorporated by reference to Exhibit 10(cp) to the Company's Form 10-K /A for the year ended December 31, 2010).

Exhibit 10(cq) - Management Agreement dated October 1, 2008 by and between Regent Care San Marcos B-3, Limited Partnership and Regent Management Services, Limited Partnership. (incorporated by reference to Exhibit 10(cq) to the Company's Form 10-K /A for the year ended December 31, 2010).

77

---

Table of Contents

- Exhibit 10(cr) - Administrative Services Only Agreement dated January 1, 2001 by and between National Western Life Insurance Company and American National Insurance Company (ANICO) pertaining to ANICO Excess Benefit Plan. (incorporated by reference to Exhibit 10(cr) to the Company's Form 10-K /A for the year ended December 31, 2010).
- Exhibit 10(cs) - Premium Payment Agreement dated January 1, 2001 by and between National Western Life Insurance Company and American National Insurance Company (ANICO) pertaining to ANICO Excess Benefit Plan. (incorporated by reference to Exhibit 10(cs) to the Company's Form 10-K /A for the year ended December 31, 2010).
- Exhibit 10(ct) - Administrative Services Only Agreement dated January 1, 2001 by and between National Western Life Insurance Company and American National Insurance Company (ANICO) pertaining to ANICO Excess Benefit Plan. (incorporated by reference to Exhibit 10(ct) to the Company's Form 10-K /A for the year ended December 31, 2010).
- Exhibit 10(cu) - Premium Payment Agreement dated January 1, 2001 by and between National Western Life Insurance Company and American National Insurance Company (ANICO) pertaining to ANICO Excess Benefit Plan. (incorporated by reference to Exhibit 10(cu) to the Company's Form 10-K /A for the year ended December 31, 2010).
- Exhibit 10(cv) - National Western Life Insurance Company 2011 Executive Officer Bonus Program (Exhibit 10(cv) to Form 8-K dated December 16, 2010).
- Exhibit 10(cw) - National Western Life Insurance Company 2011 Domestic Marketing Officer Bonus Program (Exhibit 10(cw) to Form 8-K dated December 16, 2010).
- Exhibit 10(cx) - National Western Life Insurance Company 2011 International Marketing Officer Bonus Program (Exhibit 10(cx) to Form 8-K dated December 16, 2010).
- Exhibit 10(cy) - National Western Life Insurance Company 2011 Officer President Bonus Program (Exhibit 10(cy) to Form 8-K dated December 16, 2010).
- Exhibit 10(cz) - National Western Life Insurance Company 2012 Executive Officer Bonus Program (Exhibit 10(cz) to Form 8-K dated December 14, 2011).
- Exhibit 10(da) - National Western Life Insurance Company 2012 Domestic Marketing Officer Bonus Program (Exhibit 10(da) to Form 8-K dated December 14, 2011).
- Exhibit 10(db) - National Western Life Insurance Company 2012 International Marketing Officer Bonus Program (Exhibit 10(db) to Form 8-K dated December 14, 2011).
- Exhibit 10(dc) - National Western Life Insurance Company 2012 Officer President Bonus Program (Exhibit 10(dc) to Form 8-K dated December 14, 2011).
- Exhibit 10(dd) - National Western Life Insurance Company 2013 Executive Officer Bonus Program (Exhibit 10(dd) to Form 8-K dated December 12, 2012).
- Exhibit 10(de) -

Edgar Filing: NATIONAL WESTERN LIFE INSURANCE CO - Form 10-K

National Western Life Insurance Company 2013 Domestic Marketing Officer Bonus Program  
(Exhibit 10(de) to Form 8-K dated December 12, 2012).

Exhibit 10(df) - National Western Life Insurance Company 2013 International Marketing Officer Bonus Program  
(Exhibit 10(df) to Form 8-K dated December 12, 2012).

78

---

Table of Contents

Exhibit 10(dg) -	National Western Life Insurance Company 2013 Officer President Bonus Program (Exhibit 10(dg) to Form 8-K dated December 12, 2012).
Exhibit 10(dh) -	National Western Life Insurance Company 2014 Executive Officer Bonus Program (Exhibit 10(dh) to Form 8-K dated December 11, 2013).
Exhibit 10(di) -	National Western Life Insurance Company 2014 Domestic Marketing Officer Bonus Program (Exhibit 10(di) to Form 8-K dated December 11, 2013).
Exhibit 10(dj) -	National Western Life Insurance Company 2014 International Marketing Officer Bonus Program (Exhibit 10(dj) to Form 8-K dated December 11, 2013).
Exhibit 10(dk) -	National Western Life Insurance Company 2014 Officer Bonus Program (Exhibit 10(dk) to Form 8-K dated December 11, 2013).
Exhibit 10(dl) -	National Western Life Insurance Company 2015 Executive Officer Bonus Program (Exhibit 10(dl) to Form 8-K dated December 10, 2014).
Exhibit 10(dm)-	National Western Life Insurance Company 2015 Domestic Marketing Officer Bonus Program (Exhibit 10(dm) to Form 8-K dated December 10, 2014).
Exhibit 10(dn) -	National Western Life Insurance Company 2015 International Marketing Officer Bonus Program (Exhibit 10(dn) to Form 8-K dated December 10, 2014).
Exhibit 10(do) -	National Western Life Insurance Company 2015 Officer Bonus Program (Exhibit 10(do) to Form 8-K dated December 10, 2014).
Exhibit 21 -	Subsidiaries of the Registrant.
Exhibit 23(a) -	Consent of Independent Registered Public Accounting Firm.
Exhibit 23(b) -	Consent of Independent Registered Public Accounting Firm.
Exhibit 31(a) -	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31(b) -	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32(a) -	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Exhibits

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

(c) Financial Statement Schedules

The financial statement schedules required by Regulation S-K are listed as to location in Attachment A, Index to Financial Statements and Schedules, on page 80 of this report.

Table of Contents

ATTACHMENT A

Index to Consolidated Financial Statements and Schedules

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	<u>81</u>
<u>Consolidated Balance Sheets, December 31, 2014 and 2013</u>	<u>83</u>
<u>Consolidated Statements of Earnings for the years ended December 31, 2014, 2013 and 2012</u>	<u>85</u>
<u>Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2014, 2013 and 2012</u>	<u>86</u>
<u>Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2014, 2013 and 2012</u>	<u>87</u>
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012</u>	<u>89</u>
<u>Notes to Consolidated Financial Statements</u>	<u>91</u>
<u>Schedule I - Summary of Investments Other Than Investments in Related Parties, December 31, 2014</u>	<u>149</u>
<u>Schedule V - Valuation and Qualifying Accounts for the years ended December 31, 2014, 2013 and 2012</u>	<u>150</u>

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

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Audit Committee, Board of Directors and Stockholders  
National Western Life Insurance Company:

We have audited the accompanying consolidated balance sheet of National Western Life Insurance Company and subsidiaries (the Company) as of December 31, 2014, and the related consolidated statements of earnings, comprehensive income (loss), changes in stockholders' equity and cash flow for the year ended December 31, 2014. In connection with our audit of the consolidated financial statements, we have also audited financial statement schedules I, summary of investments other than investments in related parties, and V, valuation and qualifying accounts. These consolidated financial statements and financial statement schedules I and V are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules I and V based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Western Life Insurance Company and subsidiaries as of December 31, 2014 and the results of their operations and their cash flows for the year ended December 31, 2014 in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statements schedule I, summary of investments other than investments in related parties, and V, valuation and qualifying accounts, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), National Western Life Insurance Company's internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 13, 2015 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/S/BKD  
Little Rock, Arkansas  
March 13, 2015



Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders  
National Western Life Insurance Company:

We have audited the accompanying consolidated balance sheet of National Western Life Insurance Company and subsidiaries (the Company) as of December 31, 2013, and the related consolidated statements of earnings, comprehensive income, stockholders' equity and cash flows for each of the years in the two-year period ended December 31, 2013. In connection with our audits of the consolidated financial statements, we have also audited financial statement schedules I and V. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Western Life Insurance Company and subsidiaries as of December 31, 2013, and the results of their operations and their cash flows for the two-year period ended December 31, 2013 in conformity with U.S. generally accepted accounting principles.

/S/KPMG LLP

Houston, Texas  
March 17, 2014

Table of ContentsNATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

December 31, 2014 and 2013

(In thousands)

ASSETS	2014	2013
Investments:		
Securities held to maturity, at amortized cost (fair value: \$7,175,443 and \$6,656,144)	\$6,841,543	6,510,320
Securities available for sale, at fair value (amortized cost: \$2,590,074 and \$2,535,264)	2,728,680	2,651,544
Mortgage loans, net of allowance for possible losses (\$650 and \$650)	149,503	132,765
Policy loans	63,645	65,969
Derivatives, index options	114,287	169,314
Other long-term investments	28,774	30,991
Total Investments	9,926,432	9,560,903
Cash and cash equivalents	277,078	120,859
Deferred policy acquisition costs	802,919	785,706
Deferred sales inducements	159,766	169,570
Accrued investment income	96,127	95,367
Other assets	89,570	98,011
Total assets	\$11,351,892	10,830,416

See accompanying notes to consolidated financial statements.

Table of ContentsNATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

December 31, 2014 and 2013

(In thousands except share amounts)

LIABILITIES AND STOCKHOLDERS' EQUITY	2014	2013
<b>LIABILITIES:</b>		
Future policy benefits:		
Universal life and annuity contracts	\$9,384,297	8,987,062
Traditional life reserves	138,225	138,072
Other policyholder liabilities	139,222	142,587
Deferred Federal income tax liability	31,675	7,199
Federal income tax payable	3,336	10,067
Other liabilities	98,817	97,481
 Total liabilities	 9,795,572	 9,382,468
 <b>COMMITMENTS AND CONTINGENCIES (Notes 4, 7, and 9)</b>		
 <b>STOCKHOLDERS' EQUITY:</b>		
Common stock:		
Class A - \$1 par value; 7,500,000 shares authorized; 3,436,166 shares 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	41,786	38,080
Retained earnings	1,472,782	1,368,466
 Total stockholders' equity	 1,556,320	 1,447,948
 Total liabilities and stockholders' equity	 \$11,351,892	 10,830,416

See accompanying notes to consolidated financial statements.

Table of ContentsNATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF EARNINGS

For the Years Ended December 31, 2014, 2013 and 2012

(In thousands except per share amounts)

	2014	2013	2012
Premiums and other revenue:			
Universal life and annuity contract charges	\$ 150,596	148,388	149,328
Traditional life premiums	19,519	19,078	18,616
Net investment income	505,430	660,432	460,048
Other revenues	21,630	23,716	23,470
Net realized investment gains (losses):			
Total other-than-temporary impairment ("OTTI") (losses) recoveries	(18	) 846	1,023
Portion of OTTI losses recognized in other comprehensive income	(132	) (1,151	) (2,364
Net OTTI losses recognized in earnings	(150	) (305	) (1,341
Other net investment gains	11,755	8,958	14,541
Total net realized investment gains (losses)	11,605	8,653	13,200
 Total revenues	 708,780	 860,267	 664,662
Benefits and expenses:			
Life and other policy benefits	54,295	60,050	51,842
Amortization of deferred policy acquisition costs	115,154	108,233	121,922
Universal life and annuity contract interest	298,259	454,594	262,339
Other operating expenses	83,551	95,693	87,978
 Total benefits and expenses	 551,259	 718,570	 524,081
 Earnings before Federal income taxes	 157,521	 141,697	 140,581
 Federal income taxes	 51,933	 45,450	 48,023
 Net earnings	 \$ 105,588	 96,247	 92,558
Basic Earnings Per Share:			
Class A	\$ 29.87	27.23	26.19
Class B	\$ 14.93	13.61	13.09
Diluted Earnings Per Share:			
Class A	\$ 29.85	27.19	26.19
Class B	\$ 14.93	13.61	13.09

See accompanying notes to consolidated financial statements.

Table of ContentsNATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the Years Ended December 31, 2014, 2013 and 2012

(In thousands)

	2014	2013	2012
Net earnings	\$ 105,588	96,247	92,558
Other comprehensive income (loss), net of effects of deferred costs and taxes:			
Unrealized gains (losses) on securities:			
Net unrealized holding gains (losses) arising during period	12,536	(42,218	) 27,211
Net unrealized liquidity gains (losses)	26	333	1,307
Reclassification adjustment for net amounts included in net earnings	(5,000	) (3,061	) (4,504
Amortization of net unrealized (gains) losses related to transferred securities	—	—	148
Net unrealized gains (losses) on securities	7,562	(44,946	) 24,162
Foreign currency translation adjustments	(556	) 652	221
Benefit plans:			
Amortization of net prior service cost and net gain	(3,300	) 5,588	(773
Other comprehensive income (loss)	3,706	(38,706	) 23,610
Comprehensive income (loss)	\$ 109,294	\$ 57,541	116,168

See accompanying notes to consolidated financial statements.

Table of ContentsNATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2014, 2013 and 2012

(In thousands)

	2014	2013	2012
<b>Common stock:</b>			
Balance at beginning of period	\$3,635	3,635	3,635
Shares exercised under stock option plan	1	—	—
Balance at end of period	3,636	3,635	3,635
<b>Additional paid-in capital:</b>			
Balance at beginning of period	37,767	37,767	37,767
Shares exercised under stock option plan	349	—	—
Balance at end of period	38,116	37,767	37,767
<b>Accumulated other comprehensive income (loss):</b>			
<b>Unrealized gains (losses) on non-impaired securities:</b>			
Balance at beginning of period	46,693	91,972	69,117
Change in unrealized gains (losses) during period	7,536	(45,279)	) 22,855
Balance at end of period	54,229	46,693	91,972
<b>Unrealized losses on impaired held to maturity securities:</b>			
Balance at beginning of period	(1,287	) (1,426	) (2,321
Amortization	84	210	393
Other-than-temporary impairments, non-credit, net of tax	—	95	289
Additional credit loss on previously impaired securities	—	54	411
Change in shadow deferred policy acquisition costs	(59	) (220	) (198
Balance at end of period	(1,262	) (1,287	) (1,426
<b>Unrealized losses on impaired available for sale securities:</b>			
Balance at beginning of period	(2	) (196	) (608
Change in shadow deferred policy acquisition costs	(1	) (196	) (424
Recoveries, net of tax	2	390	836
Balance at end of period	(1	) (2	) (196

(Continued on next page)



Table of ContentsNATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2014, 2013 and 2012

(In thousands)

	2014	2013	2012
Foreign currency translation adjustments:			
Balance at beginning of period	3,241	2,589	2,368
Change in translation adjustments during period	(556	) 652	221
Balance at end of period	2,685	3,241	2,589
Benefit plan liability adjustment:			
Balance at beginning of period	(10,565	) (16,153	) (15,380
Amortization of net prior service cost and net gain, net of tax	(3,300	) 5,588	(773
Balance at end of period	(13,865	) (10,565	) (16,153
Accumulated other comprehensive income (loss) at end of period	41,786	38,080	76,786
Retained earnings:			
Balance at beginning of period	1,368,466	1,273,492	1,182,207
Net earnings	105,588	96,247	92,558
Stockholder dividends	(1,272	) (1,273	) (1,273
Balance at end of period	1,472,782	1,368,466	1,273,492
Total stockholders' equity	\$1,556,320	1,447,948	1,391,680

See accompanying notes to consolidated financial statements.

NATIONAL WESTERN LIFE INSURANCE COMPANY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the Years Ended December 31, 2014, 2013 and 2012  
(In thousands)

	2014	2013	2012
Cash flows from operating activities:			
Net earnings	\$105,588	96,247	92,558
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Universal life and annuity contract interest	298,259	454,594	262,339
Surrender charges and other policy revenues	(12,913)	(14,622)	(14,720)
Realized (gains) losses on investments	(11,605)	(8,653)	(13,201)
Accretion/amortization of discounts and premiums, investments	(653)	(2,019)	(1,458)
Depreciation and amortization	3,421	4,674	5,688
(Increase) decrease in value of derivatives	(68,616)	(225,899)	(27,147)
(Increase) decrease in deferred policy acquisition and sales inducement costs	(18,336)	(26,165)	(10,623)
(Increase) decrease in accrued investment income	(760)	(2,312)	(4,790)
(Increase) decrease in other assets	(867)	(17,343)	(7,176)
Increase (decrease) in liabilities for future policy benefits	7,698	9,664	13,536
(Decrease) increase in other policyholder liabilities	(3,365)	(5,974)	(2,747)
(Decrease) increase in Federal income tax liability	(6,731)	15,722	(10,617)
Increase (decrease) in deferred Federal income tax	22,538	(23,654)	(4,437)
(Decrease) increase in other liabilities	(394)	(660)	13,076
Other, net	—	(1)	—
Net cash provided by operating activities	313,264	253,599	290,281
Cash flows from investing activities:			
Proceeds from sales of:			
Securities held to maturity	—	1,980	—
Securities available for sale	29,730	10,246	8,214
Other investments	3,399	11,024	8,791
Proceeds from maturities and redemptions of:			
Securities held to maturity	445,679	1,231,796	1,473,885
Securities available for sale	330,127	287,858	347,521
Derivatives, index options	203,349	172,112	54,745
Purchases of:			
Securities held to maturity	(773,743)	(1,775,153)	(1,787,388)
Securities available for sale	(410,127)	(256,855)	(490,689)
Derivatives, index options	(73,318)	(61,624)	(56,413)
Other investments	(376)	(15)	(5,380)

(Continued on Next Page)

NATIONAL WESTERN LIFE INSURANCE COMPANY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the Years Ended December 31, 2014, 2013 and 2012  
(In thousands)

	2014	2013	2012
Principal payments on mortgage loans	20,506	43,856	36,545
Cost of mortgage loans acquired	(37,104	) (34,129	) (21,454
(Increase) decrease in policy loans	2,324	5,580	3,418
Other, net	—	—	3
Net cash used in investing activities	(259,554	) (363,324	) (428,202
Cash flows from financing activities:			
Dividends on common stock	\$(1,273	) (1,273	) (1,273
Deposits to account balances for universal life and annuity contracts	985,003	982,305	985,370
Return of account balances on universal life and annuity contracts	(880,658	) (875,661	) (841,126
Issuance of common stock under stock option plan	350	—	—
Net cash provided by (used in) financing activities	103,422	105,371	142,971
Effect of foreign exchange	(913	) 652	221
Net increase (decrease) in cash and cash equivalents	156,219	(3,702	) 5,271
Cash and cash equivalents at beginning of year	120,859	124,561	119,290
Cash and cash equivalents at end of year	\$277,078	120,859	124,561

SUPPLEMENTAL DISCLOSURES OF CASH FLOW  
INFORMATION:

Cash paid during the year for:

Interest	\$40	50	40
Income taxes	\$36,123	57,350	62,540

Noncash operating activities:

Deferral of sales inducements	\$(8,003	) 803	4,498
-------------------------------	----------	-------	-------

See accompanying notes to consolidated financial statements.

Table of ContentsNATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Principles of Consolidation. The accompanying consolidated financial statements include the accounts of National Western Life Insurance Company and its wholly owned subsidiaries ("National Western" or "Company"). The wholly owned subsidiaries consist of The Westcap Corporation, Regent Care San Marcos Holdings, LLC, NWL Investments, Inc., NWL Services, Inc., NWLSM, Inc., and NWL Financial, Inc. All significant intercorporate transactions and accounts have been eliminated in consolidation.

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

The table below shows the unrealized gains and losses on available-for-sale securities that were reclassified out of accumulated other comprehensive income for the years ended December 31, 2014, 2013 and 2012.

Affected Line Item In the Consolidated Statements of Earnings	Amount Reclassified from Accumulated Other Comprehensive Income		
	Twelve Months Ended December 31,		
	2014	2013	2012
	(In thousands)		
Other net investment gains (losses)	\$7,843	4,923	7,308
Net OTTI losses recognized in earnings	(150 )	(213 )	(378 )
Earnings before federal income taxes	7,693	4,710	6,930
Federal income taxes	2,693	1,649	2,426
Net Earnings	\$5,000	3,061	4,504

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

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

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

Table of Contents

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to yield using the effective interest method. For mortgage-backed and asset-backed securities, the effective interest method is used based on anticipated prepayments and the estimated economic life of the securities. When estimates of prepayments change, the effective yield is recalculated to reflect actual payments to date and anticipated future payments. The net investment in the securities is adjusted to the amount that would have existed had the new effective yield been applied at the time of acquisition. This adjustment is reflected in net investment income.

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

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

Realized gains and losses for securities available for sale and securities held to maturity are included in earnings and are derived using the specific identification method for determining the cost of securities sold or called. Decline in the fair value below cost that is deemed other-than-temporary is bifurcated in credit and non-credit declines. The noncredit related declines are reclassified as unrealized losses in accumulated other comprehensive income (loss). Credit losses are recorded in earnings and result in the establishment of a new cost basis for the security. The new discount or reduced premium amount is amortized over the remaining life of the impaired debt security prospectively based on the amount and timing of future estimated cash flows.

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

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

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

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

Table of Contents

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Although there is credit risk in the event of nonperformance by counterparties to the index options, the Company does not expect any counterparties to fail to meet their obligations, given their high credit ratings. In addition, credit support agreements are in place with all counterparties for option holdings in excess of specific limits, which may further reduce the Company's credit exposure. At December 31, 2014 and 2013, the fair values of index options owned by the Company totaled \$114.3 million and \$169.3 million, respectively.

(F) Insurance Revenues and Expenses. Premiums on traditional life insurance products are recognized as revenues as they become due from policyholders. Benefits and expenses are matched with premiums in arriving at profits by providing for policy benefits over the lives of the policies and by amortizing acquisition costs over the premium-paying periods of the policies. For universal life and annuity contracts, revenues consist of policy charges for the cost of insuran