

NATIONAL WESTERN LIFE INSURANCE CO  
Form 10-K  
March 16, 2011

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, 2010

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

For the transition period from                      to

Commission File Number: 2-17039

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

COLORADO  
(State of Incorporation)

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

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

(512) 836-1010  
(Telephone Number)

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

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

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

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

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

---

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  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

The aggregate market value of the common stock (based upon the closing price) held by non-affiliates of the Registrant on June 30, 2010 was \$523,350,566.

As of March 14, 2011, the number of shares of Registrant's common stock outstanding was: Class A - 3,430,638 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 17, 2011, which will be filed within 120 days after December 31, 2010 are incorporated by reference into Part III of this report.

## TABLE OF CONTENTS

PART I		Page
<u>Item 1.</u>	Business	4
<u>Item 1A.</u>	Risk Factors	13
<u>Item 1B.</u>	Unresolved Staff Comments	19
<u>Item 2.</u>	Properties	19
<u>Item 3.</u>	Legal Proceedings	19
<u>Item 4.</u>	Submission of Matters to a Vote of Security Holders	21
PART II		
<u>Item 5.</u>	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	21
<u>Item 6.</u>	Selected Consolidated Financial Data	23
<u>Item 7.</u>	Management's Discussion and Analysis of Financial Condition and Results of Operations	24
<u>Item 7A.</u>	Quantitative and Qualitative Disclosures About Market Risk	59
<u>Item 8.</u>	Financial Statements and Supplementary Data	59
<u>Item 9.</u>	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	59
<u>Item 9A.</u>	Controls and Procedures	59
<u>Item 9B.</u>	Other Information	62
PART III		
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, 2010.		
PART IV		
<u>Item 15.</u>	Exhibits and Financial Statement Schedules	63
	Signatures	140

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 "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 and changes to existing laws 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.
- 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 on development and implementation of new technologies.

Table of Contents

· 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 upon applications submitted by independent contractors. The Company provides life insurance products for the savings and protection needs of approximately 139,000 policyholders and for the asset accumulation and retirement needs of 132,000 annuity contract holders.

The Company's total assets increased to \$8.8 billion at December 31, 2010, from \$7.5 billion at December 31, 2009. The Company generated revenues of \$576.0 million, \$568.4 million and \$411.1 million in 2010, 2009 and 2008, respectively. In addition, National Western generated net income of \$72.9 million, \$45.5 million and \$33.6 million in 2010, 2009 and 2008, 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.

**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® Composite Stock Price Index ("S&P 500 Index®") at the election of the policyholder. These products offer both flexible and fixed premium modes and provide policyholders with flexibility in the available coverage, the timing and amount of premium payments and the amount of the death benefit, provided there are sufficient policy funds to cover all policy charges for the coming year. Traditional products generally provide for a fixed death benefit payable in exchange for regular premium payments.

**Annuity Products.** Annuity products sold include flexible premium and single premium deferred annuities, 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®. A single premium immediate annuity ("SPIA") foregoes the accumulation period and immediately commences an annuity payout period.

Table of Contents

Distributions of the Company's direct premium revenues and deposits by product type are provided below.

	Years Ended December 31,		
	2010	2009	2008
	(In thousands)		
Annuities:			
Single premium deferred	\$22,504	15,707	4,417
Flexible premium deferred	486,313	309,424	116,902
Fixed-indexed deferred	901,264	489,180	281,649
Single premium immediate	20,930	23,266	7,165
<b>Total annuities</b>	<b>1,431,011</b>	<b>837,577</b>	<b>410,133</b>
Life:			
Universal life insurance	179,682	173,167	170,933
Traditional life and other	19,385	19,580	20,698
<b>Total life</b>	<b>199,067</b>	<b>192,747</b>	<b>191,631</b>
<b>Total direct premiums and deposits collected</b>	<b>\$1,630,078</b>	<b>1,030,324</b>	<b>601,764</b>

## 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 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, 2010, the Company's NMO relationships had contracted approximately 11,000 independent agents with the Company. More than 32% of these contracted agents submitted policy applications to the Company in the past twelve months. At December 31, 2010, the Company had over 66,000 domestic life insurance policies in force representing in excess of \$2.3 billion in face amount of coverage and 132,000 annuity contracts representing account balances of \$6.2 billion.

**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, 2010, the Company had nearly 73,000 international life insurance policies in force representing over \$17.3 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 4,000 of these independent international individuals at December 31, 2010, 40% of which submitted policy applications to the Company in the past twelve months.

Table of Contents

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 forty years and the Company's longstanding business relationships further serve to minimize risks.

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

	Years Ended December 31,		
	2010	2009	2008
	(In thousands)		
United States domestic products:			
Annuities	\$1,381,057	821,361	398,312
Life insurance	55,465	58,825	59,412
Total domestic products	1,436,522	880,186	457,724
International products:			
Annuities	49,954	16,215	11,821
Life insurance	143,602	133,923	132,219
Total international products	193,556	150,138	144,040
Total direct premiums and deposits collected	\$1,630,078	1,030,324	601,764

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 2010, there were two NMOs that accounted for approximately 24% of the Company's annuity sales with 13.7% and 10.1% of the total annuity sales, respectively. 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 2010, there were two NMOs who generated 44.7% and 11.4%, respectively, of total domestic life insurance sales. The NMO accounting for 44.7% of domestic life sales also contributed 4.6% of total annuity sales. Given the lower level of domestic life insurance sales relative to international life sales and annuity sales, the larger percentage of domestic life sales for this particular NMO 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 with other distribution channels given that the underlying agents are free to contract with the Company through any NMO the Company has a relationship with.

International life insurance sales are much more diversified by independent consultants and contractors and in 2010 were geographically attributed to Latin America (81%), the Pacific Rim (17%), and Eastern Europe (2%). In terms of international countries, Brazil, Taiwan, and Venezuela were the only countries exceeding 10% of total international sales with shares of 36%, 16%, and 13%, respectively.



Table of Contents

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

	Domestic Life Insurance	International Life Insurance	Annuities (In thousands)	All Others	Totals
Revenues, excluding realized gains (losses):					
2010	\$45,015	137,117	348,020	40,365	570,517
2009	53,937	148,624	343,502	27,510	573,573
2008	48,193	115,073	252,511	21,530	437,307
Segment earnings (losses): (A)					
2010	\$(912 )	21,722	34,316	14,212	69,338
2009	426	14,663	25,460	8,294	48,843
2008	717	15,350	27,842	6,781	50,690
Segment assets: (B)					
2010	\$387,873	1,025,103	7,101,720	209,179	8,723,875
2009	383,844	1,056,087	5,955,734	107,581	7,503,246
2008	397,413	842,119	5,369,920	127,189	6,736,641

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 competes 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. Competitors in our international markets include Pan-American Life Insurance, American Fidelity Life Insurance, Manhattan Life Insurance Company and Best Meridian Insurance while domestic market competitors include, among others, American Equity Investment Life, Sammons Financial Group (Midland, NACOLAH), AVIVA, Allstate (Lincoln Benefit), Lincoln National Life, Equitrust Life Insurance Company and Old Mutual Financial Network (F&G). Competitive factors are primarily the breadth and quality of products offered, established positions in niche markets, pricing, relationships with distribution channels, commission structures, the perceived stability of the insurer, quality of underwriting and customer service, scale and cost efficiency. Operating results of life insurers are subject to fluctuations not only from this competitive environment but also due to economic conditions, interest rate levels and changes, performance of investments, and the maintenance of strong insurance ratings from independent rating agencies.

In order to compete successfully, life insurers focus initiatives toward distribution, technology, defined end market targets, speed to the market in terms of product development, and customer relationship management as ways of gaining a competitive edge. The Company's management believes that it competes primarily on the basis of its

longstanding reputation for commitment in serving international markets, its financial strength and stability, and its ability to attract and retain distribution based upon product and compensation. With respect to international markets, the Company is of the opinion that the home office 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.

Table of Contents

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. 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 13 financial strength ratings assigned to solvent insurance companies which currently range from A++ (Superior) to D (Poor). Standard & Poor's has eight financial strength ratings assigned to solvent insurance companies, ranging from "AAA" (Extremely Strong) to "CC" (Extremely Weak). 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. 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, 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.

## 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

#### Company Senior Management

#### ERM Committees

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



Development

Corporate Risk Function

Insurance Risk      Market Risk      Credit Risk      Operational Risk      Strategy Risk

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.

Table of Contents

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.

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.

Substantially all international products contain a currency clause stating that premium and claim "dollars" refer to lawful currency of the United States. Policy applications submitted by international insurance brokers 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.

Table of Contents

## Reinsurance

The Company follows the industry practice of reinsuring (ceding) portions of its insurance risks with a variety of reinsurance companies. 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 \$250,000 on any one life subject to a minimum reinsurance cession of \$50,000. 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, 2010 were as follows.

Reinsurer	A.M. Best Rating	Amount of In Force Ceded (\$000's)
Hannover Life Reassurance Company	A	\$ 1,905,545
Transamerica Life Insurance Company	A+	1,347,765
SCOR Rueckversicherung (Cologne)	A	896,976
SCOR Global Life US Reinsurance (Texas)	A	769,327
SCOR Global Life (Paris)	A	732,396
Mapfre Re (Madrid)	A+	509,587
All others		298,822
		\$ 6,460,418

## 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

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.

**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 Company's statutory capital and surplus at December 31, 2010, was significantly in excess of the threshold RBC requirements.

**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 292 employees as of December 31, 2010 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. 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.

Current 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. The stress experienced by financial markets beginning in the second half of 2007 continued throughout 2008 and into 2009. Consumer confidence declined as home values and the stock market decreased and unemployment and energy costs increased. The volatility and disruption in the financial markets reached unfamiliar levels such that the availability and cost of credit was materially impacted. The market for fixed income securities experienced decreased liquidity, increased price volatility, credit downgrades, and an increasing probability of default. Consequently, these securities became less liquid, more difficult to value, and potentially harder to dispose of if situations dictate. Although the recession ended in mid-2009, economic and employment growth have remained weak and several sectors, most notably the housing industry, continue to underperform.

The Company's business benefits from steady economic growth. Demand for our products and ultimately the profitability of our business may be adversely affected by anemic economic activity consisting of factors such as lower consumer spending, negative investor sentiment, higher unemployment, lower corporate earnings and business investment, lackluster consumer confidence, and ongoing volatility in capital markets. We may also experience a higher incidence of claims, lapses or surrenders of policies. Our policyholders may opt to defer or stop paying insurance premiums. 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.

Table of Contents

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. Consequently, we are subject to the 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, 2010, approximately 2% of the Company's \$7.3 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.

For the Company's fixed-indexed products, over the counter derivative instruments are purchased from a number of highly rated counterparties to fund the index credit to policyholders. 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 failure of the counterparty to perform could negatively impact the Company's financial strength and reduce the Company's profitability.

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 determination of whether to impair an investment is based upon our evaluation of known and inherent risks which we revise as conditions change and new information becomes available. 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. 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. Our conclusions concerning the recoverability of any particular security's market price could ultimately prove to be invalid as facts and circumstances change. 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.

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. 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 policyholders may surrender their contracts in a rising interest rate environment, requiring the Company to liquidate investments in an unrealized loss position (i.e. the market value less than the carrying value of the investments). 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, especially in the current climate, 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 on short notice during such a period, it may have difficulty selling investments at attractive prices, in a timely manner or both.



Table of Contents

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. A key component of profitability is investment spread, or the difference between the yield on our investments and the rates we credit to policyholders on our products. 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.

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. 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, compensation, home office support and the insurer’s financial strength ratings. The Company’s future sales and financial condition are dependent upon avoiding significant interruptions in attracting and retaining independent broker-agents.

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. Ratings generally reflect the rating agencies’ view of a particular company’s financial strength, operating performance, and ability to meet its obligations to policyholders. However, some of the rating factors often relate to the particular views of the rating agency, their independent economic modeling, the general economic climate, and other circumstances 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 agency could 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. Irrespective, 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.

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 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. Consequently, the Company may encounter additional product pricing pressures and be challenged to maintain profit margin targets and profitability criteria. Because of these competitive presences, the Company may not be able to effectively compete without negative affects on our financial position and results.

We are subject to regulation and changes to existing laws 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.

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. Taxes, if any, are payable on income attributable to a distribution under a policy/contract for the year in which the distribution is made. Periodically, Congress has considered legislation that would reduce or eliminate this tax deferral 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-deferred 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.

On July 21, 2010, the Dodd-Frank Act ("Act") was enacted into law. The Act 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. Certain parts of the Act were effective immediately although the working details of many provisions are subject to additional analysis and will not be known until final rules are adopted by the applicable regulatory agencies. The impact of the Act 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 in the future.

Table of Contents

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 FASB Accounting Standards Codification ("FASB ASC"). 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 Financial Accounting Standards Board ("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. Further, the SEC is deliberating whether and how to incorporate IFRS into the U.S. financial reporting system. The changes to GAAP and the ultimate conversion to IFRS will 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.

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

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, including class action lawsuits, pertaining to allegations of improper sales practices in connection with the sale of life insurance, improper design of products, 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. 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 operation or cash flows in any particular reporting period.

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. 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.

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.

Table of Contents

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.

Deferred policy acquisition costs (and deferred sales inducement amounts) are calculated using a number of assumptions related to policy persistency, mortality and interest rates. 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 expected profits generated by the lines of business that incurred the related expenses and are amortized over the expected lives of the corresponding contracts. 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. Increases in actual or future withdrawals or surrenders or investment losses, often associated with severe economic recessions, could result in an acceleration of amortization. Accordingly, actual results could differ from the related assumptions which could have a material and adverse impact on the Company's operating results.

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, 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.

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; the 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 on development and implementation of new technologies.

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

The Company relies 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. The failure or incapacity of any of the Company's computer systems could disrupt operations and adversely impact our profitability.

The Company retains confidential information on its systems, including customer information and proprietary business 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. 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.



Table of Contents

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 and failure of these systems for any reason could disrupt our operations, result in the loss of business and adversely impact our profitability.

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. 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 Holdings, LLC, completed construction of a 74,000 square foot building in San Marcos, Texas in 2009 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. As discussed below, the Company has been a defendant over the past several years in two 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.

The Company was a defendant in a class action lawsuit initially filed on September 17, 2004, in the Superior Court of the State of California for the County of Los Angeles. The California state court certified a class consisting of certain California policyholders age 65 and older alleging violations under California Business and Professions Code section 17200. The court additionally certified a subclass of 36 policyholders alleging fraud against their agent, and vicariously against the Company. The California Insurance Department intervened in this case asserting that the Company violated California insurance laws. The parties to this case became involved in court-ordered mediation and ongoing negotiations. On February 22, 2010, the Company reported in a Form 8-K filing a settlement agreement with the plaintiffs and plaintiff in intervention providing a settlement benefit of approximately \$17 million as well as approximately \$5 million for legal expenses which were included in the Company's legal accrual provision at December 31, 2009. The settlement agreement was given final court approval at a Fairness Hearing on August 20, 2010. Including attorney's fees, policy benefits and other considerations, the Company paid out approximately \$22.4 million in the third and fourth quarters of 2010.

Table of Contents

The Company is currently a defendant in a second class action lawsuit pending as of June 12, 2006, in the U.S. District Court for the Southern District of California. The case is titled In Re National Western Life Insurance Deferred Annuities Litigation. The complaint asserts claims for RICO violations, Financial Elder Abuse, Violation of Cal. Bus. & Prof. Code 17200, et seq, Violation of Cal. Bus. & Prof. Code 17500, et seq, Breach of Fiduciary Duty, Aiding and Abetting Breach of Fiduciary Duty, Fraudulent Concealment, Cal. Civ. Code 1710, et seq, Breach of the Duty of Good Faith and Fair Dealing, and Unjust Enrichment and Imposition of Constructive Trust. 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 Company believes that it has meritorious defenses in this cause and intends to vigorously defend itself against the asserted claims. No amounts have been provided in the consolidated financial statements of the Company as of December 31, 2010 for this matter.

In addition to the two class action lawsuits described above, the Company is the named defendant in the case of Sheila Newman vs. National Western Life Insurance Company, which alleged mishandling of policyholder funds by an agent. On February 3, 2010, the 415th Judicial District Court of Parker County in Weatherford, Texas, entered a Final Judgment against the Company of approximately \$208,000 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 2nd exemplary damages. The Company is vigorously defending this case and has appealed the Final Judgment to the Court of Appeals in Ft. Worth, Texas. The Company's counsel believes the Final Judgment is inconsistent with current state and federal laws and intends to establish on appeal that it is not liable for Newman's actual or exemplary damages. Further, Company counsel have advised of existing law that governs limits of awards of exemplary damages including: (1) a Texas statute that limits awards of exemplary damages to two times the amount of actual damages, and (2) case law from both the Texas Supreme Court and the United States Supreme Court setting the outer limits of exemplary damages to single-digit ratios between actual and exemplary damages, but usually no more than 3 or 4 times the actual damages. The Company has accrued \$0.6 million at December 31, 2010 for this matter inasmuch as it believes the record shows there is no basis for an award of exemplary damages in excess of these amounts.

In addition to amounts accrued for incurred and unpaid legal fees, the amounts accrued in the financial statements at December 31, 2010 of \$0.6 million for the foregoing lawsuits represent estimates made by the Company based upon current information and are subject to change as facts and circumstances change and develop. 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.

In January 2009, the SEC published its newly adopted Rule 151A, Indexed Annuities and Certain Other Insurance Contracts. This rule defined "indexed annuities to be securities and thus subject to regulation by the SEC under federal securities laws". Currently indexed annuities sold by life insurance companies are regulated by the States as insurance products and Section 3(a)(8) of the Securities Act of 1933 provides an exemption for certain "annuity contracts," "optional annuity contracts," and other insurance contracts. The Company and others subsequently filed suit in the U.S. Court of Appeals for the District of Columbia to overturn this rule, which was scheduled to be effective January 12, 2011. The U.S. Court of Appeals (D.C. Circuit) vacated Rule 151A on July 12, 2010. Further, Congress passed and the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act on July 21, 2010 ("Dodd-Frank Act"). The Dodd-Frank Act treats annuities as exempt under Sec. 3(a)(8) of the Securities Act of 1933 if they meet a three prong test. The Company does not foresee any significant issues in meeting this test. On October 14, 2010, the Securities and Exchange Commission gave notice that it was withdrawing Rule 151A under the Securities Act of 1933, effective as of the date of publication in the Federal Register.



Table of ContentsITEM 4. SUBMISSION OF MATTERS TO A VOTE  
OF SECURITY HOLDERS

No matters were submitted to a vote of the Company's security holders during the fourth quarter of 2010.

## 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 "NWL". 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)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
2010:				
High	\$193.86	194.35	160.19	179.81
Low	148.79	149.10	128.06	142.80
Dividends Declared	-	-	0.36	-
2009:				
High	\$161.80	141.40	181.25	195.98
Low	58.30	108.00	115.45	165.29
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 14, 2011 was as follows:

Class A Common Stock	4,225
Class B Common Stock	2

## Dividends

Class B common stockholders receive dividends at one-half the rate declared on Class A common stock. During 2010, the Company paid cash dividends on its Class A and Class B common stock in the amounts of \$1,234,418 and \$36,000, respectively. During 2009, the Company also paid cash dividends on its Class A and Class B common stock in the amounts of \$1,233,348 and \$36,000, respectively. Payment of dividends is within the discretion of the Company's Board of Directors. 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 95,573 shares of the Company's Class A common stock may be issued upon exercise of the outstanding options at December 31, 2010. The weighted average exercise price of the outstanding options is \$180.43 per option. Excluding the outstanding options, 293,150 shares of Class A common stock remain available for future issuance under the plans at December 31, 2010.

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, 2005, 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.

The following table sets forth the Company's repurchase of its Class A common shares from Option Holders for the quarter ended December 31, 2010.

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, 2010 through October 31, 2010	300	\$ 157.10	N/A	N/A
November 1, 2010 through November 30, 2010	-	-	N/A	N/A
December 1, 2010 through December 31, 2010	119	\$ 169.39	N/A	N/A
<b>Total</b>	<b>419</b>	<b>\$ 160.59</b>	<b>N/A</b>	<b>N/A</b>

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.

	2010	Years Ended December 31,			2006
		2009	2008	2007	
		(In thousands except per share amounts)			
<b>Earnings Information:</b>					
<b>Revenues:</b>					
Life and annuity premiums	\$16,565	17,043	17,752	19,513	15,805
Universal life and annuity contract revenues	127,192	145,651	133,424	119,677	106,320
Net investment income	401,383	393,531	273,362	318,137	379,768
Other income	25,377	17,348	12,769	13,683	17,304
Realized gains (losses) on investments	5,475	(5,167 )	(26,228 )	3,497	2,662
<b>Total revenues</b>	<b>575,992</b>	<b>568,406</b>	<b>411,079</b>	<b>474,507</b>	<b>521,859</b>
<b>Benefits and expenses:</b>					
Life and other policy benefits	52,929	48,997	39,759	41,326	35,241
Amortization of deferred policy acquisition costs	96,449	115,163	127,161	88,413	90,358
Universal life and investment annuity contract interest	266,603	242,816	138,960	164,391	213,736
Other operating expenses	55,448	92,192	55,630	55,130	65,709
<b>Total expenses</b>	<b>471,429</b>	<b>499,168</b>	<b>361,510</b>	<b>349,260</b>	<b>405,044</b>
<b>Earnings before Federal income taxes</b>	<b>104,563</b>	<b>69,238</b>	<b>49,569</b>	<b>125,247</b>	<b>116,815</b>
Federal income taxes	31,666	23,754	15,927	39,876	40,472
<b>Net earnings</b>	<b>\$72,897</b>	<b>45,484</b>	<b>33,642</b>	<b>85,371</b>	<b>76,343</b>
<b>Basic Earnings Per Share:</b>					
Class A	\$20.67	12.90	9.54	24.24	21.69
Class B	\$10.33	6.45	4.77	12.12	10.84
<b>Diluted Earnings Per Share:</b>					
Class A	\$20.61	12.87	9.48	23.95	21.46
Class B	\$10.33	6.45	4.77	12.12	10.84
<b>Balance Sheet Information:</b>					
Total assets	\$8,773,948	7,518,735	6,786,480	6,835,326	6,693,443
Total liabilities	\$7,555,157	6,404,682	5,800,267	5,823,641	5,760,459



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

Stockholders' equity	\$1,218,791	1,114,053	986,213	1,011,685	932,984
Book value per common share	\$335.83	307.24	271.99	279.29	257.67

23

---

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, 2010 follows. This discussion should be read in conjunction with the Company's consolidated financial statements and related notes beginning on page 69 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 acceptable and spread margins over interest crediting rates

investment credit quality which minimizes the risk of default or impairment

levels of policy benefits and costs to acquire business

the level of operating expenses

effect of interest rate changes on revenues and investments including asset and liability matching

maintaining adequate levels of capital and surplus

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 2010, incorporating required disclosures in accordance with the rules and regulations of the Securities and Exchange Commission.

## Table of Contents

### Impact of Recent Business Environment

Economic data has progressively shown signs of improvement over the past several quarters implying ongoing favorable growth at least in the near term. Consumers are benefiting from advancement in their incomes and retail store metrics indicate that consumers are showing an inclination to spend again. Although high relative to historical levels, improving employment data should further encourage consumers providing an additional boost to the economy. One looming cloud on the horizon is energy costs as recent social unrest in oil producing countries in the Middle East has caused oil prices to surpass \$100 a barrel. While substantially below the \$140 top price in 2008, a prolonged episode of energy prices at these levels could provide a drag on economic growth.

Strong economic expansion generally benefits the Company's business. Alternatively, a tepid economic recovery consisting of higher unemployment, lower personal income, muted consumer spending and lackluster corporate earnings and business investment could adversely impact the demand for the Company's products. Household financial income compression may also cause us to experience a higher incidence of claims, lapses or surrenders of policies. It is not possible to predict with certainty whether or when such activity may occur or what impact, if any, such actions could have on the Company's business, results of operations, cash flows or financial condition.

The financial duress in 2008 and 2009 did not have an adverse effect on our annuity line of business. Annuity sales in 2009 increased 106% over the levels attained in 2008. With the green shoots of recovery emerging in 2010, we witnessed annuity sales increase 71% over those of 2009. While there may be many underlying reasons for this expansion in our annuity business, we believe that at least the following factors may explain this outcome: (1) during uncertain economic periods, consumers follow a flight to safety toward lower risk assets such as annuity products; (2) the Company's strong financial position, upgrade in financial strength rating from A.M. Best during 2009 and ample capital resources enhanced our presence in the annuity marketplace with independent distributors and end market consumers; (3) many of the Company's competitors incurred reductions in their capital base due to a deterioration in the quality of their investment portfolios, including investment impairments and losses, which caused them to curtail sales activity and recruitment of independent distribution; and (4) the uncertainty surrounding the potential regulation of fixed-indexed annuities by the SEC was eliminated when the U.S. Court of Appeals vacated the proposed regulation (Rule 151A) and Congress passed the Dodd-Frank Act which exempted annuities under the Securities Act of 1933. Despite these factors and their impact on the growth in the Company's annuity sales, it is unclear what effect ongoing economic and political challenges may have upon future business levels.

The fixed income markets, our primary investment source, have experienced an improvement in fundamental credit quality on the heels of stronger liquidity, improving corporate profitability and modest economic growth. Credit downgrades of fixed income instruments by rating agencies were fairly prevalent during 2008 and 2009. However, credit default rates declined during 2010 and conditions for 2011 are expected to remain favorable. The Company experienced minimal impairment and degradation of quality in its fixed income holdings during the financial crisis and subsequent recovery. There is no certainty that future events may produce the same success in this regard.

The unprecedented low U.S. Treasury yields in 2009 and 2010 combined with tightening credit spreads (difference between bond yields and risk-free interest rates) on fixed maturity securities produced new challenges in managing Company profitability given the resulting "compression" on our interest spreads (difference between the yield on investments and the amounts required to credit on associated policy values). 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 and "quantitative easing" initiatives have served to put upward pressure on longer term interest rates. 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. The Company maintains 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) 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 primarily 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, of the 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, of the 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.

Table of Contents

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

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

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

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

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

## 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.

Table of Contents

## Consolidated Operations

Revenues. The following details Company revenues:

	Years Ended December 31,		
	2010	2009	2008
	(In thousands)		
Universal life and annuity contract charges	\$127,192	145,651	133,424
Traditional life and annuity premiums	16,565	17,043	17,752
Net investment income (excluding derivatives)	384,771	348,186	339,038
Other revenues	25,377	17,348	12,769
Operating revenues	553,905	528,228	502,983
Derivative gain (loss)	16,612	45,345	(65,676 )
Net realized investment gains (losses)	5,475	(5,167 )	(26,228 )
Total revenues	\$575,992	568,406	411,079

Universal life and annuity contract revenues - Revenues for universal life and annuity contract revenues decreased 12.7% in 2010 compared to 2009 primarily due to lower surrender charges collected as a result of improved persistency of its business in force. Revenues for these products consist of policy charges for the cost of insurance, administration charges, and surrender charges assessed against policyholder account balances, less reinsurance premiums.

Contract Revenues:	Years Ended December 31,		
	2010	2009	2008
	(In thousands)		
Cost of insurance and administrative charges	\$110,864	109,259	107,896
Surrender charges	35,897	50,000	39,155
Other charges	32	4,578	3,959
Gross contract revenues	146,793	163,837	151,010
Reinsurance premiums	(19,021 )	(18,186 )	(17,586 )
Net contract revenues	\$127,772	145,651	133,424

Cost of insurance charges were \$86.4 million in 2010 compared to \$83.6 million in 2009 and \$82.9 million in 2008. 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 resulting primarily from international sales. Administrative charges were \$24.5 million, \$25.4 million and \$25.0 million for the years ended December 31, 2010, 2009 and 2008, respectively, and correlate with new life insurance business sales both in number of policies placed as well as the volume of insurance issued. Surrender charges assessed against policyholder account balances upon withdrawal were \$35.9 million in 2010 compared to \$50.0 million in 2009 and \$39.1 million in 2008. 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.



Table of Contents

Traditional life and annuity premiums - Traditional life and annuity premiums decreased 2.8% in 2010 compared to 2009. 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 indexed universal life products which offer the opportunity for consumers to acquire life insurance protection and receive credited interest linked in part to an outside market index such as the S&P 500 Index®, have been more popular product offerings in the Company's markets.

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

	Years Ended December 31,		
	2010	2009	2008
	(In thousands)		
Gross investment income:			
Debt securities	\$363,486	332,207	321,234
Mortgage loans	9,192	6,346	7,223
Policy loans	5,352	5,901	6,096
Short-term investments	631	116	956
Other invested assets	8,490	6,982	5,934
Total investment income	387,151	351,552	341,443
Less: investment expenses	2,380	3,366	2,405
Net investment income (excluding derivatives)	384,771	348,186	339,038
Derivative gain (loss)	16,612	45,345	(65,676)
Net investment income	\$401,383	393,531	273,362

Debt securities generated approximately 92.6% of total investment income, excluding derivative gains and losses, in 2010. 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 a record year in annuity sales, the Company experienced substantial cash flow for investing in debt securities which caused the portfolio to grow from \$6.2 billion at December 31, 2009 to nearly \$7.4 billion at December 31, 2010. Despite the growth in the debt security portfolio, a lower interest rate level during 2010, as evidenced by long-term U.S. Treasury rates, combined with tightening spreads of corporate securities over U.S. Treasury rate levels resulted in lower yields on new purchases. The yield on debt security purchases to fund insurance operations declined to 4.45% in 2010 from 5.92% in 2009.

In the midst of the financial crisis during 2008 liquidity in the credit market was significantly affected. This illiquidity, along with a concern for accelerated withdrawals and surrenders by policyholders, prompted the Company to maintain higher levels of cash and short-term investments than is typical. By 2009, the fear caused by the financial meltdown began to abate resulting in improved conditions in credit markets and less of a concern for premature policyholder withdrawals and surrenders. However, the decrease in short-term investment income in 2009 is not the result of holding lower levels of cash and short-term investments as much as it is to the very low interest rates available on money market funds during all of 2009. During 2010, the Company employed a strategy of investing short-term funds in alternative investment vehicles which yielded incremental interest income.

Although there was more activity in mortgage loan lending in 2010, the Company's mortgage loan and policy loan balances outstanding have remained relatively stable over the past few years. Interest income earned on other invested

assets increased due to new investments in collateralized loans made during the second half of 2010.

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 performance is summarized as follows:

	Years Ended December 31,		
	2010	2009	2008
	(In thousands except percentages)		
<b>Excluding derivatives:</b>			
Net investment income	\$384,771	348,186	339,038
Average invested assets, at amortized cost	\$6,899,013	5,955,824	5,680,943
Yield on average invested assets	5.58	% 5.85	% 5.97
			%
<b>Including derivatives:</b>			
Net investment income	\$401,383	393,531	273,362
Average invested assets, at amortized cost	\$6,975,806	5,984,069	5,732,694
Yield on average invested assets	5.75	% 6.58	% 4.77
			%

The declination in average invested asset yield, excluding derivatives, from 2008 to 2009 and to 2010 is due to the Company obtaining lower yields on newly invested cash inflows. As described above, the Company invests substantially most of its net cash flows in debt securities whose yields have declined during this period. The pattern in average invested asset yield, including derivatives, reflects increases and decreases in the fair value of index options purchased by the Company to support its fixed-indexed products. Fair values of the purchased call options increased markedly in 2009 due to the recovery in the equity markets. Although not as dramatic, fair values of options purchased during 2010 generally experienced favorable increases. 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 \$22.9 million, \$15.7 million and \$12.5 million in 2010, 2009 and 2008, respectively. The San Marcos nursing home began operations during the middle of calendar year 2009 contributing to the revenue growth incurred during the three year period. Other revenues also include \$1.5 million received during 2010 in relation to investment security lawsuit settlements.

**Derivative gain (loss)** - Index options are derivative financial instruments used to hedge the equity return component of the Company's fixed-indexed products. Income or loss from the sale or expiration of the options, as well as period-to-period changes in fair values, are reflected as a component of net investment income.

Income and losses from index options are due to 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 causes option values to likewise rise or decline. The Company does not elect hedge accounting relative to these derivative instruments. As income from index options fluctuates with the underlying index, the contract interest expense to policyholder accounts for the Company's fixed-indexed products also fluctuates in a similar manner and direction. In 2010 and 2009, the reference indices increased and the Company recorded index option gains and an increase in contract interest expenses. In 2008, the reference indices decreased resulting in a loss from index options and a reduction in contract interest expenses.

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

	Years Ended December 31,		
	2010	2009	2008

(In thousands)

## Derivatives:

Unrealized gain (loss)	\$(22,167 )	93,085	(17,480 )
Realized gain (loss)	38,779	(47,740 )	(48,196 )
Total gain (loss) included in net investment income	\$16,612	45,345	(65,676 )
Total contract interest	\$266,603	242,816	138,960



Table of Contents

Net realized investment gains (losses) - Realized gains (losses) on investments include impairment write-downs on real estate and investments in debt securities as well as valuation allowances recorded on mortgage loans. The net investment gains reported in 2010 consisted of gross gains of \$6.9 million, primarily from calls and sales of debt securities, offset by gross losses of \$1.4 million, which includes other-than-temporary impairment losses.

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 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,		
	2010	2009	2008
	(In thousands)		
Impairment or valuation write-downs:			
Debt securities	\$670	5,105	21,803
Equities	59	416	5,412
Mortgage loans	387	1,461	1,020
Real estate	178	-	-
	\$1,294	6,982	28,235

Debt security impairments in 2010 primarily include 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. Debt security impairments in 2009 and 2008 included similar impairment write-downs on certain asset-backed securities in addition to impairment losses on several corporate debt securities.

Equity impairments represent mark-to-market write-downs on various equity holdings. The Company's practice is to impair equity security holdings whose market value declines more than 50% below their cost basis. The equity write-down in 2008 includes Fannie Mae and Freddie Mac preferred stock impairments of \$4.6 million.

The mortgage loan valuation write-down in 2010 principally involves a New Orleans, Louisiana property whose value was negatively impacted by Hurricane Katrina. The write-down reflects an adjustment to a newly provided appraisal of the property. The mortgage loan valuation write-down in 2009 relates to a property located in Steubenville, Ohio. The Company accepted a deed in lieu of foreclosure on this property during 2010 and converted the loan to foreclosed real estate as of December 31, 2010. The mortgage loan write-down in 2008 principally involves a property located in Fort Smith, Arkansas. The Company subsequently foreclosed on this property during 2009 and converted the loan to foreclosed real estate. The real estate valuation write-down principally pertains to this Fort Smith property. The Company had a letter of intent to sell the property at December 31, 2010 and adjusted the carrying value associated with the offer. The Company subsequently sold the property in January 2011.

Benefits and Expenses. The following details benefits and expenses.

	Years Ended December 31,		
	2010	2009	2008
	(In thousands)		
Life and other policy benefits	\$52,929	48,997	39,759
Amortization of deferred policy acquisition costs	96,449	115,163	127,161

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

Universal life and annuity contract interest	266,603	242,816	138,960
Other operating expenses	55,448	92,192	55,630
Totals	\$471,429	499,168	361,510

Table of Contents

Life and other policy benefits - Life and other policy benefits include death claims of \$32.9 million, \$30.2 million and \$29.6 million for 2010, 2009 and 2008, 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. In January 2010, the country of Haiti, where the Company is licensed to sell its products, sustained a severe earthquake in its major city of Port-au-Prince. Death claims received by the Company as a result of this incident approximated \$3.1 million after reinsurance and are included in life and other policy benefits for 2010. In February 2010, an earthquake occurred in the country of Chile whose residents include policyholders of the Company. No death claims were received as a result of this incident.

The Company has been implementing new actuarial reserving systems the past several years that will enhance its ability to provide estimates used in establishing future policy liabilities, monitor the deferred acquisition costs and deferred sales inducement assets as well as support other actuarial processes within the Company. The Company has been installing a vendor software product for use in calculating the GAAP reserve liability for future policy benefits of its products. The vendor system provides actuarial formula calculations producing refined estimates of reserves in accordance with GAAP. The previous reserving system produced estimated liabilities on state regulated actuarial formulas which were supplemented with adjustments in order to produce GAAP reserve estimates. The Company elected to purchase and install the new reserving system as growth in its lines of businesses created a need for more refined and controlled actuarial reserve computations in accordance with GAAP. The implementation of these new reserving systems for specific blocks of business began in the second quarter of 2009 and is expected to be completed in 2011. As the Company applies these new systems to a line of business, current reserving assumptions are reviewed and updated as appropriate. During the year ended December 31, 2009, loss recognition testing was performed on certain products that were converted to the new reserving system. As a result of the loss recognition testing, unlocking of historical assumptions resulted in an increase of \$11.6 million in reserves and policy benefit expenses. Specifically, the Company unlocked assumptions for discount interest rates which accounted for \$7.8 million of the increase as well as mortality assumptions which accounted for the remaining \$3.8 million.

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 and sales inducements. The Company defers sales inducements in the form of first year interest bonuses on annuity and universal life 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. 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, unearned revenue liabilities, and deferred sales inducement assets upon internal replacement of certain contracts as well as annuitizations of deferred annuities.

In addition to the preceding, the Company is implementing new actuarial reserving systems that enhance its ability to monitor the deferred acquisition cost asset and the deferred sales asset as well as support other actuarial processes within the Company. The implementation of these new reserving systems for specific blocks of business began in the third quarter of 2009 and is expected to be completed in 2011. As the Company applies these new systems to a line of

business, current reserving assumptions are reviewed and updated as appropriate.

Table of Contents

The following table identifies the effects of unlocking and true-up adjustments on DPAC balances recorded through amortization expense for 2010, 2009 and 2008.

Increase (Decrease) in DPAC Balance	Years Ended December 31,		
	2010	2009	2008
	(In thousands)		
Unlocking	\$ (2,700 )	( 5,243 )	( 6,300 )
True-up	( 4,117 )	( 8,433 )	( 16,200 )
Totals	\$ (6,817 )	( 13,676 )	( 22,500 )

During the first quarter of 2010 a correction was made to a surrender charge assumption for future years on one deferred annuity product line. This change resulted in an unlocking adjustment that increased the current period's DPAC amortization expense (decreased DPAC balance) by \$2.7 million. As the amount of the correction was determined to have occurred over the course of multiple previously reported periods, it was concluded that the amount of the correction was immaterial to the financial results reported in any of these periods, as well as the current period.

An unlocking adjustment was recorded in the fourth quarter of 2009 which resulted in an increase of amortization of \$5.2 million. This unlocking adjustment was based upon changes to future mortality assumptions reflecting current experience studies and assumption changes regarding the level of future policy maintenance expenses. Mortality experience is monitored regularly and future mortality assumptions are unlocked when a continued trend in actual mortality experience deviates from current assumptions and is expected to continue. Although not a prediction of future impact, prior period mortality assumption unlocking experience of the Company has resulted in changes of the DPAC balance between \$2.0 million and \$(7.5) million in the period of the unlocking. Policy maintenance expenses are also reviewed regularly and future assumptions are unlocked when a continued trend in the actual policy maintenance expense deviates from the current assumptions. Although not a prediction of the impact of future changes in policy maintenance expense assumptions, similar unlocking of maintenance expense assumptions could result in DPAC balance changes between \$1.5 million and \$4.5 million. The Company did not unlock for assumption changes regarding future mortality or the level of policy maintenance expenses during 2010.

An unlocking adjustment was also recorded in 2008 which resulted in an increase of amortization by \$6.3 million. This unlocking adjustment was based upon assumption changes to future annuitizations and full surrenders reflecting current experience studies. While the Company is required to evaluate its emergence of profits continually, management believes that the current amortization patterns of deferred policy acquisition costs are reflective of actual experience. The Company is required to periodically adjust for actual experience that varies from that assumed.

True-up adjustments are recorded quarterly and the adjustments in 2010, 2009 and 2008 relate to changes in expense ratios, partial surrender rates, mortality rates, credited interest rates and earned rates for the current year's experience.

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:

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

	December 31,						December 31,					
	2010		2009		2008		2010		2009		2008	
	(Excluding equity-indexed products)						(Including equity-indexed products)					
Annuity	3.23	%	2.83	%	3.01	%	3.93	%	4.11	%	2.42	%
Interest sensitive life	4.01	%	3.80	%	3.92	%	5.25	%	6.83	%	3.39	%

Table of Contents

Contract interest including equity-indexed products also encompasses the performance of the derivative component of the Company's equity-indexed products. As previously noted, the market performance of these derivative features resulted in net realized and unrealized gains of \$16.6 million and \$45.3 million in 2010 and 2009, respectively, and net realized and unrealized losses of \$65.7 million in 2008. Contract interest in 2010 also includes \$16.7 million of policy credits added in conjunction with the settlement of a class action lawsuit. See additional comments in "Other Operating Expenses" below.

Other operating expenses - Other operating expenses consist of general administrative expenses, licenses and fees, commissions not subject to deferral, nursing home expenses and share based compensation costs. As discussed in Item 3 Legal Proceedings, during 2009 the Company recorded additional operating expense of \$22.4 million related to an accrual for pending legal matters involving a class action lawsuit. At the time of the accrual, the characteristics of an ultimate payout amount could not be determined. During 2010, the Company settled the lawsuit which resulted in the Company decreasing operating expense by \$16.7 million and reclassifying the amount as annuity contract interest. As the amount had been entirely accrued, there was no net effect on pretax earnings but produced a reduction in other operating expense in the 2010 results.

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 \$2.6 million in 2010 and \$2.1 million in 2009.

Nursing home operation expenses were \$20.1 million, \$15.1 million and \$11.4 million in 2010, 2009 and 2008, respectively. The increase in nursing home expenses reflects the commencement of operations for the San Marcos, Texas facility during the second quarter of 2009.

Share based compensation costs for the Company's stock option plans related to outstanding vested and unvested stock options totaled \$(0.1) million in 2010, \$1.6 million in 2009 and \$(1.4) million in 2008 as a result of marking the stock options to fair value under the liability method of accounting. The fluctuation in expense for the Company's stock option plans largely reflects the market price change in the Company's Class A common stock as of the reporting dates.

Table of Contents

## Segment Operations

## Summary of Segment Earnings

A summary of segment earnings from continuing operations for the years ended December 31, 2010, 2009 and 2008 is provided below. The segment earnings exclude realized gains and losses on investments, net of taxes.

	Domestic Life Insurance	International Life Insurance	Annuities (In thousands)	All Others	Totals
Segment earnings (loss):					
2010	\$(912 )	21,722	34,316	14,212	69,338
2009	426	14,663	25,460	8,294	48,843
2008	717	15,350	27,842	6,781	50,690

## 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,		
	2010	2009	2008
	(In thousands)		
Premiums and other revenue:			
Premiums and contract charges	\$27,622	34,414	27,919
Net investment income	17,226	19,498	20,254
Other revenues	167	25	20
Total premiums and other revenue	45,015	53,937	48,193
Benefits and expenses:			
Life and other policy benefits	13,484	13,884	14,478
Amortization of deferred policy acquisition costs	9,352	16,423	12,416
Universal life insurance contract interest	10,643	9,014	9,171
Other operating expenses	12,839	13,968	11,057
Total benefits and expenses	46,318	53,289	47,122
Segment earnings (loss) before Federal income taxes	(1,303 )	648	1,071
Federal income taxes (benefit)	(391 )	222	354
Segment earnings (loss)	\$(912 )	426	717



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,		
	2010	2009	2008
	(In thousands)		
Universal life insurance revenues	\$26,787	32,993	26,978
Traditional life insurance premiums	5,960	6,378	5,849
Reinsurance premiums	(5,125 )	(4,957 )	(4,908 )
<b>Totals</b>	<b>\$27,622</b>	<b>34,414</b>	<b>27,919</b>

The Company's domestic life insurance sales have been declining since 2008 (refer to the collected premium analysis below) resulting in lower universal contract revenue charges from new business. In addition, the pace of new policies issued has lagged the number of policies terminating from death or surrender causing a declining level of insurance in force from which contract charge revenue is received. The number of domestic life insurance policies has declined from 73,500 at December 31, 2008 to 69,700 at December 31, 2009 and to 66,000 at December 31, 2010.

As noted above, universal life insurance revenues include surrender charge fees assessed upon surrender of life insurance contracts. The increase in universal life insurance revenues during 2009 is primarily due to a higher level of surrender charge fees assessed. During the latter part of 2008, the Company's internal checking and monitoring procedures detected potential instances of rebating in certain geographic markets and instituted commission caps and other preventative procedures to discourage this practice. Although not illegal in these markets, the practice of rebating is particularly prone to large face amount policies not renewing premium payments beyond the initial year of the policy. The level of 2009 surrender charge fee revenues reflects some of this activity.

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,		
	2010	2009	2008
	(In thousands)		
Universal life insurance:			
First year and single premiums	\$11,672	13,640	15,272
Renewal premiums	21,025	21,978	19,948
<b>Totals</b>	<b>\$32,697</b>	<b>35,618</b>	<b>35,220</b>

The Company's efforts over the past several years have been to attract new independent agents and to promote life products to improve domestic life sales. However, recent economic events continue to have an adverse effect on new life sales as the number of new applications received has been lower the past two years.

Net investment income for this segment of business has decreased during the three years presented due to a lower level of investments needed to support active policies as a result of the decline in insurance in force. In addition, lower

investment yields attained from debt security investment purchases has contributed to a lower level of investment income.

Table of Contents

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 2008, 2009 and 2010.

Increase (Decrease) in DPAC Balance	Years Ended December 31,		
	2010	2009	2008
	(In thousands)		
Unlocking	\$-	(2,709 )	-
True-up	(573 )	(1,846 )	(1,400 )
Totals	\$(573 )	(4,555 )	(1,400 )

The unlocking adjustment in 2009 was made to adjust future assumptions concerning per policy maintenance expenses and mortality and accordingly increased DPAC amortization expense by \$2.7 million during the period.

## International Life Insurance Operations

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

	Years Ended December 31,		
	2010	2009	2008
	(In thousands)		
Premiums and other revenue:			
Premiums and contract charges	\$98,092	104,016	97,661
Net investment income	38,667	44,540	17,350
Other revenues	358	68	62
Total premiums and other revenue	137,117	148,624	115,073
Benefits and expenses:			
Life and other policy benefits	29,228	19,522	21,292
Amortization of deferred policy acquisition costs	21,828	41,849	37,525
Universal life insurance contract interest	36,369	45,868	16,803
Other operating expenses	18,651	19,048	16,502
Total benefits and expenses	106,076	126,287	92,122
Segment earnings before Federal income taxes	31,041	22,337	22,951
Federal income taxes	9,319	7,674	7,601
Segment earnings	\$21,722	14,663	15,350



Table of Contents

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,		
	2010	2009	2008
	(In thousands)		
Universal life insurance revenues	\$101,390	106,601	98,458
Traditional life insurance premiums	13,454	13,113	14,727
Reinsurance premiums	(16,752 )	(15,698 )	(15,524 )
<b>Totals</b>	<b>\$98,092</b>	<b>104,016</b>	<b>97,661</b>

The Company's international life operations have been a significant factor in the Company's overall earnings performance and represent a market niche where the Company believes it has a competitive advantage. A productive distribution force of independent broker agents and consultants has been developed given the Company's longstanding reputation for supporting its international life products coupled with the instability of competing companies in international markets. In general, universal life revenues and operating earnings are anticipated to emerge with the amount of international life insurance in force. Over the past three years, the volume of insurance in force has grown from \$15.9 billion at December 31, 2008 to \$16.2 billion at December 31, 2009 and over \$17.3 billion at December 31, 2010.

International universal life revenues also include surrender charges assessed upon surrender of contracts by policyholders. In the midst of the financial crisis the past few years, 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 in force. During 2009, the Company incurred higher termination experience than is typical which resulted in recognition of increased surrender charge fee income. 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, 2010	\$293.4	9.0	%
Year ended December 31, 2009	574.9	13.0	%
Year ended December 31, 2008	363.3	10.8	%
Year ended December 31, 2007	252.1	10.2	%
Year ended December 31, 2006	206.7	10.8	%

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

	Years Ended December 31,		
	2010	2009	2008
	(In thousands)		
Universal life insurance			

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

First year and single premiums	\$36,628	35,147	39,257
Renewal premiums	110,358	102,403	96,456
Totals	\$146,986	137,550	135,713

Table of Contents

The Company's most popular international products have been its fixed-indexed universal life products in which policyholders 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®. Included in the totals in the above table are collected related premiums of \$90.2 million, \$81.9 million and \$78.5 million for the years ended 2010, 2009 and 2008, respectively, associated with these fixed-indexed products.

To support the index crediting rate feature on its fixed-indexed universal life products the Company purchases S&P 500 Index® call options. With the growth in the block of business of these policies, the period-to-period changes in fair values of the underlying options used to hedge this interest crediting feature 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,		
	2010	2009	2008
	(In thousands)		
Net investment income (excluding derivatives)	\$36,205	34,130	28,687
Derivative gain (loss)	2,462	10,410	(11,337 )
Net investment income	\$38,667	44,540	17,350

Life and policy benefits primarily consist of death claims on policies. The Company's clientele for international products are wealthy individuals with access to U.S. dollars and quality medical care. Consequently, the amounts of coverage purchased tend to be larger amounts. In the year ended December 31, 2010, the average face amount of insurance purchased was approximately \$339,000. Life and policy benefit expense for the international life segment reflects the larger policies purchased. In addition, the expense shown for 2010 includes death claims of approximately \$3.1 million, after reinsurance, associated with the Haiti earthquake in January 2010.

As noted previously, 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 2010, 2009 and 2008.

Increase (Decrease) in DPAC Balance	Years Ended December 31,		
	2010	2009	2008
	(In thousands)		
Unlocking	\$-	(2,535 )	-
True-up	2,910	(1,530 )	(3,700 )
Totals	\$2,910	(4,065 )	(3,700 )

In 2010, the Company did not record any additional amortization expense related to the unlocking of assumptions. In addition, true-up adjustments were recorded during the year which increased the DPAC balance (decreasing amortization expense) reflecting actual experience improvements over assumptions. In 2009, the Company recorded an unlocking adjustment of \$2.5 million relative to changes in projected universal life per policy maintenance expenses and projected mortality assumptions that reduced the DPAC asset and increased amortization expense.

As indicated in the discussion concerning net investment income, contract interest expense includes fluctuations that are the result of underlying equity indices performance associated with fixed-indexed 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 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,		
	2010	2009	2008
	(In thousands)		
Premiums and other revenue:			
Premiums and contract charges	\$18,043	24,264	25,596
Net investment income	327,975	317,703	226,683
Other revenues	2,002	1,535	232
<b>Total premiums and other revenue</b>	<b>348,020</b>	<b>343,502</b>	<b>252,511</b>
Benefits and expenses:			
Life and other policy benefits	10,217	15,666	3,990
Amortization of deferred policy acquisition costs	65,269	56,891	77,219
Annuity contract interest	219,591	187,934	112,986
Other operating expenses	3,905	44,227	16,685
<b>Total benefits and expenses</b>	<b>298,982</b>	<b>304,718</b>	<b>210,880</b>
<b>Segment earnings before Federal income taxes</b>	<b>49,038</b>	<b>38,784</b>	<b>41,631</b>
<b>Federal income taxes</b>	<b>14,722</b>	<b>13,324</b>	<b>13,789</b>
<b>Segment earnings</b>	<b>\$34,316</b>	<b>25,460</b>	<b>27,842</b>

Premiums and contract charges primarily include surrender charge income with lesser amounts for recognition of deferred revenues relating to immediate or payout annuities.

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,		
	2010	2009	2008
	(In thousands)		
Fixed-indexed annuities	\$900,301	488,352	281,649
Other deferred annuities	510,332	325,959	121,319
Immediate annuities	20,378	23,266	7,165
<b>Totals</b>	<b>\$1,431,011</b>	<b>837,577</b>	<b>410,133</b>

Fixed-indexed 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-indexed products

provide an important alternative to the Company's existing fixed interest rate annuity products. Fixed-indexed annuity deposits as a percentage of total annuity deposits were 63%, 58% and 69% for the years ended December 31, 2010, 2009 and 2008, respectively. The recovery in equity markets that began during 2009 did not manifest itself in terms of increased fixed-indexed sales until the latter part of 2009. Consequently, while 2010 total collected annuity deposits increased 71% over the level in 2009, fixed-indexed sales increased by 84% during the same time period. Other deferred annuity deposits increased 57% in 2010 compared to 2009.

Table of Contents

As a selling inducement, many annuity products include a first year premium or interest rate bonus in addition to the base first year deposit interest rate. These bonuses are credited to the policyholder account but are deferred by the Company and amortized over future periods. The amount deferred was approximately \$51.1 million, \$36.8 million and \$19.5 million for the years ended December 31, 2010, 2009 and 2008, respectively.

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

	Years Ended December 31,		
	2010	2009	2008
	(In thousands)		
Net investment income (excluding derivatives)	\$314,214	284,149	279,925
Derivative gain (loss)	13,761	33,554	(53,242 )
Net investment income	\$327,975	317,703	226,683

As previously described, derivatives are call options purchased to hedge the equity return component of the Company's fixed-indexed 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. Generally, a comparable impact for the derivative component in fixed-indexed annuity products is reflected in contract interest expense.

Life and policy benefits for the annuity segment includes reserves established for contracts in a payout mode with or without life contingencies. The new actuarial reserving systems that the Company has been implementing included this block of policies and they were converted to the new reserving system during 2009. As a part of this process historical assumptions pertaining to interest rates and mortality assumptions were "unlocked" for the block of policies resulting in an increase of \$11.6 million in reserves and policy benefit expenses in 2009. As the Company's block of annuity business grows more contracts convert to a payout status and the 2010 amount reflects the reserves established for those policies.

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 2008, 2009 and 2010.

Increase (Decrease) in DPAC Balance	Years Ended December 31,		
	2010	2009	2008
	(In thousands)		
Unlocking	\$(2,700 )	-	(6,300 )
True-up	(6,454 )	(5,056 )	(11,100 )
Totals	\$(9,154 )	(5,056 )	(17,400 )

During 2010 the Company unlocked for a change in projected surrender charge rates on certain fixed rate annuities that reduced DPAC (and increased amortization expense) by \$2.7 million. During 2008, the Company unlocked surrender rates, including annuitizations, for certain issue years of fixed rate annuities which decreased the DPAC balance (and increased amortization expense) by \$6.3 million. Unlocking was not done during the year ended December 31, 2009.

True-up adjustments for year ended December 31, 2008 of \$11.1 million were higher than historical levels. During this period, in addition to recurring true-up adjustments for contract surrenders and partial withdrawal activity, the Company made adjustments to reflect rapidly changing portfolio investment yields and crediting rates in the wake of the bottoming out of market interest rate levels.

Table of Contents

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

	Years Ended December 31,		
	2010	2009	2008
	(In thousands)		
Fixed-indexed annuities	\$153,331	150,062	42,224
All other annuities	95,353	60,891	74,596
Gross contract interest	248,684	210,953	116,820
Bonus interest deferred and capitalized	(51,089 )	(36,747 )	(19,442 )
Bonus interest amortization	21,996	13,728	15,608
Total contract interest	\$219,591	187,934	112,986

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. Contract interest in 2010 includes an additional \$16.7 million for policy credits as part of the settlement of a class action lawsuit. This amount had been provided for in 2009 financial results but as an operating expense accrual since the character of the settlement amount was not known at that time. Accordingly, a reclassification was made in the 2010 consolidated financial statements to report the amounts as contract interest with a corresponding reduction in other operating expenses. Contract interest in 2008 includes an additional \$3.5 million for increased amortization of bonus interest (deferred sales inducements) associated with updates for future expected gross profit assumptions.

Other operating expenses in 2009 and 2010 are skewed for the class action lawsuit settlement accrual in 2009 of \$22.4 million of which \$16.7 million was reversed out of other operating expenses in 2010 and reported as contract interest.

## Other Operations

National Western'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 \$2.8 million, \$0.8 million and \$1.1 million of operating earnings in 2010, 2009, and 2008, respectively, reflecting the commencement of operations of the San Marcos facility in the middle of calendar year 2009. Income from the Company's subsidiaries includes gross income distributions from a life interest in a trust approximating \$4 million per year.

## 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, 2010 and 2009. The Company emphasizes investment grade debt securities, with smaller holdings in mortgage loans and policy loans.

	December 31, 2010		December 31, 2009	
	Carrying Value (In thousands)	%	Carrying Value (In thousands)	%
Debt securities	\$7,352,393	95.6	\$6,212,726	95.2
Mortgage loans	141,247	1.8	98,200	1.5
Derivatives, index options	80,284	1.0	89,915	1.4
Policy loans	78,448	1.0	78,336	1.2
Real estate	20,088	0.3	20,056	0.3
Equity securities	15,230	0.2	14,014	0.2
Other	9,481	0.1	12,773	0.2
<b>Totals</b>	<b>\$7,697,171</b>	<b>100.0</b>	<b>\$6,526,020</b>	<b>100.0</b>

The Company's investment portfolio increased 18% to \$7.7 billion at December 31, 2010 compared to \$6.5 billion at December 31, 2009 due to positive cash flows from operating and financing activities. The primary driver of the increase was the record annuity sales year in 2010 with over \$1.4 billion in deposits collected. Although lesser in scope, the increase in investments includes improved security fair market values as a result of a decline in interest rates and, to a smaller extent, credit spread tightening. The unrealized gain position of the Company's securities available for sale portfolio, which is reported at fair market value, increased from \$82.7 million at December 31, 2009 to \$168.5 million at December 31, 2010.

## 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, 2010		December 31, 2009	
	Carrying Value (In thousands)	%	Carrying Value (In thousands)	%
Corporate	\$3,559,508	48.4	\$2,921,425	47.0
Mortgage-backed securities	2,141,867	29.1	1,967,303	31.7
Public utilities	1,077,314	14.7	964,390	15.5
States & political subdivisions	331,731	4.5	159,364	2.6
U.S. Agencies	154,265	2.1	103,176	1.7
Asset-backed securities	64,878	0.9	73,872	1.2
Foreign governments	20,921	0.3	21,280	0.3
U.S. Treasury	1,909	0.0	1,916	0.0

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

Totals	\$7,352,393	100.0	\$6,212,726	100.0
--------	-------------	-------	-------------	-------



Table of Contents

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 provides an appropriate strategy for managing cash flows. Debt securities purchased to fund insurance company operations are summarized below.

	Year Ended December 31			
	2010		2009	
	(Dollars in Thousands)			
Cost of acquisitions	\$	1,559,154	\$	847,847
Average S&P quality		AA-		A
Effective annual yield		4.45 %		5.92 %
Spread to treasuries		1.35 %		2.67 %
Effective duration		6.8 years		6.8 years

The effective annual yield shown is the yield calculated to the "worst-call date". For callable bonds, the worst-call date is the call or maturity date that produces the lowest yield.

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, 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 98.0% 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, 2010		December 31, 2009	
	Carrying Value	%	Carrying Value	%
	(In thousands)		(In thousands)	
AAA and U.S. government	\$2,452,648	33.4	\$2,183,561	35.2
AA	551,572	7.5	360,634	5.8
A	1,722,300	23.4	1,461,055	23.5
BBB	2,482,373	33.7	2,052,193	33.0
BB and other below investment grade	143,500	2.0	155,283	2.5

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

Totals	\$7,352,393	100.0	\$6,212,726	100.0
--------	-------------	-------	-------------	-------

45

---

Table of Contents

As National Western does not purchase 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 summarized below.

	Below Investment Grade Debt Securities				
	Amortized	Carrying	Fair Value	% of Invested	
	Cost	Value		Assets	
	(In thousands except percentages)				
December 31, 2010	\$ 136,076	143,500	139,306	1.9	%
December 31, 2009	\$ 155,110	155,283	141,895	2.4	%

The Company's percentage of below investment grade securities compared to total invested assets decreased from 2009 due to issues held being upgraded to investment grade levels during the year as the economic environment prompted rating agencies to revise their credit outlooks. The Company's holdings of below investment grade securities is relatively small as a percentage of total invested assets and is low compared to industry averages.

Holdings in below investment grade securities by category as of December 31, 2010 are summarized below, including 2010 and 2009 fair values for comparison. The Company is continually monitoring developments in these industries that may affect security valuation issues.

Industry Category	Below Investment Grade Debt Securities			
	Amortized	Carrying	Fair Value	Fair Value
	Cost 2010	Value 2010	2010	2009
	(In thousands)			
Retail	\$ 19,879	23,230	23,230	20,478
Telecommunications	5,691	9,050	9,050	10,600
Asset-backed securities	12,997	13,640	13,738	11,452
Mortgage-backed	9,381	8,607	8,607	6,740
Transportation	-	491	491	1,739
Manufacturing	22,045	22,581	22,680	31,306
Banking/finance	54,264	54,275	49,789	47,268
Other	11,819	11,626	11,721	10,175
Totals	\$ 136,076	143,500	139,306	139,758

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.

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.

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, 2010, approximately 31% 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.

Table of Contents

	Fair Value	December 31 ,2010 Amortized Cost (In thousands)	Unrealized Gains
Securities held to maturity:			
Debt securities	\$ 5,259,332	4,977,516	281,816
Securities available for sale:			
Debt securities	2,374,877	2,215,524	159,353
Equity securities	15,230	6,055	9,175
Totals	\$ 7,649,439	7,199,095	450,344

During the twelve months ended December 31, 2010 the Company recorded other-than-temporary impairment credit related write-downs on debt securities totaling \$0.7 million and \$0.1 million on equity securities. See Note 3, Investments Debt and Equity Securities, of the accompanying consolidated financial statements for further discussion.

As of April 1, 2009, the Company adopted the GAAP guidance on the recognition and accounting for other-than-temporary impairments due to credit loss versus non-credit losses. See Note 1, Summary of Significant Accounting Policies, and Note 3, Investments, in the accompanying consolidated financial statements for further discussion. Since adoption of this new guidance, the Company recognized \$8.7 million of other-than-temporary impairments; of which \$0.3 million was deemed credit related and recognized as realized investment losses in earnings, and \$8.4 million was deemed a non credit related impairment and recognized in other comprehensive income.

#### Asset-Backed Securities

The Company holds approximately \$64.9 million in asset-backed securities as of December 31, 2010. This portfolio includes \$30.1 million of manufactured housing bonds and \$34.8 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

The Company holds one Alt-A security with a carrying value of \$4.1million. The Alt-A sector is a sub-sector of the jumbo prime MBS sector. The average FICO for an Alt-A borrower is approximately 715 compared to a score of 730 for a jumbo prime borrower. The Company's exposure to the Alt-A and subprime sectors is limited to investments in the senior tranches of structured securities collateralized by Alt-A or 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 show signs of stabilizing. There was an improvement in the prices of subprime securities as the bond market also became more liquid. All of the loans classified as Alt-A or subprime in the Company's portfolio as of December 31, 2010 were underwritten prior to 2005 as noted in the table below.

Investment Origination Year	December 31, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)			
<b>Subprime:</b>				
1998	\$8,070	8,025	10,776	8,467
2002	480	576	469	469
2003	4,286	4,197	4,608	3,664
2004	21,941	21,043	21,808	19,404
Subtotal subprime	\$34,777	33,841	37,661	32,004
<b>Alt A:</b>				
2004	\$4,056	4,056	3,626	3,626

As of December 31, 2010, 8 of the subprime securities were rated AAA, 1 was rated AA, and 3 were rated CC.

**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 and 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. Until recently the low interest rate environment resulted in fewer loan opportunities being available which met the Company's required rate of return. This environment has recently started to change in 2010 and the Company increased its new mortgage loan activity which resulted in an increase of \$68.5 million in total loans at the 2010 year-end.

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 Income. 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.

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. Due to the bankruptcy filing by Circuit City in 2009, the Company foreclosed on one mortgage loan each during 2010 and 2009. The Company also participates in several real estate joint ventures and limited partnerships that invest primarily in income-producing retail properties. These investments have enhanced the Company's overall investment portfolio returns.

Table of Contents

The Company held net investments in mortgage loans totaling \$141.2 million and \$98.2 million at December 31, 2010 and 2009, respectively. The diversification of the portfolio by geographic region, property type, and loan-to-value ratio was as follows:

Mortgage Loans by Geographic Region:	December 31, 2010		December 31, 2009	
	Amount (In thousands)	%	Amount (In thousands)	%
West South Central	\$69,222	49.0	\$57,238	58.3
East North Central	17,349	12.3	10,686	10.9
New England	19,731	14.0	-	-
Mountain	16,632	11.8	22,007	22.4
Pacific	6,973	4.9	2,340	2.4
East South Central	5,468	3.9	-	-
South Atlantic	3,592	2.5	3,570	3.6
Middle Atlantic	2,280	1.6	2,359	2.4
Totals	\$141,247	100.0	\$98,200	100.0

Mortgage Loans by Property Type:	December 31, 2010		December 31, 2009	
	Amount (In thousands)	%	Amount (In thousands)	%
Retail	\$85,920	60.8	\$63,928	65.1
Hotel/Motel	24,334	17.2	19,996	20.4
Land/Lots	12,585	8.9	2,473	2.5
Apartments	9,181	6.5	6,167	6.3
Office	9,029	6.4	5,634	5.7
All other	198	0.2	2	-
Totals	\$141,247	100.0	\$98,200	100.0

Mortgage Loans by Loan-to-Value Ratio (1):	December 31, 2010		December 31, 2009	
	Amount (In thousands)	%	Amount (In thousands)	%
Less than 50%	\$48,966	34.7	\$28,648	29.2
50% to 60%	29,746	21.0	28,298	28.8
60% to 70%	22,769	16.1	29,318	29.9
70% to 80%	1,923	1.4	5,153	5.2
80% to 90%	-	-	-	-
Greater than 90%	37,843	26.8	6,783	6.9
Totals	\$141,247	100.0	\$98,200	100.0

(1) Loan-to-Value Ratio using the most recent appraised value

The increase in the greater than 90% category in 2010 compared to 2009 is related to new loans made with a long standing borrower which are backed by the investment property, contracted leases and the guarantee of the borrower.



The Company does not consider its mortgage loans to be a separate portfolio segment. The Company considers its primary class to be property type and primarily uses loan-to-value as its credit risk quality indicator. All loans within the portfolio 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.

Table of Contents

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 \$0.4 million, \$1.4 million and \$1.0 million for the years ended December 31, 2010, 2009 and 2008, respectively. The principle balance requiring the valuation allowance was \$7.0 million, \$9.2 million and \$9.2 million in 2010, 2009, and 2008, respectively. The amount of interest recorded while these loans were impaired was \$0.1 million, \$0.3 million and \$0.5 million in 2010, 2009, and 2008, respectively. The impairments were based on information which indicated that the Company may not collect all amounts in accordance with the mortgage agreement. While the Company closely monitors its mortgage loan portfolio, future changes in economic conditions can result in impairments beyond those currently identified.

The following table represents the mortgage loan allowance for the years ended December 31, 2010 and 2009:

	2010	2009
	(In thousands)	
Balance, beginning of period	\$5,033	4,587
Provision	385	1,461
Releases	(1,456 )	(1,015 )
Balance, end of period	\$3,962	5,033

The Company does not recognize interest income on loans past due ninety days or more. The Company had one mortgage loan past due six months or more with a principal balance totaling \$7.0 million at December 31, 2010 and two loans in 2009 with total principal balance of \$7.0 million. There was no interest income not recognized in 2010 and 2009 for past due loans and approximately \$0.4 million not recognized in 2008.

The contractual maturities of mortgage loan principal balances at December 31, 2010 and 2009 were as follows:

Principal Balance by Contractual Maturity:	December 31, 2010		December 31, 2009	
	Amount (In thousands)	%	Amount (In thousands)	%
Due in one year or less	\$3,724	2.5	\$15,407	14.8
Due after one year through five years	53,330	36.5	22,678	21.9
Due after five years through ten years	50,341	34.5	64,032	61.7
Due after ten years through fifteen years	17,075	11.7	1,650	1.6
Due after fifteen years	21,595	14.8	-	-
Totals	\$146,065	100.0	\$103,767	100.0

The Company's real estate investments totaled approximately \$20.1 million at December 31, 2010 and 2009, 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 \$1.6 million, \$1.2 million and \$0.9 million for the years ended December 31, 2010, 2009 and 2008, 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 losses of \$0.1 million in 2010 and 2008 associated with these properties. There was no recorded net realized gain or loss in 2009.

Table of Contents

## Derivatives, Index Options

Derivative instruments totaling \$80.3 million at December 31, 2010 and \$89.9 million at December 31, 2009 consist of call options purchased to support the interest crediting mechanism on the Company's fixed-indexed annuity and life products. The call options act as hedges to match closely the returns on the underlying index or indices that serve as the basis for the amounts which may be credited to policyholders. The index options are reported at fair value on the reporting date in the Company's consolidated financial statements and are purchased from a select group of counterparties who maintain high credit ratings and who enter credit support agreements for option values in excess of specified limits. The Company has never incurred a loss on index options due to counterparty default.

## 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 is generally 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 paydown or prepay. In this situation, the Company typically will be unable to reinvest the proceeds at comparable yields. Lower interest rates will likely also cause lower net investment income, subject the Company to reinvestment rates risks, and possibly reduce profitability through reduced interest rate margins associated with products with minimum guaranteed crediting rates. Alternatively, the fair value of the Company's investment portfolio will increase when interest rates decline.

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

	December 31,			
	2010		2009	
	(In thousands except percentages)			
Debt securities - fair value	\$	7,634,209		6,367,142
Debt securities - amortized cost	\$	7,193,040		6,138,073
Fair value as a percentage of amortized cost		106.13	%	103.73 %

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

Unrealized gains at year-end	\$	441,169		229,069	
Ten-year U.S. Treasury bond - increase (decrease) in yield for the year		(0.544	)%	1.09	%

51

---

Table of Contents

	Unrealized Gains Balance		
	Net Balance at December 31, 2010	Net Balance at December, 31, 2009 (In thousands)	Change in Net Balance
Debt securities held to maturity	\$281,816	154,416	127,400
Debt securities available for sale	159,353	74,653	84,700
Totals	\$441,169	229,069	212,100

During 2010, market interest rates of the ten-year U.S. Treasury bond decreased 54.4 basis points from year end 2009 which would generally be expected to produce unrealized gains in a fixed income debt security portfolio in and of itself. Additionally, the improved liquidity in the corporate bond market during 2010 resulted in the spread between corporate bonds and treasury securities narrowing which caused prices of the Company's corporate bonds to further rise. These two factors combined to increase the unrealized gain balance by \$212.1 million on a portfolio of approximately \$7.4 billion at December 31, 2010. 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 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. 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 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.

The following table profiles the Company's insurance liabilities at December 31, 2010 for annuities, deposit-type contracts and supplementary contracts with life contingencies by surrender and discretionary withdrawal characteristics.

Table of Contents

	December 31, 2010	
	Amount	%
	(In thousands)	
Subject to discretionary withdrawal:		
With market value adjustment	\$1,713,174	29.6
With surrender charge of 5% or more	3,254,810	56.1
With surrender charge of 5% or less	376,006	6.5
Not subject to discretionary withdrawal	452,689	7.8
Total	5,796,679	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	\$7,974,567	7,649,408	7,287,691	6,917,552	6,561,570
Mortgage loans	145,130	139,169	133,656	128,541	123,784
Other loans	10,483	10,183	9,894	9,616	9,348
Derivatives	78,712	80,284	82,266	84,210	86,205

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, 2010. The estimated cash flows include assumptions as to whether such loans will be repaid by the policyholders or settled upon payment of death or surrender benefits on the underlying insurance contracts and incorporate both Company experience and mortality assumptions associated with such contracts.



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

Table of Contents

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, 2010. 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	\$(1,805	) 853	1,312	1,123

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, 2009, 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 managements and the Company's Board of Directors.

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.

**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 liquidating 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, 2010.

Table of Contents

A primary liquidity concern is the risk of an extraordinary level of early policyholder withdrawals. The Company includes provisions within its annuity and universal life insurance policies, such as surrender and market value adjustment charges, 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, 2010		December 31, 2009		
	Amount	% of Total	Amount	% of Total	
(In thousands except percentages)					
Not subject to discretionary withdrawal provisions	\$452,689	7.8	% \$425,163	8.7	%
Subject to discretionary withdrawal, with adjustment:					
With market value adjustment	1,713,174	29.6	% 1,434,212	29.4	%
At contract value less current surrender charge of 5% or more	3,254,810	56.1	% 2,612,171	53.6	%
Subtotal	5,420,673	93.5	% 4,471,546	91.7	%
Subject to discretionary withdrawal at contract value with no surrender charge or surrender charge of less than 5%	376,006	6.5	% 405,544	8.3	%
Total annuity reserves and deposit liabilities	\$5,796,679	100.0	% \$4,877,090	100.0	%

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

	2010	2009	2008
(In thousands)			
Product Line:			
Traditional Life	\$4,679	5,327	5,763
Universal Life	44,427	55,861	41,430
Annuities	384,067	359,903	391,879
Total	\$433,173	421,091	439,072

The above contractual withdrawals, as well as the level of surrenders experienced, were generally consistent with the Company's assumptions in asset-liability management, and the associated cash outflows did not have an adverse impact on overall liquidity. Individual life insurance policies are less susceptible to withdrawal than annuity reserves and deposit liabilities because policyholders may 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.

In the past, cash flows from the Company's insurance operations have been sufficient to meet current needs. Cash flows from operating activities were \$179 million, \$138 million and \$195 million in 2010, 2009 and 2008,

respectively. The Company also has significant cash flows from both scheduled and unscheduled investment security maturities, redemptions, and prepayments. These cash flows totaled \$911 million, \$1,050 million and \$727 million in 2010, 2009 and 2008, respectively. Cash flows from security maturities, redemptions, and prepayments were relatively higher over the last three years due to the decline in interest rates. These cash flow items could be reduced if interest rates rise in 2011. Net cash flows from the Company's universal life and annuity deposit product operations totaled \$856 million, \$337 million and \$(118) million in 2010, 2009 and 2008, respectively.

Table of Contents

## 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, 2010, 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 reinvest earnings internally to finance the development of new business. The ability to pay dividends is limited by law in the state of Colorado to earned profits (statutory unassigned surplus). At December 31, 2010 the maximum amount legally available for distribution without further regulatory approval is \$87.4 million.

## OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

It is Company practice not 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.

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.

	Total	Payment Due by Period			More Than 5 Years
		Less Than 1 Year	1 - 3 Years	3 - 5 Years	
Operating lease obligations (1)	\$177	177	-	-	-
Life claims payable (2)	67,686	67,686	-	-	-
Other long-term reserve liabilities reflected on the balance sheet under GAAP (3)	544,874	123,755	193,283	80,688	147,148
<b>Total</b>	<b>\$612,737</b>	<b>191,618</b>	<b>193,283</b>	<b>80,688</b>	<b>147,148</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.

Table of Contents

ACCOUNTING STANDARDS AND CHANGES IN ACCOUNTING

Recently Issued Accounting Standards

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

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

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

In March 2008, the FASB issued new guidance to require companies with derivative instruments to disclose information about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for, and how derivative instruments and related hedged items affect an entity’s financial position, financial performance and cash flows. This guidance became effective for financial statements issued for fiscal years beginning after November 15, 2008. The Company adopted it on January 1, 2009 with no material impact on the consolidated financial statements. Please see Note 14, Fair Values of Financial Instruments, of the accompanying consolidated financial statements for additional information pertaining to this guidance.

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

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

In January 2009, the FASB issued new guidance to enhance guidance on impairments to remove the exclusive reliance on a “market participant” estimate of future cash flows to a holder’s estimate of whether there has been a



“probable” adverse change in estimated cash flows. This allows management to apply reasonable judgment in assessing whether an other-than-temporary impairment has occurred. It was effective for the Company as of December 31, 2008 and its adoption did not have a significant impact on the consolidated financial statements of the Company.

In March 2009, the FASB issued new guidance establishing enhanced disclosures regarding an entity’s derivative and hedging activity to enable investors to better understand the effects on an entity’s financial position, financial performance, and cash flows. The Company adopted the guidance as of January 1, 2009. See Note 15, Derivative Investments, of the accompanying consolidated financial statements for disclosures regarding derivative instruments and hedging activities.

Table of Contents

On April 9, 2009 the FASB issued new guidance for estimating fair value when the volume and level of activity for an asset or liability have significantly decreased and includes guidance on identifying circumstances that indicate a transaction is not orderly. This guidance emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability, and regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. This guidance is effective for interim and annual reporting periods ending after June 15, 2009. As further discussed in Note 14, Fair Values of Financial Instruments, of the accompanying consolidated financial statements, the adoption of this guidance did not have a material impact on the Company's consolidated financial condition and results of operations.

On April 9, 2009 the FASB issued new guidance to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. It was effective for the Company as of June 30, 2009 and did not have a significant impact on the consolidated financial position or results of operations. See Note 14, Fair Values of Financial Instruments, of the accompanying consolidated financial statements for additional disclosures.

On April 9, 2009 the FASB issued new guidance which amended the other-than-temporary impairment guidance for debt securities to make the guidance more operational, and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. It did not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. This guidance was effective for the Company as of June 30, 2009. The impact of its adoption is discussed in Note 3, Investments, of the accompanying consolidated financial statements.

On May 28, 2009 the FASB issued new guidance establishing general standards of accounting for the disclosure of events that occur after the balance sheet date, but before the financial statements are issued or are available to be issued. It was effective for the Company as of June 30, 2009 and did not have a significant impact on the consolidated financial position or results of operations. See Note 18, Subsequent Events, of the accompanying consolidated financial statements for additional disclosures.

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

During July 2010 the FASB issued new guidance that requires additional disclosures related to an entity's financing receivables and the nature of its credit risks related to financing receivables. The effective date is for interim and annual periods ending after December 15, 2010. The adoption of this guidance was effective December 31, 2010. See Note 3 Investments, of the accompanying consolidated financial statements for additional disclosures.

During October 2010 the FASB issued new guidance effecting insurance companies that incur costs in the acquisition of new and renewal insurance contracts. The guidance address the diversity in practice regarding the interpretation for which costs relating to the acquisition of new or renewal business qualifies for deferral. The new guidance specifies the acquisition costs which are capitalizable and those which must be expensed. The effective date is for interim and annual periods ending after December 15, 2011. The Company is currently evaluating the impact of this guidance on the consolidated financial statements.

During January 2011 the FASB issued new guidance which defers the effective date of disclosures about troubled debt restructurings in Accounting Standards Update No. 2010-20. The new anticipated effective date is for interim and

annual periods ending after June 15, 2011. The adoption of this guidance will not have a significant impact on the consolidated financial statements.

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

Table of Contents

Change in Accounting

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

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

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

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 changes in auditors or disagreements with auditors that are reportable pursuant to Item 304 of Regulation S-K.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to ensure that information to be disclosed in reports filed or submitted under the Securities 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.

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. While changes have taken place in internal controls during the year ended December 31, 2010, there have been no changes 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.

## Table of Contents

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 National Western Life Insurance Company ("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, 2010 was conducted based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control - Integrated Framework. 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, 2010.

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

The Company engages KPMG 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 KPMG 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. While changes have taken place in internal controls during the year ended December 31, 2010, there have been no changes 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.

Table of Contents

Report of Independent Registered Public Accounting Firm

The 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, 2010, based on criteria established in Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. 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, 2010, based on criteria established in Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of National Western Life Insurance Company and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of earnings, comprehensive income (loss), stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2010, and our

report dated March 16, 2011 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Houston, Texas  
March 16, 2011



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, 2010 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 17, 2011 to be filed with the Commission pursuant to Regulation 14A within 120 days after December 31, 2010.

Table of Contents

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 69 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 69 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).

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 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).

Table of Contents

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).

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).

Table of Contents

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).
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 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 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 8-K dated December 15, 2005).

Table of Contents

Exhibit 10(bc)	- Tenth Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan (Exhibit 10(bc) to 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 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 8-K dated December 15, 2005).
Exhibit 10(bf)	- Non-Qualified Defined Benefit Plan for the President of the National Western Life Insurance Company (Exhibit 10(bf) to 8-K dated December 15, 2005).
Exhibit 10(bg)	- National Western Life Insurance Company 2006 Executive Officer Bonus Program (Exhibit 10(bg) to 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 8-K dated April 21, 2006).
Exhibit 10(bi)	- 2006 International Marketing Officer Bonus Program (Exhibit 10(bi) to 8-K dated June 23, 2006).
Exhibit 10(bj)	- 2006 Domestic Marketing Officer Bonus Program (Exhibit 10(bj) to 8-K dated June 23, 2006).
Exhibit 10(bk)	- National Western Life Insurance Company Harvest Nonqualified Deferred Compensation Plan (Exhibit 10(bk) to 8-K dated June 23, 2006).
Exhibit 10(bl)	- Amendment No. 16 to Loan Agreement (Exhibit 10(bl) to 8-K dated July 31, 2006).
Exhibit 10(bm)	- Life Systems, Incorporated Termination Agreement (Exhibit 10(bm) to 8-K dated March 30, 2007).
Exhibit 10(bn)	- National Western Life Insurance Company 2007 Executive Officer Bonus Program (Exhibit 10(bn) to 8-K dated April 19, 2007).
Exhibit 10(bo)	- National Western Life Insurance Company 2007 Domestic Marketing Officer Bonus Program (Exhibit 10(bo) to 8-K dated April 19, 2007).
Exhibit 10(bp)	- National Western Life Insurance Company 2007 International Marketing Officer Bonus Program (Exhibit 10(bp) to 8-K dated April 19, 2007).
Exhibit 10(bq)	- National Western Life Insurance Company 2008 Executive Officer Bonus Program (Exhibit 10(bq) to 8-K dated March 17, 2008).

-



Exhibit 10(br) National Western Life Insurance Company 2008 Domestic Marketing Officer Bonus Program (Exhibit 10(br) to 8-K dated August 22, 2008).

Exhibit 10(bs) - National Western Life Insurance Company 2008 International Marketing Officer Bonus Program (Exhibit 10(bs) to 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 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 Program (Exhibit 10(bv) to Form 10-K dated December 31, 2008).

Table of Contents

Exhibit 10(bw)	- National Western Life Insurance Company 2009 Executive Officer Bonus Program (Exhibit 10(bw) to 8-K dated February 19, 2009).
Exhibit 10(bx)	- National Western Life Insurance Company 2009 Domestic Marketing Officer Bonus Program (Exhibit 10(bx) to 8-K dated February 19, 2009).
Exhibit 10(by)	- National Western Life Insurance Company 2009 International Marketing Officer Bonus Program (Exhibit 10(by) to 8-K dated February 19, 2009).
Exhibit 10(bz)	- National Western Life Insurance Company 2009 Senior Vice President Bonus Program (Exhibit 10(bz) to 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 (Exhibit 10(ca) to Form 10-K dated 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 (Exhibit 10(cb) to Form 10-K dated 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 (Exhibit 10(cc) to Form 10-K dated December 31, 2008).
Exhibit 10(cd)	- National Western Life Insurance Company Non-Qualified Defined Benefit Plan As Amended and Restated Effective as of January 1, 2009 (Exhibit 10(cd) to Form 10-K dated 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 (Exhibit 10(ce) to Form 10-K dated 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 (Exhibit 10(cf) to Form 10-K dated 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 (Exhibit 10(cg) to Form 10-K dated December 31, 2008).
Exhibit 10(ch)	- Amended National Western Life Insurance Company Group Excess Benefit Plan, effective May 1, 2009 (Exhibit 10(ch) to Form 10-Q dated March 31, 2009).
Exhibit 10(ci)	- Revolving Credit Loan Agreement with Moody National Bank (Exhibit 10(ci) to 8-K dated August 31, 2009).

-

Exhibit 10(cj) National Western Life Insurance Company 2009 Executive Officer Bonus Program (Exhibit 10(cj) to 8-K dated December 16, 2009).

Exhibit 10(ck) - National Western Life Insurance Company 2009 Domestic Marketing Officer Bonus Program (Exhibit 10(ck) to 8-K dated December 16, 2009).

Exhibit 10(cl) - National Western Life Insurance Company 2009 International Marketing Officer Bonus Program (Exhibit 10(cl) to 8-K dated December 16, 2009).

Exhibit 10(cm) - National Western Life Insurance Company 2009 Officer President Bonus Program (Exhibit 10(cm) to 8-K dated December 16, 2009).

Table of Contents

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 8-K dated March 30, 2010).
Exhibit 10(co)	- Amended national Western Life Insurance Company Pension Plan, effective January 1, 2008. (Exhibit 10(co) to 10-Q dated 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. (Exhibit 10(cp) to Form 10-K /A dated 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. (Exhibit 10(cp) to Form 10-K /A dated December 31, 2010).
Exhibit 10(cr)	- Administrative Services Only Agreement dated January 1, 2001 by and between National Western Life Insurance Company and American National Insurance Company (ANICO) pertaining to ANICO Excess Benefit Plan. (Exhibit 10(cp) to Form 10-K /A dated 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. (Exhibit 10(cp) to Form 10-K /A dated 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. (Exhibit 10(cp) to Form 10-K /A dated 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. (Exhibit 10(cp) to Form 10-K /A dated December 31, 2010).
Exhibit 21	- Subsidiaries of the Registrant.
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 69 of this report.

Table of Contents

## ATTACHMENT A

## Index to Financial Statements and Schedules

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	70
<u>Consolidated Balance Sheets, December 31, 2010 and 2009</u>	71
<u>Consolidated Statements of Earnings for the years ended December 31, 2010, 2009 and 2008</u>	73
<u>Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2010, 2009 and 2008</u>	74
<u>Consolidated Statements of Stockholders' Equity for the years ended December 31, 2010, 2009 and 2008</u>	75
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2010, 2009 and 2008</u>	77
<u>Notes to Consolidated Financial Statements</u>	79
<u>Schedule I - Summary of Investments Other Than Investments in Related Parties, December 31, 2010</u>	139
<u>Schedule V - Valuation and Qualifying Accounts for the years ended December 31, 2010, 2009 and 2008</u>	140

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

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

We have audited the accompanying consolidated balance sheets of National Western Life Insurance Company and subsidiaries (the Company) as of December 31, 2010 and 2009, and the related consolidated statements of earnings, comprehensive income (loss), stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2010. In connection with our audits of the consolidated financial statements, we also have audited financial statement schedules I and V. These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

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 audits 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, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, 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.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for other-than-temporary impairments in 2009.

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, 2010, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 16, 2011 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

KPMG LLP  
Houston, Texas  
March 16, 2011





Table of Contents

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
December 31, 2010 and 2009  
(In thousands)

ASSETS	2010	2009
Investments:		
Securities held to maturity, at amortized cost (fair value: \$5,259,332 and \$4,331,077)	\$4,977,516	4,176,661
Securities available for sale, at fair value (amortized cost: \$2,221,579 and \$1,967,365)	2,390,107	2,050,079
Mortgage loans, net of allowance for possible losses (\$3,962 and \$5,033)	141,247	98,200
Policy loans	78,448	78,336
Derivatives, index options	80,284	89,915
Other long-term investments	29,569	32,829
<b>Total Investments</b>	<b>7,697,171</b>	<b>6,526,020</b>
Cash and short-term investments	80,332	108,866
Deferred policy acquisition costs	691,939	626,440
Deferred sales inducements	143,844	122,232
Accrued investment income	79,720	71,572
Federal income tax receivable	427	-
Other assets	80,515	63,605
	<b>\$8,773,948</b>	<b>7,518,735</b>

See accompanying notes to consolidated financial statements.

Table of Contents

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES  
 CONSOLIDATED BALANCE SHEETS

December 31, 2010 and 2009  
 (In thousands except share amounts)

LIABILITIES AND STOCKHOLDERS' EQUITY	2010	2009
LIABILITIES:		
Future policy benefits:		
Universal life and annuity contracts	\$7,108,599	5,988,665
Traditional life and annuity contracts	139,182	133,169
Other policyholder liabilities	151,526	128,931
Deferred Federal income tax liability	57,857	32,818
Federal income tax payable	-	13,197
Other liabilities	97,993	107,902
<b>Total liabilities</b>	<b>7,555,157</b>	<b>6,404,682</b>
COMMITMENTS AND CONTINGENCIES (Notes 4, 7, and 9)		
STOCKHOLDERS' EQUITY:		
Common stock:		
Class A - \$1 par value; 7,500,000 shares authorized; 3,429,241 and 3,425,966 shares issued and outstanding in 2010 and 2009	3,429	3,426
Class B - \$1 par value; 200,000 shares authorized, issued, and outstanding in 2010 and 2009	200	200
Additional paid-in capital	37,140	36,680
Accumulated other comprehensive income	50,408	17,760
Retained earnings	1,127,614	1,055,987
<b>Total stockholders' equity</b>	<b>1,218,791</b>	<b>1,114,053</b>
	<b>\$8,773,948</b>	<b>7,518,735</b>

See accompanying notes to consolidated financial statements.

Table of Contents

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF EARNINGS

For the Years Ended December 31, 2010, 2009 and 2008

(In thousands except per share amounts)

	2010	2009	2008
Premiums and other revenue:			
Universal life and annuity contract charges	\$ 127,192	145,651	133,424
Traditional life and annuity premiums	16,565	17,043	17,752
Net investment income	401,383	393,531	273,362
Other revenues	25,377	17,348	12,769
Net realized investment gains (losses):			
Total other-than-temporary impairment (“OTTI”) losses	(729 )	(13,847 )	(27,215 )
Portion of OTTI losses recognized in other comprehensive income	-	8,326	-
Net OTTI losses recognized in earnings	(729 )	(5,521 )	(27,215 )
Other net investment gains	6,204	354	987
Total net realized investment gains (losses)	5,475	(5,167 )	(26,228 )
<b>Total revenues</b>	<b>575,992</b>	<b>568,406</b>	<b>411,079</b>
Benefits and expenses:			
Life and other policy benefits	52,929	48,997	39,759
Amortization of deferred policy acquisition costs	96,449	115,163	127,161
Universal life and annuity contract interest	266,603	242,816	138,960
Other operating expenses	55,448	92,192	55,630
<b>Total benefits and expenses</b>	<b>471,429</b>	<b>499,168</b>	<b>361,510</b>
<b>Earnings before Federal income taxes</b>	<b>104,563</b>	<b>69,238</b>	<b>49,569</b>
<b>Federal income taxes</b>	<b>31,666</b>	<b>23,754</b>	<b>15,927</b>
<b>Net earnings</b>	<b>\$72,897</b>	<b>45,484</b>	<b>33,642</b>
Basic Earnings Per Share:			
Class A	20.67	12.90	9.54
Class B	10.33	6.45	4.77
Diluted Earnings Per Share:			
Class A	20.61	12.87	9.48
Class B	10.33	6.45	4.77

See accompanying notes to consolidated financial statements.



Table of Contents

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

For the Years Ended December 31, 2010, 2009 and 2008

(In thousands)

	2010	2009	2008
Net earnings	\$72,897	45,484	33,642
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	33,417	82,686	(66,789 )
Net unrealized liquidity gains (losses)	600	(3,312 )	-
Reclassification adjustment for net amounts included in net earnings	(2,566 )	2,756	11,866
Amortization of net unrealized (gains) losses related to transferred securities	9	(34 )	(31 )
Net unrealized gains (losses) on securities	31,460	82,096	(54,954 )
Foreign currency translation adjustments	(308 )	(73 )	(112 )
Benefit plans:			
Amortization of net prior service cost and net gain	1,496	1,095	(3,227 )
Other comprehensive income (loss)	32,648	83,118	(58,293 )
Comprehensive income (loss)	\$105,545	128,602	(24,651 )

See accompanying notes to consolidated financial statements.

Table of Contents

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2010, 2009 and 2008

(In thousands)

	2010	2009	2008
Common stock:			
Balance at beginning of period	\$3,626	3,626	3,622
Shares exercised under stock option plan	3	-	4
Balance at end of period	3,629	3,626	3,626
Additional paid-in capital:			
Balance at beginning of period	36,680	36,680	36,236
Shares exercised under stock option plan	460	-	444
Balance at end of period	37,140	36,680	36,680
Accumulated other comprehensive income (loss):			
Unrealized gains (losses) on non-impaired securities:			
Balance at beginning of period	31,639	(53,770 )	1,184
Change in unrealized gains (losses) during period	30,860	85,409	(54,954 )
Balance at end of period	62,499	31,639	(53,770 )
Unrealized losses on impaired held to maturity securities:			
Balance at beginning of period	(2,751 )	-	-
Cumulative effect of change in accounting principle (See Note 1)	-	(507 )	-
Amortization	38	43	-
Other-than-temporary impairments	-	(2,287 )	-
Balance at end of period	(2,713 )	(2,751 )	-
Unrealized losses on impaired available for sale securities:			
Balance at beginning of period	(562 )	-	-
Other-than-temporary impairments	-	(581 )	-
Recoveries	562	19	-
Balance at end of period	-	(562 )	-
Foreign currency translation adjustments:			
Balance at beginning of period	2,893	2,966	3,078
Change in translation adjustments during period	(308 )	(73 )	(112 )
Balance at end of period	2,585	2,893	2,966
Benefit plan liability adjustment:			
Balance at beginning of period	(13,459 )	(14,554 )	(11,327 )
Amortization of net prior service cost and net gain	1,496	1,095	(3,227 )

Balance at end of period	(11,963 )	(13,459 )	(14,554 )
Accumulated other comprehensive income (loss) at end of period	50,408	17,760	(65,358 )

(Continued on next page)

Table of Contents

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY, CONTINUED  
For the Years Ended December 31, 2010, 2009 and 2008  
(In thousands)

	2010	2009	2008
Retained earnings:			
Balance at beginning of period	1,055,987	1,011,265	978,892
Cumulative effect of change in accounting principle, net of tax (See Note 1)	-	507	-
Net earnings	72,897	45,484	33,642
Stockholder dividends	(1,270 )	(1,269 )	(1,269 )
Balance at end of period	1,127,614	1,055,987	1,011,265
Total stockholders' equity	\$1,218,791	1,114,053	986,213

See accompanying notes to consolidated financial statements.



Table of Contents

NATIONAL WESTERN LIFE INSURANCE COMPANY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the Years Ended December 31, 2010, 2009 and 2008  
(In thousands)

	2010	2009	2008
Cash flows from operating activities:			
Net earnings	\$72,897	45,484	33,642
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Universal life and annuity contract interest	266,603	242,816	142,707
Surrender charges and other policy revenues	(35,350 )	(54,588 )	(41,027 )
Realized (gains) losses on investments	(6,932 )	4,145	26,228
Accrual and amortization of investment income	(2,380 )	(2,095 )	(4,520 )
Depreciation and amortization	2,386	(502 )	2,292
(Increase) decrease in value of derivatives	(16,612 )	(93,085 )	17,480
(Increase) decrease in deferred policy acquisition and sales inducement costs	(124,191 )	(34,348 )	16,418
(Increase) decrease in accrued investment income	(8,148 )	(6,699 )	162
(Increase) decrease in other assets	(18,523 )	(8,544 )	(9,394 )
Increase (decrease) in liabilities for future policy benefits	38,775	(4,361 )	(1,142 )
Increase in other policyholder liabilities	22,597	35,037	11,563
(Decrease) increase in Federal income tax liability	(6,023 )	(23,898 )	2,572
(Decrease) increase in other liabilities	(6,230 )	37,415	(2,108 )
Other, net	(1 )	748	(248 )
Net cash provided by operating activities	178,868	137,525	194,625
Cash flows from investing activities:			
Proceeds from sales of:			
Securities held to maturity	-	-	-
Securities available for sale	32,545	19,781	1,722
Other investments	4,779	1,920	1,404
Proceeds from maturities and redemptions of:			
Securities held to maturity	833,157	958,491	520,839
Securities available for sale	78,175	91,378	206,510
Derivatives	80,497	56,808	53,805
Purchases of:			
Securities held to maturity	(1,633,597 )	(1,245,032 )	(566,764 )
Securities available for sale	(359,365 )	(243,824 )	(218,874 )
Derivatives	(54,254 )	(41,718 )	(58,010 )
Other investments	(2,212 )	(21,245 )	(261 )
Principal payments on mortgage loans	21,943	11,533	16,609
Cost of mortgage loans acquired	(63,762 )	(21,551 )	(14,239 )
(Increase) decrease in policy loans	(112 )	941	4,495

Net cash used in investing activities (1,062,206 ) (432,518 ) (52,764 )

(Continued on next page)

Table of Contents

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

For the Years Ended December 31, 2010, 2009 and 2008

(In thousands)

	2010	2009	2008
Cash flows from financing activities:			
Dividends on common stock	\$(1,270 )	(1,269 )	(1,269 )
Deposits to account balances for universal life and annuity contracts	1,499,830	900,773	472,776
Return of account balances on universal life and annuity contracts	(643,911 )	(563,371 )	(591,114 )
Issuance of common stock under stock option plan	463	-	448
Net cash provided by (used in) financing activities	855,112	336,133	(119,159 )
Effect of foreign exchange	(308 )	(70 )	(112 )
Net increase (decrease) in cash and short-term investments	(28,534 )	41,070	22,590
Cash and short-term investments at beginning of year	108,866	67,796	45,206
Cash and short-term investments at end of year	\$80,332	108,866	67,796

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the year for:

Interest	\$40	33	41
Income taxes	40,850	47,659	11,687
Noncash operating activities:			
Deferral of sales inducements	28,985	22,917	3,747

See accompanying notes to consolidated financial statements.

Table of Contents

NATIONAL 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 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 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.

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.

Table of Contents

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

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 noncredit 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 Short-Term Investments. For purposes of the consolidated statements of cash flows, the Company considers all short-term investments with a maturity at the date of purchase of three months or less to be cash equivalents.

(E) Derivatives. Fixed-indexed 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 indexed options, which are derivative financial instruments, to hedge the equity return component of its indexed annuity and life products. The amounts which may be credited to policyholders are linked, in part, to the returns of the underlying Index. The indexed options act as hedges to match closely the returns on the underlying Index. Cash is exchanged upon purchase of the indexed 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.

Table of Contents

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

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 indexed 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 indexed 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, 2010 and 2009, the fair values of indexed options owned by the Company totaled \$80.3 million and \$89.9 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 insurance, policy administration, and surrender charges assessed during the period. Expenses for these policies include interest credited to policy account balances, benefit claims incurred in excess of policy account balances and amortization of deferred policy acquisition costs and sales inducements.

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

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

	Years Ended December 31,		
	2010	2009	2008
(In thousands)			
Deferred policy acquisition costs, beginning of year	\$626,440	701,984	664,805
Policy acquisition costs deferred:			
Agents' commissions	184,616	121,138	100,254
Other	7,185	5,758	6,742
Total costs deferred	191,801	126,896	106,996



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

Amortization of deferred policy acquisition costs	(96,449 )	(115,163 )	(127,161 )
Adjustments for unrealized (gains) losses on investment securities	(29,853 )	(87,277 )	57,344
Deferred policy acquisition costs, end of year	\$691,939	626,440	701,984

81

---

Table of Contents

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

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

	Years Ended December 31,		
	2010	2009	2008
	(In thousands)		
Deferred sales inducements, beginning of year	\$ 122,232	120,955	104,029
Sales inducement costs deferred	51,093	36,755	19,462
Amortization of sales inducements	(22,108 )	(13,838 )	(15,715 )
Adjustments for unrealized (gains) losses on investment securities	(7,373 )	(21,640 )	13,179
Deferred sales inducements, end of year	\$ 143,844	122,232	120,955

Amortization of deferred policy acquisition costs decreased to \$96.4 million for the year ended December 31, 2010 compared to \$115.2 million reported in 2009, and \$127.1 million in 2008. An unlocking adjustment was recorded in the 2009 year which resulted in an increase of amortization of \$5.2 million. This unlocking adjustment was based upon changes to future mortality assumptions reflecting current experience studies and assumption changes to future policy maintenance expenses. An unlocking adjustment was recorded in 2008 which resulted in an increase of amortization of \$6.3 million. This unlocking adjustment was based upon changes to future annuitizations and full surrenders reflecting current experience studies. There were no unlocking adjustments in 2010. True-up adjustments were also recorded in 2010, 2009 and 2008 relative to partial surrender rates, mortality rates, credited interest rates and earned rates for the current year's experience resulting in \$4.1 million, \$8.4 million and \$16.2 million increases in amortization, respectively.

Under GAAP, the liability for future policy benefits on traditional products has been calculated using assumptions as to future mortality (based on the 1965-1970 and 1975-1980 Select and Ultimate mortality tables), interest ranging from 4% to 8%, and withdrawals based on Company experience. For universal life and annuity contracts, the liability for future policy benefits represents the account balance. Fixed-indexed products combine features associated with traditional fixed annuities and universal life contracts, with the option to have interest rates linked in part to an equity index. In accordance with GAAP guidance, the equity return component of such policy contracts must be identified separately and accounted for as embedded derivatives. The remaining portions of these policy contracts are considered the host contracts and are recorded separately as fixed annuity or universal life contracts. The host contracts are accounted for under GAAP guidance provisions that require debt instrument type accounting. The host contracts are recorded as discounted debt instruments that are accreted, using the effective yield method, to their minimum account values at their projected maturities or termination dates. The embedded derivatives are recorded at fair values.

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

circumstances that affects the realizability of the related deferred tax asset is included in income in the period the change occurs.

Table of Contents

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

(H) Depreciation of Property, Equipment, and Leasehold Improvements. Depreciation is based on the estimated useful lives of the assets and is calculated on the straight-line and accelerated methods. Leasehold improvements are amortized over the lesser of the economic useful life of the improvement or the term of the lease.

(I) Statutory Information. Domiciled in Colorado, the Company prepares its statutory financial statements in accordance with accounting practices prescribed or permitted by the Colorado Division of Insurance. The Colorado Division of Insurance has adopted the provisions of the National Association of Insurance Commissioners' ("NAIC") Statutory Accounting Practices ("SSAP") as the basis for its statutory accounting practices.

The following are major differences between GAAP and accounting practices prescribed or permitted by the Colorado Division of Insurance ("statutory accounting practices").

1. The Company accounts for universal life and annuity contracts based on the provisions of GAAP guidance. The basic difference between GAAP guidance and statutory accounting practices with respect to certain long-duration contracts is that deposits for universal life and annuity contracts are not reflected as revenues, and surrenders and certain other benefit payments are not reflected as expenses. Only contracts with no insurance risk qualify for such treatment under statutory accounting practices. For all other contracts, statutory accounting practices do reflect such items as revenues and expenses.

A summary of direct premiums and deposits collected is provided below.

	Years Ended December 31,		
	2010	2009	2008
	(In thousands)		
Annuity deposits	\$1,431,011	837,577	410,133
Universal life insurance deposits	179,682	173,167	170,933
Traditional life and other premiums	19,385	19,580	20,698
<b>Totals</b>	<b>\$1,630,078</b>	<b>1,030,324</b>	<b>601,764</b>

2. Statutory accounting practices require commissions and related costs to be expensed as incurred, whereas under GAAP, these items are deferred and amortized.

3. For statutory accounting purposes, liabilities for future policy benefits for life insurance policies are calculated by the net level premium method or the commissioners reserve valuation method. Future policy benefit liabilities for annuities are calculated based on the continuous commissioners annuity reserve valuation method and provisions of Actuarial Guidelines 33 and 35.

4. Deferred Federal income taxes are provided for temporary differences which are recognized in the consolidated financial statements in a different period than for Federal income tax purposes. Deferred taxes are also recognized in statutory accounting practices; however, there are limitations as to the amount of deferred tax assets that may be reported as admitted assets. The change in the deferred taxes is recorded in surplus, rather than as a component of income tax expense.

5. For statutory accounting purposes, debt securities are recorded at amortized cost, except for securities in or near default, which are reported at fair value. Under GAAP, debt securities are carried at amortized cost or fair value based on their classification as either held to maturity or available for sale.
6. Investments in subsidiaries are recorded at their respective SSAP investment value, whereas the financial statements of the subsidiaries have been consolidated with those of the Company under GAAP.
7. Compensation costs related to the Company's share based compensation plans are recognized in income based on intrinsic value at each reporting date under statutory accounting. Share based compensation costs on share issued at exercise are recognized as a charge to additional paid in capital. Compensation cost for exercises where share are not issued (shares repurchased or stock appreciation rights) is recognized in come.

Table of Contents

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

8. The calculation of pension liabilities and net periodic benefit costs are recognized for both statutory and GAAP accounting. However, in accordance with SSAP No. 89, the accumulated benefit obligation in excess of the fair value of plan assets, including unfunded accrued pension costs, is recognized as an additional minimum liability with an equal amount recognized as a non-admitted intangible asset.

9. The asset valuation reserve and interest maintenance reserve, which are investment valuation reserves prescribed by statutory accounting practices, have been eliminated, as they are not required under GAAP.

10. The table below provides the Company's net gain from operations, net income, unassigned surplus (retained earnings) and capital and surplus (stockholder's equity), on the statutory basis used to report to regulatory authorities for the years ended December 31.

	2010	2009 (In thousands)	2008
Net gain from operations	\$106,966	140,226	48,853
Net income	76,954	72,944	9,643
Unassigned surplus	821,097	763,134	659,490
Capital and surplus	878,451	817,042	696,574

(J) Stock Compensation. The Company accounts for its share-based compensation for GAAP reporting using liability accounting, and measures compensation cost using the fair value method at each reporting date. For stock options, fair value is determined using an option pricing model that takes into account various information and assumptions including the Company's stock price, volatility, option price, vesting dates, exercise dates and projected option lapses. Under the intrinsic value based method, compensation cost is the excess, if any, of the quoted market price of the stock at grant date or other measurement date over the amount an employee must pay to acquire the stock.

(K) Accounting Standards and Changes in Accounting

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

In February 2007, the FASB issued new guidance whereby entities are permitted to choose upon adoption, or at specified election dates, to measure at fair value many financial instruments and certain other items. The Company adopted this guidance effective January 1, 2008, with no impact to the Company's consolidated financial statements as no eligible financial assets or liabilities were elected to be measured at fair value upon initial adoption. Management will continue to evaluate eligible financial assets and liabilities on their election dates, and will disclose any future elections in accordance with provisions outlined in this guidance.

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

Table of Contents

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

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

In October 2008, the FASB issued guidance clarifying the application of fair value in a market that is not active and illustrates key considerations including the use of an entity's own assumptions about future cash flows and appropriately risk-adjusted discount rates, appropriate risk adjustments for nonperformance and liquidity risks, and the reliance that an entity should place on quotes that do not reflect the result of market transactions. This guidance was preceded by a press release that was jointly issued by the Office of the Chief Accountant of the SEC and the FASB staff on September 30, 2008 which provided immediate clarification on fair value accounting. The guidance was effective upon issuance and did not have a material impact on the Company's consolidated financial statements. See Note 14, Fair Values of Financial Instruments, for disclosures regarding the Company's fair value measurements.

In March 2008, the FASB issued new guidance to require companies with derivative instruments to disclose information about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for, and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. This guidance became effective for financial statements issued for fiscal years beginning after November 15, 2008. The Company adopted it on January 1, 2009 with no material impact on the consolidated financial statements. See Note 14, Fair Values of Financial Instruments, for additional information pertaining to this guidance.

In April 2008, the FASB issued guidance amending the prior factors to be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The provisions of this guidance are to be applied prospectively to intangible assets acquired after January 1, 2009, although the disclosure provisions are required for all intangible assets as of or subsequent to January 1, 2009. The adoption of this guidance did not impact the Company's consolidated financial condition and results of operations.

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

In December 2008, the FASB issued new guidance which requires information to be disclosed on an annual basis pertaining to postretirement benefit plan assets. The Company would be required to separate plan assets into the three fair value hierarchy levels and provide a rollforward of the changes in fair value of plan assets classified as Level 3. The disclosures about plan assets are effective for fiscal years ending after December 15, 2009, and did not have an effect on the Company's consolidated financial condition and results of operations.

In January 2009, the FASB issued new guidance to enhance guidance on impairments to remove the exclusive reliance on a "market participant" estimate of future cash flows to a holder's estimate of whether there has been a



“probable” adverse change in estimated cash flows. This allows management to apply reasonable judgment in assessing whether an other-than-temporary impairment has occurred. It was effective for the Company as of December 31, 2008 and its adoption did not have a significant impact on the consolidated financial statements of the Company.

In March 2009, the FASB issued new guidance establishing enhanced disclosures regarding an entity’s derivative and hedging activity to enable investors to better understand the effects on an entity’s financial position, financial performance, and cash flows. The Company adopted the guidance as of January 1, 2009. See Note 15, Derivative Investments, for disclosures regarding derivative instruments and hedging activities.

Table of Contents

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

On April 9, 2009 the FASB issued new guidance for estimating fair value when the volume and level of activity for an asset or liability have significantly decreased, and includes guidance on identifying circumstances that indicate a transaction is not orderly. This guidance emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability, and regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. This guidance is effective for interim and annual reporting periods ending after June 15, 2009. As further discussed in Note 14, Fair Values of Financial Instruments, the adoption of this guidance did not have a material impact on the Company's consolidated financial condition and results of operations.

On April 9, 2009 the FASB issued new guidance to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. It was effective for the Company as of June 30, 2009 and did not have a significant impact on the consolidated financial position or results of operations. See Note 14, Fair Values of Financial Instruments, for additional disclosures.

On April 9, 2009 the FASB issued new guidance which amended the other-than-temporary impairment guidance for debt securities to make the guidance more operational, and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. It did not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. This guidance was effective for the Company as of June 30, 2009. The impact of its adoption is discussed below in Change in Accounting. See also further discussion of other-than-temporary impairments in Note 3, Investments.

On May 28, 2009 the FASB issued new guidance establishing general standards of accounting for the disclosure of events that occur after the balance sheet date, but before the financial statements are issued or are available to be issued. It was effective for the Company as of June 30, 2009 and did not have a significant impact on the consolidated financial position or results of operations. See Note 18, Subsequent Events, for additional disclosures.

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

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

During July 2010 the FASB issued new guidance that requires additional disclosures related to an entity's financing receivables and the nature of its credit risks related to financing receivables. The effective date is for interim and annual periods ending after December 15, 2010. The adoption of this guidance, effective December 31, 2010, did not have a significant impact on the consolidated financial statements.

During October 2010 the FASB issued new guidance effecting insurance companies that incur costs in the acquisition of new and renewal insurance contracts. The guidance address the diversity in practice regarding the interpretation for which costs relating to the acquisition of new or renewal business qualifies for deferral. The new guidance specifies the acquisition costs which are capitalizable and those which must be expensed. The effective date is for interim and

annual periods ending after December 15, 2011. The Company is currently evaluating the impact of this guidance on the consolidated financial statements.

During January 2011 the FASB issued new guidance which defers the effective date of disclosures about troubled debt restructurings in Accounting Standards Update No. 2010-20, Receivables (Topic 310). The new anticipated effective date is for interim and annual periods ending after June 15, 2011. The adoption of this guidance will not have a significant impact on the consolidated financial statements.

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

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

## Change in Accounting

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

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

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

## (2) DEPOSITS WITH REGULATORY AUTHORITIES

The following assets were on deposit with state and other regulatory authorities as required by law, at the end of each year.

	December 31,	
	2010	2009
	(In thousands)	
Debt securities held to maturity	\$ 15,467	15,584
Debt securities available for sale	690	669
Short-term investments	475	500
<b>Totals</b>	<b>\$ 16,632</b>	<b>16,753</b>

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

## (3) INVESTMENTS

## (A) Investment Income

The major components of net investment income are as follows:

	Years Ended December 31,		
	2010	2009	2008
	(In thousands)		
Gross investment income:			
Debt securities	\$363,483	332,207	321,234
Mortgage loans	9,191	6,346	7,223
Policy loans	5,352	5,901	6,096
Derivative gains (losses)	16,612	45,345	(65,676)
Money market investments	631	116	956
Other investment income	8,494	6,982	5,934
Total investment income	403,763	396,897	275,767
Investment expenses	2,380	3,366	2,405
Net investment income	\$401,383	393,531	273,362

The Company had real estate investments that were non-income producing for the preceding twelve months totaling \$3.2 million, \$2.8 million and \$1.5 million at December 31, 2010, 2009 and 2008, respectively.

## (B) Mortgage Loans and Real Estate

A financing receivable is a contractual right to receive money on demand or on fixed or determinable dates that is recognized as an asset in a company's statement of financial position. The Company's mortgage loans on real estate are the only financing receivables included in the balance sheet.

In general, the Company originates loans on high quality, income-producing properties such as shopping centers, freestanding retail stores, office buildings, industrial and 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. Until recently the low interest rate environment resulted in fewer loan opportunities being available which met the Company's required rate of return. This environment has recently started to change in 2010 and the Company increased its new mortgage loan activity which resulted in an increase of \$68.5 million in total loans at the 2010 year-end.

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 Income. 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.

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. Due to the bankruptcy filing by Circuit City in 2009, the Company foreclosed on one mortgage loan each during 2010 and 2009. The Company also participates in several real estate joint ventures and limited partnerships that invest primarily in income-producing retail properties. These investments have enhanced the Company's overall investment portfolio returns.

Table of Contents

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

The Company held net investments in mortgage loans totaling \$141.2 million and \$98.2 million at December 31, 2010 and 2009, respectively. The diversification of the portfolio by geographic region, property type, and loan-to-value ratio was as follows:

Mortgage Loans by Geographic Region:	December 31, 2010		December 31, 2009	
	Amount (In thousands)	%	Amount (In thousands)	%
West South Central	\$69,222	49.0	\$57,238	58.3
East North Central	17,349	12.3	10,686	10.9
New England	19,731	14.0	-	-
Mountain	16,632	11.8	22,007	22.4
Pacific	6,973	4.9	2,340	2.4
East South Central	5,468	3.9	-	-
South Atlantic	3,592	2.5	3,570	3.6
Middle Atlantic	2,280	1.6	2,359	2.4
Totals	\$141,247	100.0	\$98,200	100.0

Mortgage Loans by Property Type:	December 31, 2010		December 31, 2009	
	Amount (In thousands)	%	Amount (In thousands)	%
Retail	\$85,920	60.8	\$63,928	65.1
Hotel/Motel	24,334	17.2	19,996	20.4
Land/Lots	12,585	8.9	2,473	2.5
Apartments	9,181	6.5	6,167	6.3
Office	9,029	6.4	5,634	5.7
All other	198	0.2	2	-
Totals	\$141,247	100.0	\$98,200	100.0

Mortgage Loans by Loan-to-Value Ratio (1):	December 31, 2010		December 31, 2009	
	Amount (In thousands)	%	Amount (In thousands)	%
Less than 50%	\$48,966	34.7	\$28,648	29.2
50% to 60%	29,746	21.0	28,298	28.8
60% to 70%	22,769	16.1	29,318	29.9
70% to 80%	1,923	1.4	5,153	5.2
80% to 90%	-	-	-	-
Greater than 90%	37,843	26.8	6,783	6.9
Totals	\$141,247	100.0	\$98,200	100.0

(1) Loan-to-Value Ratio using the most recent appraised value

The increase in the greater than 90% category in 2010 compared to 2009 is related to new loans made with a long standing borrower which are backed by the investment property, contracted leases and the guarantee of the borrower.

The Company does not consider its mortgage loans to be a separate portfolio segment. The Company considers its primary class to be property type and primarily uses loan-to-value as its credit risk quality indicator. All loans within the portfolio 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.



Table of Contents

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

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 \$0.4 million, \$1.4 million and \$1.0 million for the years ended December 31, 2010, 2009 and 2008, respectively. The principle balance requiring the valuation allowance was \$7.0 million, \$9.2 million and \$9.2 million in 2010, 2009, and 2008, respectively. The amount of interest recorded while these loans were impaired was \$0.1 million, \$0.3 million and \$0.5 million in 2010, 2009, and 2008, respectively. The impairments were based on information which indicated that the Company may not collect all amounts in accordance with the mortgage agreement. While the Company closely monitors its mortgage loan portfolio, future changes in economic conditions can result in impairments beyond those currently identified.

The following table represents the mortgage loan allowance for the years ended December 31, 2010 and 2009:

	2010	2009
	(In thousands)	
Balance, beginning of period	\$5,033	4,587
Provision	385	1,461
Releases	(1,456)	(1,015)
Balance, end of period	\$3,962	5,033

The Company does not recognize interest income on loans past due ninety days or more. The Company had one mortgage loan past due six months or more with a principal balance totaling \$7.0 million at December 31, 2010 and two loans in 2009 with total principal balance of \$7.0 million. There was no interest income not recognized in 2010 and 2009 for past due loans and approximately \$0.4 million not recognized in 2008.

The contractual maturities of mortgage loan principal balances at December 31, 2010 and 2009 were as follows:

Principal Balance by Contractual Maturity:	December 31, 2010		December 31, 2009	
	Amount	%	Amount	%
	(In thousands)		(In thousands)	
Due in one year or less	\$3,724	2.5	\$15,407	14.8
Due after one year through five years	53,330	36.5	22,678	21.9
Due after five years through ten years	50,341	34.5	64,032	61.7
Due after ten years through fifteen years	17,075	11.7	1,650	1.6
Due after fifteen years	21,595	14.8	-	-
Totals	\$146,065	100.0	\$103,767	100.0

The Company's real estate investments totaled approximately \$20.1 million at December 31, 2010 and 2009, and consist primarily of income-producing properties which are being operated by a wholly-owned subsidiary of the Company. The Company's real estate holdings are reflected in other long-term investments in the accompanying consolidated financial statements. The Company records real estate at the lower of cost or fair value less estimated cost to sell, which is determined on an individual asset basis. The Company recognized operating income on these properties of approximately \$1.6 million, \$1.2 million and \$0.9 million for the years ended December 31, 2010, 2009 and 2008, 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 losses of \$0.1 million in 2010 and 2008 associated with these properties. There was no recorded net realized gain or loss in 2009.

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

## (C) Debt and Equity Securities

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

	Amortized Cost	Securities Held to Maturity Gross Unrealized Gains (In thousands)	Gross Unrealized Losses	Fair Value
Debt securities:				
U.S. Agencies	\$154,265	2,955	(3,406 )	153,814
U.S. Treasury	1,909	436	-	2,345
States and political subdivisions	328,263	3,050	(10,538 )	320,775
Foreign governments	9,970	1,097	-	11,067
Public utilities	714,760	52,867	(6,311 )	761,316
Corporate	1,799,621	131,867	(12,300 )	1,919,188
Mortgage-backed	1,923,402	130,463	(8,250 )	2,045,615
Home equity	25,569	327	(1,265 )	24,631
Manufactured housing	19,757	911	(87 )	20,581
Totals	\$4,977,516	323,973	(42,157 )	5,259,332

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

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

	Amortized Cost	Securities Available for Sale		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
			(In thousands)	
Debt securities:				
States and political subdivisions	\$3,942	-	(474 )	3,468
Foreign governments	10,296	655	-	10,951
Public utilities	334,018	28,662	(126 )	362,554
Corporate	1,638,828	124,330	(3,271 )	1,759,887
Mortgage-backed	206,380	13,165	(1,080 )	218,465
Home equity	12,754	-	(3,545 )	9,209
Manufactured housing	9,306	1,037	-	10,343
	2,215,524	167,849	(8,496 )	2,374,877
Equity private	195	7,370	-	7,565
Equity public	5,860	1,930	(125 )	7,665
Totals	\$2,221,579	177,149	(8,621 )	2,390,107

Table of Contents

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

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

	Amortized Cost	Securities Held to Maturity		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
(In thousands)				
Debt securities:				
U.S. Agencies	\$103,176	2,450	(810 )	104,816