

NATIONAL WESTERN LIFE INSURANCE CO  
Form 10-K/A  
March 19, 2014

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

FORM 10-K/A  
(Amendment No. 1)

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

For the Fiscal Year Ended December 31, 2013

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

For the transition period from to

Commission File Number: 2-17039

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

COLORADO  
(State of Incorporation)

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

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

(512) 836-1010  
(Telephone Number)

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 o No R

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

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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

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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. R

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, 2013 was \$652,090,135.

As of March 14, 2014, the number of shares of Registrant's common stock outstanding was: Class A - 3,434,765 and Class B - 200,000.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its annual meeting of shareholders to be held June 20, 2014, which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2013, are incorporated by reference into Part III to the extent described herein.

#### EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A ("Amendment No. 1") amends National Western Life Insurance Company's (the "Company") Annual Report on Form 10-K for the fiscal year ended December 31, 2013 originally filed on March 17, 2014 ("Original Filing"). This Amendment No. 1 is being filed for the sole purpose of correcting the dates of the Report of Independent Registered Public Accounting Firm in Part II Item 9A and Part IV Item 15 in the Original Filing which were inadvertently dated incorrectly due to administrative error.

The Company's consolidated balance sheets and consolidated statements of earnings for the periods presented have not been restated from the consolidated balance sheets and consolidated statements of earnings reported in the Original Filing. The XBRL files are not included in this Amendment No. 1 as there were no revisions made to the financial data in the Original Filing.

Except as expressly noted herein, this Amendment No. 1 does not modify or update in any way disclosures made in the Original Filing. Accordingly, this Amendment No. 1 should be read in conjunction with the Annual Report in the Original Filing. Pursuant to the Rules of the Securities and Exchange Commission, currently dated certifications from the Company's Chief Executive Officer and Chief Financial Officer as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 are filed or furnished herewith, as applicable.

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## 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. During the quarter ended June 30, 2013, the Company implemented a new investment accounting system. During the quarter ended December 31, 2013, the Company implemented a new share-based (stock option and stock appreciation rights) compensation accounting system. These implementations constitute a change in the Company's internal controls over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Prior to each implementation, the Company performed conversion testing, evaluated and tested internal controls and determined that each change did not materially affect, nor will reasonably likely materially affect, the Company's internal controls over financial reporting.

While other changes have taken place in internal controls during the year ended December 31, 2013, none of these changes have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of this examination.

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

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

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles. Under the supervision and participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2013 was conducted based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control - Integrated Framework (1992). Based on the Company's assessment under the criteria of this framework, management concluded that the Company maintained effective internal control over financial reporting as of December 31, 2013.

### 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. As noted above, during 2013 the Company implemented two accounting systems that provide information necessary for financial reporting which the Company vetted and determined did not materially affect the Company's internal controls over financial reporting. No other changes have taken place in internal controls during the year ended December 31, 2013, 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.

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, 2013, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, National Western Life Insurance Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework (1992), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of National Western Life Insurance Company and subsidiaries as of December 31, 2013 and 2012, 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, 2013, and our report dated March 17, 2014 expressed an unqualified opinion on those consolidated financial statements.

/S/KPMG LLP



Houston, Texas  
March 17, 2014

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ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Listing of Financial Statements

See Attachment A, Index to Financial Statements and Schedules, on page 81 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 81 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).                                                                               |

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- Exhibit 3ii(h) - Bylaws of National Western Life Insurance Company dated March 22, 2010 (incorporated by reference to Exhibit 3ii(h) to the Company's Form 8-K dated March 22, 2010).
- Exhibit 10(a) - National Western Life Insurance Company Non-Qualified Defined Benefit Plan dated July 26, 1991 (incorporated by reference to Exhibit 10(a) to the Company's Form 10-K for the year ended December 31, 1995).

- Exhibit 10(c) - National Western Life Insurance Company Non-Qualified Deferred Compensation Plan, as amended and restated, dated March 27, 1995 (incorporated by reference to Exhibit 10(c) to the Company's Form 10-K for the year ended December 31, 1995).
- Exhibit 10(d) - First Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective July 1, 1995 (incorporated by reference to Exhibit 10(d) to the Company's Form 10-K for the year ended December 31, 1995).
- Exhibit 10(e) - National Western Life Insurance Company 1995 Stock and Incentive Plan (incorporated by reference to Exhibit 10(e) to the Company's Form 10-K for the year ended December 31, 1995).
- Exhibit 10(f) - First Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective December 17, 1996 (incorporated by reference to Exhibit 10(f) to the Company's Form 10-K for the year ended December 31, 1996).
- Exhibit 10(g) - Second Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective December 17, 1996 (incorporated by reference to Exhibit 10(g) to the Company's Form 10-K for the year ended December 31, 1996).
- Exhibit 10(h) - Second Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective December 17, 1996 (incorporated by reference to Exhibit 10(h) to the Company's Form 10-K for the year ended December 31, 1996).
- Exhibit 10(i) - Third Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective December 17, 1996 (incorporated by reference to Exhibit 10(i) to the Company's Form 10-K for the year ended December 31, 1996).
- Exhibit 10(j) - Fourth Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective June 20, 1997 (incorporated by reference to Exhibit 10(j) to the Company's Form 10-K for the year ended December 31, 1997).
- Exhibit 10(k) - First Amendment to the National Western Life Insurance Company 1995 Stock and Incentive Plan effective June 19, 1998 (incorporated by reference to Exhibit 10(k) to the Company's Form 10-Q for the quarter ended June 30, 1998).
- Exhibit 10(m) - Fifth Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective July 1, 1998 (incorporated by reference to Exhibit 10(m) to the Company's Form 10-Q for the quarter ended September 30, 1998).
- 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

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effective November 23, 1998 (incorporated by reference to Exhibit 10(p) to the Company's Form 10-K for the year ended December 31, 1998).

Exhibit 10(s) - Seventh Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective August 7, 1998 (incorporated by reference to Exhibit 10(s) to the Company's Form 10-K for the year ended December 31, 2000).

- Exhibit 10(u) - Eighth Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective December 1, 2000 (incorporated by reference to Exhibit 10(u) to the Company's Form 10-K for the year ended December 31, 2000).
- Exhibit 10(v) - Fourth Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective December 1, 2000 (incorporated by reference to Exhibit 10(v) to the Company's Form 10-K for the year ended December 31, 2000).
- Exhibit 10(w) - Second Amendment to the National Western Life Insurance Company 1995 Stock and Incentive Plan (incorporated by reference to Exhibit 10(w) to the Company's Form 10-Q for the quarter ended September 30, 2001).
- Exhibit 10(z) - Fifth Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective January 1, 2001 (incorporated by reference to Exhibit 10(z) to the Company's Form 10-K for the year ended December 31, 2001).
- Exhibit 10(ae) - Sixth Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective August 23, 2002 (incorporated by reference to Exhibit 10(ae) to the Company's Form 10-Q for the quarter ended September 30, 2002).
- Exhibit 10(af) - Seventh Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective October 18, 2002 (incorporated by reference to Exhibit 10(af) to the Company's Form 10-Q for the quarter ended September 30, 2002).
- Exhibit 10(ai) - Eighth Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective January 1, 2003 (incorporated by reference to Exhibit 10(ai) to the Company's Form 10-K for the year ended December 31, 2002).
- Exhibit 10(am) - Ninth amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective November 1, 2003 (incorporated by reference to Exhibit 10(am) to the Company's Form 10-K for the year ended December 31, 2003).
- Exhibit 10(an) - Ninth amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective December 5, 2003 (incorporated by reference to Exhibit 10(an) to the Company's Form 10-K for the year ended December 31, 2003.)
- Exhibit 10(ar) - Third Amendment to the National Western Life Insurance Company 1995 Stock and Incentive Plan (incorporated by reference to Exhibit 10(ar) to the Company's Form 10-Q for the quarter ended September 30, 2004).
- 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) -

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Tenth Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective December 31, 2004 (incorporated by reference to Exhibit 10(a) to the Company's Form 10-K for the year ended December 31, 2004).

Exhibit 10(a) - National Western Life Insurance Company Non-Qualified Defined Benefit Plan for Robert L. Moody (Exhibit 10(a) to Form 8-K dated July 1, 2005).

- Exhibit 10(ba) - First Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan for Robert L. Moody (Exhibit 10(ba) to Form 8-K dated August 22, 2005).
- Exhibit 10(bb) - Second Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan for Robert L. Moody (Exhibit 10(bb) to Form 8-K dated December 15, 2005).
- Exhibit 10(bc) - Tenth Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan (Exhibit 10(bc) to Form 8-K dated December 15, 2005).
- Exhibit 10(bd) - National Western Life Insurance Company Retirement Bonus Program for Robert L. Moody (Exhibit 10(bd) to Form 8-K dated December 15, 2005).
- Exhibit 10(be) - Eleventh Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan (Exhibit 10(be) to Form 8-K dated December 15, 2005).
- Exhibit 10(bf) - Non-Qualified Defined Benefit Plan for the President of National Western Life Insurance Company (Exhibit 10(bf) to Form 8-K dated December 15, 2005).
- Exhibit 10(bg) - National Western Life Insurance Company 2006 Executive Officer Bonus Program (Exhibit 10(bg) to Form 8-K dated February 17, 2006).
- Exhibit 10(bh) - National Western Life Insurance Company 2006 Executive Officer Bonus Program (as amended) (Exhibit 10(bh) to Form 8-K dated April 21, 2006).
- Exhibit 10(bi) - 2006 International Marketing Officer Bonus Program (Exhibit 10(bi) to Form 8-K dated June 23, 2006).
- Exhibit 10(bj) - 2006 Domestic Marketing Officer Bonus Program (Exhibit 10(bj) to Form 8-K dated June 23, 2006).
- Exhibit 10(bk) - National Western Life Insurance Company Harvest Nonqualified Deferred Compensation Plan (Exhibit 10(bk) to Form 8-K dated June 23, 2006).
- Exhibit 10(bl) - Amendment No. 16 to Loan Agreement (Exhibit 10(bl) to Form 8-K dated July 31, 2006).
- Exhibit 10(bm)- Life Systems, Incorporated Termination Agreement (Exhibit 10(bm) to Form 8-K dated March 30, 2007).
- Exhibit 10(bn) - National Western Life Insurance Company 2007 Executive Officer Bonus Program (Exhibit 10(bn) to Form 8-K dated April 19, 2007).
- Exhibit 10(bo) - National Western Life Insurance Company 2007 Domestic Marketing Officer Bonus Program (Exhibit 10(bo) to Form 8-K dated April 19, 2007).
- Exhibit 10(bp) - National Western Life Insurance Company 2007 International Marketing Officer Bonus Program (Exhibit 10(bp) to Form 8-K dated April 19, 2007).
- Exhibit 10(bq) - National Western Life Insurance Company 2008 Executive Officer Bonus Program (Exhibit 10(bq) to Form 8-K dated March 17, 2008).



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

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- Exhibit 10(bs) - National Western Life Insurance Company 2008 International Marketing Officer Bonus Program (Exhibit 10(bs) to Form 8-K dated August 22, 2008).
- Exhibit 10(bt) - National Western Life Insurance Company 2008 Domestic Marketing Officer Bonus Program (as amended) (Exhibit 10(bt) to Form 8-K dated October 16, 2008).
- Exhibit 10(bu) - National Western Life Insurance Company 2008 Incentive Plan (Exhibit 10(bu) to S-8 dated September 2, 2008).
- Exhibit 10(bv) - National Western Life Insurance Company 2008 Senior Vice President Bonus Program (incorporated by reference to Exhibit 10(bv) to the Company's Form 10-K for the year ended December 31, 2008).
- Exhibit 10(bw) - National Western Life Insurance Company 2009 Executive Officer Bonus Program (Exhibit 10(bw) to Form 8-K dated February 19, 2009).
- Exhibit 10(bx) - National Western Life Insurance Company 2009 Domestic Marketing Officer Bonus Program (Exhibit 10(bx) to Form 8-K dated February 19, 2009).
- Exhibit 10(by) - National Western Life Insurance Company 2009 International Marketing Officer Bonus Program (Exhibit 10(by) to Form 8-K dated February 19, 2009).
- Exhibit 10(bz) - National Western Life Insurance Company 2009 Senior Vice President Bonus Program (Exhibit 10(bz) to Form 8-K dated February 19, 2009).
- Exhibit 10(ca) - National Western Life Insurance Company Non-Qualified Defined Benefit Plan for Robert L. Moody As Amended and Restated Effective as of January 1, 2009 (incorporated by reference to Exhibit 10(ca) to the Company's Form 10-K for the year ended December 31, 2008).
- Exhibit 10(cb) - Non-Qualified Defined Benefit Plan for the President of National Western Life Insurance Company As Amended and Restated Effective as of January 1, 2009 (incorporated by reference to Exhibit 10(cb) to the Company's Form 10-K for the year ended December 31, 2008).
- Exhibit 10(cc) - National Western Life Insurance Company Grandfathered Non-Qualified Defined Benefit Plan As Amended and Restated Effective as of December 31, 2004 (incorporated by reference to Exhibit 10(cc) to the Company's Form 10-K for the year ended December 31, 2008).
- Exhibit 10(cd) - National Western Life Insurance Company Non-Qualified Defined Benefit Plan As Amended and Restated Effective as of January 1, 2009 (incorporated by reference to Exhibit 10(cd) to the Company's Form 10-K for the year ended December 31, 2008).
- Exhibit 10(ce) - National Western Life Insurance Company Grandfathered Non-Qualified Deferred Compensation Plan As Amended and Restated Effective as of December 31, 2004 (incorporated by reference to Exhibit 10(ce) to the Company's Form 10-K for the year ended December 31, 2008).
- Exhibit 10(cf) - National Western Life Insurance Company Non-Qualified Deferred Compensation Plan As Amended and Restated Effective as of January 1, 2009 (incorporated by reference to Exhibit 10(cf) to the Company's Form 10-K for the year ended December 31, 2008).

Exhibit 10(cg) - First Amendment to The National Western Life Insurance Company Pension Plan As Amended and Restated Effective as of January 1, 2007 (incorporated by reference to Exhibit 10(cg) to the Company's Form 10-K for the year ended December 31, 2008).

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- Exhibit 10(ch) - Amended National Western Life Insurance Company Group Excess Benefit Plan, effective May 1, 2009 (incorporated by reference to Exhibit 10(ch) to the Company's Form 10-Q for the quarter ended March 31, 2009).
- Exhibit 10(ci) - Revolving Credit Loan Agreement with Moody National Bank (Exhibit 10(ci) to Form 8-K dated August 31, 2009).
- Exhibit 10(cj) - National Western Life Insurance Company 2010 Executive Officer Bonus Program (Exhibit 10(cj) to Form 8-K dated December 16, 2009).
- Exhibit 10(ck) - National Western Life Insurance Company 2010 Domestic Marketing Officer Bonus Program (Exhibit 10(ck) to Form 8-K dated December 16, 2009).
- Exhibit 10(cl) - National Western Life Insurance Company 2010 International Marketing Officer Bonus Program (Exhibit 10(cl) to Form 8-K dated December 16, 2009).
- Exhibit 10(cm) - National Western Life Insurance Company 2010 Officer President Bonus Program (Exhibit 10(cm) to Form 8-K dated December 16, 2009).
- Exhibit 10(cn) - Master Service Agreement between National Western Life Insurance Company and Flexible Architecture and Simplified Technology, Inc. dated March 30, 2010 (Exhibit 10(cn) to Form 8-K dated March 30, 2010).
- Exhibit 10(co) - Amended National Western Life Insurance Company Pension Plan, effective January 1, 2008. (incorporated by reference to Exhibit 10(co) to the Company's Form 10-Q for the quarter ended March 31, 2010).
- Exhibit 10(cp) - Management/Consultant Agreement dated March 29, 2000 by and between Regent Care Operations, Limited Partnership and Regent Management Services, Limited Partnership. (incorporated by reference to Exhibit 10(cp) to the Company's Form 10-K /A for the year ended December 31, 2010).
- Exhibit 10(cq) - Management Agreement dated October 1, 2008 by and between Regent Care San Marcos B-3, Limited Partnership and Regent Management Services, Limited Partnership. (incorporated by reference to Exhibit 10(cq) to the Company's Form 10-K /A for the year ended December 31, 2010).
- Exhibit 10(cr) - Administrative Services Only Agreement dated January 1, 2001 by and between National Western Life Insurance Company and American National Insurance Company (ANICO) pertaining to ANICO Excess Benefit Plan. (incorporated by reference to Exhibit 10(cr) to the Company's Form 10-K /A for the year ended December 31, 2010).
- Exhibit 10(cs) - Premium Payment Agreement dated January 1, 2001 by and between National Western Life Insurance Company and American National Insurance Company (ANICO) pertaining to ANICO Excess Benefit Plan. (incorporated by reference to Exhibit 10(cs) to the Company's Form 10-K /A for the year ended December 31, 2010).
- Exhibit 10(ct) - Administrative Services Only Agreement dated January 1, 2001 by and between National Western Life Insurance Company and American National Insurance Company (ANICO)

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pertaining to ANICO Excess Benefit Plan. (incorporated by reference to Exhibit 10(ct) to the Company's Form 10-K /A for the year ended December 31, 2010).

Exhibit 10(cu) -

Premium Payment Agreement dated January 1, 2001 by and between National Western Life Insurance Company and American National Insurance Company (ANICO) pertaining to ANICO Excess Benefit Plan. (incorporated by reference to Exhibit 10(cu) to the Company's Form 10-K /A for the year ended December 31, 2010).

- Exhibit 10(cv) - National Western Life Insurance Company 2011 Executive Officer Bonus Program (Exhibit 10(cv) to Form 8-K dated December 16, 2010).
- Exhibit 10(cw) - National Western Life Insurance Company 2011 Domestic Marketing Officer Bonus Program (Exhibit 10(cw) to Form 8-K dated December 16, 2010).
- Exhibit 10(cx) - National Western Life Insurance Company 2011 International Marketing Officer Bonus Program (Exhibit 10(cx) to Form 8-K dated December 16, 2010).
- Exhibit 10(cy) - National Western Life Insurance Company 2011 Officer President Bonus Program (Exhibit 10(cy) to Form 8-K dated December 16, 2010).
- Exhibit 10(cz) - National Western Life Insurance Company 2012 Executive Officer Bonus Program (Exhibit 10(cz) to Form 8-K dated December 14, 2011).
- Exhibit 10(da) - National Western Life Insurance Company 2012 Domestic Marketing Officer Bonus Program (Exhibit 10(da) to Form 8-K dated December 14, 2011).
- Exhibit 10(db) - National Western Life Insurance Company 2012 International Marketing Officer Bonus Program (Exhibit 10(db) to Form 8-K dated December 14, 2011).
- Exhibit 10(dc) - National Western Life Insurance Company 2012 Officer President Bonus Program (Exhibit 10(dc) to Form 8-K dated December 14, 2011).
- Exhibit 10(dd) - National Western Life Insurance Company 2013 Executive Officer Bonus Program (Exhibit 10(dd) to Form 8-K dated December 12, 2012).
- Exhibit 10(de) - National Western Life Insurance Company 2013 Domestic Marketing Officer Bonus Program (Exhibit 10(de) to Form 8-K dated December 12, 2012).
- Exhibit 10(df) - National Western Life Insurance Company 2013 International Marketing Officer Bonus Program (Exhibit 10(df) to Form 8-K dated December 12, 2012).
- Exhibit 10(dg) - National Western Life Insurance Company 2013 Officer President Bonus Program (Exhibit 10(dg) to Form 8-K dated December 12, 2012).
- Exhibit 10(dh) - National Western Life Insurance Company 2014 Executive Officer Bonus Program (Exhibit 10(dh) to Form 8-K dated December 11, 2013).
- Exhibit 10(di) - National Western Life Insurance Company 2014 Domestic Marketing Officer Bonus Program (Exhibit 10(di) to Form 8-K dated December 11, 2013).
- Exhibit 10(dj) - National Western Life Insurance Company 2014 International Marketing Officer Bonus Program (Exhibit 10(dj) to Form 8-K dated December 11, 2013).
- Exhibit 10(dk) - National Western Life Insurance Company 2014 Officer President Bonus Program (Exhibit 10(dk) to Form 8-K dated December 11, 2013).
- 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.

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- 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 82 of this report.



ATTACHMENT A

Index to Financial Statements and Schedules

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	83
<u>Consolidated Balance Sheets, December 31, 2013 and 2012</u>	84
<u>Consolidated Statements of Earnings for the years ended December 31, 2013, 2012 and 2011</u>	86
<u>Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2013, 2012 and 2011</u>	87
<u>Consolidated Statements of Stockholders' Equity for the years ended December 31, 2013, 2012 and 2011</u>	88
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<u>Notes to Consolidated Financial Statements</u>	92
<u>Schedule I - Summary of Investments Other Than Investments in Related Parties, December 31, 2013</u>	149
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All other schedules are omitted because they are not applicable, not required, or because the information required by the schedule is included elsewhere in the consolidated financial statements or notes.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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, 2013, and 2012, and the related consolidated statements of earnings, comprehensive income, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2013. In connection with our audits of the consolidated financial statements, we have also audited financial statement schedules I and V. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our 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, 2013 and 2012, and the results of their operations and their cash flows for the three-year period ended December 31, 2013 in conformity with U.S. generally accepted accounting principles.

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, 2013, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 17, 2014 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/S/KPMG LLP  
Houston, Texas  
March 17, 2014

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES  
 CONSOLIDATED BALANCE SHEETS

December 31, 2013 and 2012

(In thousands)

ASSETS	2013	2012
Investments:		
Securities held to maturity, at amortized cost (fair value: \$6,656,144 and \$6,503,627)	\$6,510,320	5,962,120
Securities available for sale, at fair value (amortized cost: \$2,535,264 and \$2,568,512)	2,651,544	2,826,001
Mortgage loans, net of allowance for possible losses (\$650 and \$650)	132,765	142,170
Policy loans	65,969	71,549
Derivatives, index options	169,314	57,890
Other long-term investments	30,991	41,439
Total Investments	9,560,903	9,101,169
Cash and short-term investments	120,859	124,561
Deferred policy acquisition costs	785,706	705,397
Deferred sales inducements	169,570	152,844
Accrued investment income	95,367	92,665
Federal income tax receivable	—	5,655
Other assets	98,011	81,567
Total assets	\$10,830,416	10,263,858

See accompanying notes to consolidated financial statements.

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES  
 CONSOLIDATED BALANCE SHEETS

December 31, 2013 and 2012

(In thousands except share amounts)

LIABILITIES AND STOCKHOLDERS' EQUITY	2013	2012
<b>LIABILITIES:</b>		
Future policy benefits:		
Universal life and annuity contracts	\$8,987,062	8,430,545
Traditional life reserves	138,072	138,309
Other policyholder liabilities	142,587	148,561
Deferred Federal income tax liability	7,199	55,054
Federal income tax payable	10,067	—
Other liabilities	97,481	99,709
 Total liabilities	 9,382,468	 8,872,178
 <b>COMMITMENTS AND CONTINGENCIES (Notes 4, 7, and 9)</b>		
 <b>STOCKHOLDERS' EQUITY:</b>		
Common stock:		
Class A - \$1 par value; 7,500,000 shares authorized; 3,434,765 shares issued and outstanding in 2013 and 3,434,763 in 2012	3,435	3,435
Class B - \$1 par value; 200,000 shares authorized, issued, and outstanding in 2013 and 2012	200	200
Additional paid-in capital	37,767	37,767
Accumulated other comprehensive income	38,080	76,786
Retained earnings	1,368,466	1,273,492
 Total stockholders' equity	 1,447,948	 1,391,680
 Total liabilities and stockholders' equity	 \$10,830,416	 10,263,858

See accompanying notes to consolidated financial statements.

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF EARNINGS  
For the Years Ended December 31, 2013, 2012 and 2011  
(In thousands except per share amounts)

	2013	2012	2011
Premiums and other revenue:			
Universal life and annuity contract charges	\$ 148,388	149,328	132,133
Traditional life premiums	19,078	18,616	18,078
Net investment income	660,432	460,048	391,034
Other revenues	23,716	23,470	25,439
Net realized investment gains (losses):			
Total other-than-temporary impairment (“OTTI”) (losses) recoveries	846	1,023	(1,752 )
Portion of OTTI losses recognized in other comprehensive income	(1,151 )	(2,364 )	1,613 )
Net OTTI losses recognized in earnings	(305 )	(1,341 )	(139 )
Other net investment gains	8,958	14,541	6,202
Total net realized investment gains (losses)	8,653	13,200	6,063
 Total revenues	 860,267	 664,662	 572,747
Benefits and expenses:			
Life and other policy benefits	60,050	51,842	46,494
Amortization of deferred policy acquisition costs	108,233	121,922	133,088
Universal life and annuity contract interest	454,594	262,339	232,788
Other operating expenses	95,693	87,978	77,541
 Total benefits and expenses	 718,570	 524,081	 489,911
 Earnings before Federal income taxes	 141,697	 140,581	 82,836
 Federal income taxes	 45,450	 48,023	 27,209
 Net earnings	 \$96,247	 92,558	 55,627
Basic Earnings Per Share:			
Class A	\$27.23	26.19	15.74
Class B	\$13.61	13.09	7.87
Diluted Earnings Per Share:			
Class A	\$27.19	26.19	15.73
Class B	\$13.61	13.09	7.87

See accompanying notes to consolidated financial statements.

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

For the Years Ended December 31, 2013, 2012 and 2011

(In thousands)

	2013	2012	2011
Net earnings	\$96,247	92,558	55,627
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	(42,218	) 27,211	10,955
Net unrealized liquidity gains (losses)	333	1,307	(215
Reclassification adjustment for net amounts included in net earnings	(3,061	) (4,504	) (4,365
Amortization of net unrealized (gains) losses related to transferred securities	—	148	27
Net unrealized gains (losses) on securities	(44,946	) 24,162	6,402
Foreign currency translation adjustments	652	221	(217
Benefit plans:			
Amortization of net prior service cost and net gain	5,588	(773	) (3,417
Other comprehensive income (loss)	(38,706	) 23,610	2,768
Comprehensive income (loss)	\$57,541	\$116,168	58,395

See accompanying notes to consolidated financial statements.

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

For the Years Ended December 31, 2013, 2012 and 2011

(In thousands)

	2013	2012	2011	
Common stock:				
Balance at beginning of period	\$3,635	3,635	3,629	
Shares exercised under stock option plan	—	—	6	
Balance at end of period	3,635	3,635	3,635	
Additional paid-in capital:				
Balance at beginning of period	37,767	37,767	37,140	
Shares exercised under stock option plan	—	—	627	
Balance at end of period	37,767	37,767	37,767	
Accumulated other comprehensive income (loss):				
Unrealized gains (losses) on non-impaired securities:				
Balance at beginning of period	91,972	69,117	62,356	
Change in unrealized gains (losses) during period	(45,279	) 22,855	6,761	
Balance at end of period	46,693	91,972	69,117	
Unrealized losses on impaired held to maturity securities:				
Balance at beginning of period	(1,426	) (2,321	) (2,511	)
Amortization	210	393	33	
Other-than-temporary impairments, non-credit, net of tax	95	289	(38	)
Additional credit loss on previously impaired securities	54	411	106	
Change in shadow deferred policy acquisition costs	(220	) (198	) 89	
Balance at end of period	(1,287	) (1,426	) (2,321	)
Unrealized losses on impaired available for sale securities:				
Balance at beginning of period	(196	) (608	) (59	)
Other-than-temporary impairments, non-credit, net of tax	—	—	(1,118	)
Change in shadow deferred policy acquisition costs	(196	) (424	) 569	
Recoveries, net of tax	390	836		
Balance at end of period	(2	) (196	) (608	)

(Continued on next page)





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

For the Years Ended December 31, 2013, 2012 and 2011

(In thousands)

	2013	2012	2011
Foreign currency translation adjustments:			
Balance at beginning of period	2,589	2,368	2,585
Change in translation adjustments during period	652	221	(217 )
Balance at end of period	3,241	2,589	2,368
Benefit plan liability adjustment:			
Balance at beginning of period	(16,153 )	(15,380 )	(11,963 )
Amortization of net prior service cost and net gain, net of tax	5,588	(773 )	(3,417 )
Balance at end of period	(10,565 )	(16,153 )	(15,380 )
Accumulated other comprehensive income (loss) at end of period	38,080	76,786	53,176
Retained earnings:			
Balance at beginning of period	1,273,492	1,182,207	1,127,614
Correction of an error (see Note 1)	—	—	239
Net earnings	96,247	92,558	55,627
Stockholder dividends	(1,273 )	(1,273 )	(1,273 )
Balance at end of period	1,368,466	1,273,492	1,182,207
Total stockholders' equity	\$1,447,948	1,391,680	1,276,785

See accompanying notes to consolidated financial statements.

NATIONAL WESTERN LIFE INSURANCE COMPANY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the Years Ended December 31, 2013, 2012 and 2011  
(In thousands)

	2013	2012	2011
Cash flows from operating activities:			
Net earnings	\$96,247	92,558	55,627
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Universal life and annuity contract interest	454,594	262,339	232,788
Surrender charges and other policy revenues	(14,622)	(14,720)	(4,251)
Realized (gains) losses on investments	(8,653)	(13,201)	(6,082)
Accretion/amortization of discounts and premiums, investments	(2,019)	(1,458)	(2,588)
Depreciation and amortization	4,674	5,688	5,251
(Increase) decrease in value of derivatives	(225,899)	(27,147)	33,335
(Increase) decrease in deferred policy acquisition and sales inducement costs	(26,165)	(10,623)	(65,073)
(Increase) decrease in accrued investment income	(2,312)	(4,790)	(8,155)
(Increase) decrease in other assets	(17,343)	(7,176)	(1,149)
Increase (decrease) in liabilities for future policy benefits	9,664	13,536	24,245
(Decrease) increase in other policyholder liabilities	(5,974)	(2,747)	(219)
(Decrease) increase in Federal income tax liability	(7,932)	(15,054)	(7,971)
(Decrease) increase in other liabilities	(660)	13,076	(11,104)
Other, net	(1)	—	111
Net cash provided by operating activities	253,599	290,281	244,765
Cash flows from investing activities:			
Proceeds from sales of:			
Securities held to maturity	1,980	—	—
Securities available for sale	10,246	8,214	19,522
Other investments	11,024	8,791	5,183
Proceeds from maturities and redemptions of:			
Securities held to maturity	1,231,796	1,473,885	640,620
Securities available for sale	287,858	347,521	171,852
Derivatives, index options	172,112	54,745	82,204
Purchases of:			
Securities held to maturity	(1,775,153)	(1,787,388)	(1,311,122)
Securities available for sale	(256,855)	(490,689)	(387,203)
Derivatives, index options	(61,624)	(56,413)	(65,029)
Other investments	(15)	(5,380)	(10,903)
Principal payments on mortgage loans	43,856	36,545	19,534
Cost of mortgage loans acquired	(34,129)	(21,454)	(35,980)
(Increase) decrease in policy loans	5,580	3,418	3,481
Other, net	—	3	—
Net cash used in investing activities	(363,324)	(428,202)	(867,841)

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED  
For the Years Ended December 31, 2013, 2012 and 2011  
(In thousands)

	2013	2012	2011
Cash flows from financing activities:			
Dividends on common stock	\$(1,273	) (1,273	) (1,273
Deposits to account balances for universal life and annuity contracts	982,305	985,370	1,476,657
Return of account balances on universal life and annuity contracts	(875,661	) (841,126	) (813,766
Issuance of common stock under stock option plan	—	—	633
Net cash provided by (used in) financing activities	105,371	142,971	662,251
Effect of foreign exchange	652	221	(217
Net increase (decrease) in cash and short-term investments	(3,702	) 5,271	38,958
Cash and short-term investments at beginning of year	124,561	119,290	80,332
Cash and short-term investments at end of year	\$120,859	124,561	119,290
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	50	40	—
Income taxes	57,350	62,540	31,331
Noncash operating activities:			
Deferral of sales inducements	\$803	4,498	16,890

See accompanying notes to consolidated financial statements.

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 wholly owned subsidiaries consist of The Westcap Corporation, Regent Care San Marcos Holdings, LLC, NWL Investments, Inc., NWL Services, Inc., NWLSM, Inc., and NWL Financial, Inc. All significant intercorporate transactions and accounts have been eliminated in consolidation.

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

The 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.

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 non-credit declines. The noncredit related declines are reclassified as unrealized losses in accumulated other comprehensive income (loss). Credit losses are recorded in earnings and result in the establishment of a new cost basis for the security. The new discount or reduced premium amount is amortized over the remaining life of the impaired debt security prospectively based on the amount and timing of future estimated cash flows.

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

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

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

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

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

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



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

Although there is credit risk in the event of nonperformance by counterparties to the index options, the Company does not expect any counterparties to fail to meet their obligations, given their high credit ratings. In addition, credit support agreements are in place with all counterparties for option holdings in excess of specific limits, which may further reduce the Company's credit exposure. At December 31, 2013 and 2012, the fair values of index options owned by the Company totaled \$169.3 million and \$57.9 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 deferred sales inducements.

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

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

	Years Ended December 31,		
	2013	2012	2011
	(In thousands)		
Deferred policy acquisition costs, beginning of year	\$705,397	722,542	691,939
Policy acquisition costs deferred:			
Agents' commissions	127,161	121,900	171,763
Other	6,821	6,617	9,755
Total costs deferred	133,982	128,517	181,518
Amortization of deferred policy acquisition costs	(108,233	) (121,922	) (133,088
Adjustments for unrealized (gains) losses on investment securities	54,560	(23,740	) (17,827
Deferred policy acquisition costs, end of year	\$785,706	705,397	722,542

Effective in calendar year 2012, new GAAP guidance specified those policy acquisition costs which may be deferred and amortized over future periods. Previously, guidance permitted companies greater discretion as to the acquisition costs it could capitalize and defer. The Company implemented the new guidance in 2012 and deferrable policy acquisition costs decreased to \$6.6 million from \$9.8 million in 2011. However, a good portion of the decrease in

deferrable costs was attributed to lower acquisition costs incurred given reduced annuity sales levels.

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,		
	2013	2012	2011
	(In thousands)		
Deferred sales inducements, beginning of year	\$ 152,844	155,753	143,844
Sales inducement costs deferred	26,159	31,758	46,709
Amortization of sales inducements	(25,357	) (27,261	) (29,819
Adjustments for unrealized (gains) losses on investment securities	15,924	(7,406	) (4,981
Deferred sales inducements, end of year	\$ 169,570	152,844	155,753

Amortization of deferred policy acquisition costs decreased to \$108.2 million in the year ended December 31, 2013 compared to \$121.9 million and \$133.1 million reported in 2012 and 2011, respectively. Amortization expense in 2011 includes an unlocking adjustment to incorporate lower future portfolio yield rate assumptions which increased DPAC amortization by \$7.9 million. There were no unlocking adjustments in 2013 and 2012. DPAC true-up adjustments were also recorded in 2013, 2012 and 2011 relative to partial surrender rates, mortality rates, credited interest rates and earned rates for the current year's experience resulting in a \$15.8 million and \$12.8 million decrease in amortization expense in 2013 and 2012, respectively, and a \$7.8 million increase in amortization expense in 2011.

Similar to deferred policy acquisition costs, amortization of deferred sales inducements include true-up and unlocking adjustments. Deferred sales inducement true-up adjustments were recorded in 2013, 2012, and 2011 of \$0.8 million, \$5.5 million, and \$0.9 million, respectively, each of which increased amortization expense. In addition, amortization expense in 2011 includes an unlocking adjustment increasing expense by \$1.2 million.

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

(G) Deferred Federal Income Taxes. Federal income taxes are accounted for under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance for deferred tax assets is provided if all or some portion of the deferred tax

asset may not be realized. An increase or decrease in a valuation allowance that results from a change in circumstances that affects the realizability of the related deferred tax asset is included in income in the period the change occurs.

(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.

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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,		
	2013	2012	2011
	(In thousands)		
Annuity deposits	\$813,868	864,719	1,390,990
Universal life insurance deposits	296,286	248,118	202,774
Traditional life and other premiums	22,164	21,476	20,978
Totals	\$1,132,318	1,134,313	1,614,742

2. Statutory accounting practices require commissions and related acquisition 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 as affiliated common stock investments at their respective SSAP investment value under statutory accounting, 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, whereas under GAAP these costs are determined using the fair value method.

8. The calculation of pension liabilities and net periodic benefit costs are recognized for both statutory and GAAP accounting. Prior to January 1, 2013, in accordance with SSAP No. 89, the accumulated benefit obligation in excess of the fair value of plan assets, including unfunded accrued pension costs, was recognized in the statutory financial statements as an additional minimum liability with an equal amount recognized as a non-admitted intangible asset. Effective January 1, 2013, with the adoption of SSAP No. 102, statutory accounting pension liabilities are based upon the projected benefit obligation consistent with GAAP.

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.

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

	2013	2012	2011
	(In thousands)		
Net gain from operations before Federal and foreign income taxes	\$ 170,796	130,644	78,283
Net income	106,159	84,473	53,901
Unassigned surplus	1,082,519	961,054	859,074
Capital and surplus	1,126,232	1,004,766	922,522

(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

During February 2013, the Financial Accounting Standards Board ("FASB") issued new guidance related to the presentation of amounts reclassified out of accumulated other comprehensive income. The new guidance requires disclosure on the statement of income amounts reclassified. As the Company already reports reclassifications on its Consolidated Statements of Earnings and Consolidated Statements of Comprehensive Income (Loss), the new guidance did not have a significant impact on the Company's consolidated financial statements.

During October 2010, the FASB issued new guidance affecting insurance companies that incur costs in the acquisition of new and renewal insurance contracts. The guidance addresses 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 adoption of this guidance was effective for the Company January 1, 2012. Refer to paragraph (F) of this Note 1, Summary of Significant Accounting Policies, for additional disclosures.

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 effective date is for interim and annual periods ending after June 15, 2011. The adoption of this guidance did 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.

Correction of Errors

During 2011, it was discovered that compensation costs associated with the exercise of stock options under the Company's stock and incentive plans had been recorded incorrectly during 2010 and 2009. The associated cumulative amount of \$239,000 was not material to either 2010 or 2009 and the Company recorded the amount as an adjustment to retained earnings as of December 31, 2011.



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## (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,	
	2013	2012
	(In thousands)	
Debt securities held to maturity	\$15,407	15,399
Debt securities available for sale	819	823
Short-term investments	475	475
Totals	\$16,701	16,697

## (3) INVESTMENTS

## (A) Investment Income

The major components of net investment income are as follows:

	Years Ended December 31,		
	2013	2012	2011
	(In thousands)		
Gross investment income:			
Debt securities	\$410,790	408,204	400,431
Mortgage loans	9,256	11,879	12,123
Policy loans	4,503	5,079	5,143
Derivative gains (losses)	225,899	27,147	(33,335)
Money market investments	252	936	273
Other investment income	10,759	7,965	7,438
Total investment income	661,459	461,210	392,073
Investment expenses	1,027	1,162	1,039
Net investment income	\$660,432	460,048	391,034

The Company had real estate investments that were non-income producing for the preceding twelve months totaling \$1.3 million, \$1.5 million and \$1.6 million at December 31, 2013, 2012 and 2011, 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, participation and mezzanine loans on real estate are the only financing receivables included in the balance sheet.



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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. The historically low interest rate environment of the past couple of years has resulted in fewer loan opportunities being available meeting the Company's required rate of return. Consequently, new mortgage loan origination activity has been less significant in this time frame with \$34.1 million and \$21.5 million in total loans for the years 2013 and 2012, respectively.

Loans in foreclosure, loans considered impaired or loans past due 90 days or more are placed on a non-accrual status. If a mortgage loan is determined to be on non-accrual status, the mortgage loan does not accrue any revenue into the Consolidated Statements of 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. The Company also participates in several real estate joint ventures and limited partnerships that invest primarily in income-producing retail properties. These investments have generally served to enhance the Company's overall investment portfolio returns.

The Company held net investments in mortgage loans totaling \$132.8 million and \$142.2 million at December 31, 2013 and 2012, respectively. The diversification of the portfolio by geographic region, property type, and loan-to-value ratio was as follows:

	December 31, 2013		December 31, 2012	
	Amount	%	Amount	%
	(In thousands)		(In thousands)	
Mortgage Loans by Geographic Region:				
West South Central	\$79,702	59.7	\$78,010	54.6
New England	17,400	13.0	21,160	14.8
Mountain	3,239	2.4	2,180	1.5
Pacific	10,364	7.8	18,178	12.7
East South Central	10,098	7.6	10,261	7.2
East North Central	10,607	8.0	10,367	7.3
South Atlantic	—	—	561	0.4
Middle Atlantic	2,005	1.5	2,103	1.5
Gross balance	133,415	100.0	142,820	100.0
Allowance for possible losses	(650	) (0.5	) (650	) (0.5

Totals	\$132,765	99.5	\$142,170	99.5
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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	December 31, 2013		December 31, 2012	
	Amount (In thousands)	%	Amount (In thousands)	%
<b>Mortgage Loans by Property Type:</b>				
Retail	\$ 103,487	77.6	\$ 98,180	68.7
Hotel/Motel	3,742	2.8	4,139	2.9
Land/Lots	3,155	2.4	12,618	8.8
Apartments	15,275	11.4	16,919	11.9
Office	1,313	1.0	4,354	3.1
All other	6,443	4.8	6,610	4.6
Gross balance	133,415	100.0	142,820	100.0
Allowance for possible losses	(650 )	(0.5 )	(650 )	(0.5 )
Totals	\$ 132,765	99.5	\$ 142,170	99.5
	December 31, 2013		December 31, 2012	
	Amount (In thousands)	%	Amount (In thousands)	%
<b>Mortgage Loans by Loan-to-Value Ratio (1):</b>				
Less than 50%	\$ 57,445	43.0	\$ 58,754	41.1
50% to 60%	23,339	17.5	27,832	19.5
60% to 70%	20,120	15.1	23,518	16.5
70% to 80%	9,723	7.3	9,431	6.6
80% to 90%	—	—	—	—
Greater than 90%	22,788	17.1	23,285	16.3
Gross balance	133,415	100.0	142,820	100.0
Allowance for possible losses	(650 )	(0.5 )	(650 )	(0.5 )
Totals	\$ 132,765	99.5	\$ 142,170	99.5

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

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

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.



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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 \$0.0 million, \$0.7 million and \$0.6 million for the years ended December 31, 2013, 2012 and 2011, respectively. The mortgage loan valuation write-down in 2012 represents a general valuation allowance established for the Company's mortgage loan portfolio based upon the Company's loss experience over the past ten years and is not specifically identified to individual loans. The valuation write-downs in 2011 pertained to specifically impaired loans. The specific principle balances requiring a valuation allowance were \$0.0 million, \$0.0 million and \$7.0 million in 2013, 2012, and 2011, respectively. The amount of interest recorded while these loans were impaired was \$0 million, \$0 million and \$0.3 million in 2013, 2012, and 2011, respectively. The impairments in 2011 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, 2013 and 2012:

	2013 (In thousands)	2012
Balance, beginning of period	\$650	4,571
Provision	—	650
Releases	—	(4,571)
Balance, end of period	\$650	650

The mortgage loan allowance released during 2012 pertained to a property forced into bankruptcy which the Company subsequently acquired in a bankruptcy auction. The mortgage loan was foreclosed and the Company incurred a write-down of \$0.6 million and the property reclassified as a real estate investment included in other long-term investments on the Company's balance sheet. The property was subsequently sold in 2012 for a net gain of \$2.7 million.

The Company does not recognize interest income on loans past due 90 days or more. The Company had no mortgage loan past due six months or more at December 31, 2013 and 2012. There was no interest income not recognized in 2013, 2012 and 2011.

The contractual maturities of mortgage loan principal balances at December 31, 2013 and 2012 were as follows:

	December 31, 2013		December 31, 2012	
	Amount (In thousands)	%	Amount (In thousands)	%
Principal Balance by Contractual Maturity:				
Due in one year or less	\$10,491	7.8	\$23,869	16.6
Due after one year through five years	51,304	38.3	44,973	31.3

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Due after five years through ten years	51,839	38.7	44,993	31.4
Due after ten years through fifteen years	—	—	8,862	6.2
Due after fifteen years	20,300	15.2	20,759	14.5
Totals	\$ 133,934	100.0	\$ 143,456	100.0

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

The Company's real estate investments totaled approximately \$18.2 million at December 31, 2013 and \$18.8 million at December 31, 2012, 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 \$1.7 million, \$1.6 million and \$1.6 million for the years ended December 31, 2013, 2012 and 2011, respectively. The Company monitors the conditions and market values of these properties on a regular basis and makes repairs and capital improvements to keep the properties in good condition. The Company recorded net realized investment gains (losses) on disposals of \$0.3 million, \$2.6 million and \$(0.1) million associated with these properties in the years ended December 31, 2013, 2012 and 2011, respectively. The realized gain in 2012 was due to an impaired and foreclosed property located in New Orleans, LA that was subsequently sold at an amount above its impaired value.

(C) Debt and Equity Securities

The table below presents amortized costs and fair values of securities held to maturity at December 31, 2013.

	Securities Held to Maturity			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
	(In thousands)			
Debt securities:				
U.S. agencies	\$23,088	1,700	—	24,788
U.S. Treasury	1,913	434	—	2,347
States and political subdivisions	423,286	13,433	(10,944)	425,775
Foreign governments	9,997	159	—	10,156
Public utilities	864,324	53,222	(9,687)	907,859
Corporate	3,463,521	153,442	(81,760)	3,535,203
Mortgage-backed	1,696,887	54,035	(33,376)	1,717,546
Home equity	20,179	4,738	(32)	24,885
Manufactured housing	7,125	460	—	7,585
Totals	\$6,510,320	281,623	(135,799)	6,656,144

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The table below presents amortized costs and fair values of securities available for sale at December 31, 2013.

	Securities Available for Sale			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
	(In thousands)			
Debt securities:				
States and political subdivisions	\$594	—	(110)	) 484
Foreign governments	9,931	—	(156)	) 9,775
Public utilities	233,788	15,014	(1,397)	) 247,405
Corporate	2,195,124	124,519	(30,732)	) 2,288,911
Mortgage-backed	68,799	5,040	—	) 73,839
Home equity	12,079	245	(7)	) 12,317
Manufactured housing	3,803	132	—	) 3,935
	2,524,118	144,950	(32,402)	) 2,636,666
Equity private	—	—	—	—
Equity public	11,146	4,489	(757)	) 14,878
Totals	\$2,535,264	149,439	(33,159)	) 2,651,544

The table below presents amortized costs and fair values of securities held to maturity at December 31, 2012.

	Securities Held to Maturity			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
	(In thousands)			
Debt securities:				
U.S. agencies	\$23,114	2,748	—	) 25,862
U.S. Treasury	1,907	648	—	) 2,555
States and political subdivisions	391,062	41,150	(431)	) 431,781
Foreign governments	9,988	616	—	) 10,604
Public utilities	781,239	89,162	(103)	) 870,298
Corporate	2,887,572	273,431	(3,753)	) 3,157,250
Mortgage-backed	1,835,051	133,684	(261)	) 1,968,474
Home equity	21,545	4,443	(549)	) 25,439
Manufactured housing	10,642	722	—	) 11,364
Totals	\$5,962,120	546,604	(5,097)	) 6,503,627

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The table below presents amortized costs and fair values of securities available for sale at December 31, 2012.

	Securities Available for Sale			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
	(In thousands)			
Debt securities:				
States and political subdivisions	\$599	—	(28	) 571
Foreign governments	15,134	932	—	16,066
Public utilities	254,853	26,621	(47	) 281,427
Corporate	2,157,706	222,587	(2,981	) 2,377,312
Mortgage-backed	113,488	8,905	(64	) 122,329
Home equity	12,242	—	(1,483	) 10,759
Manufactured housing	5,030	240	—	5,270
	2,559,052	259,285	(4,603	) 2,813,734
Equity private	—	—	—	—
Equity public	9,460	2,865	(58	) 12,267
Totals	\$2,568,512	262,150	(4,661	) 2,826,001

The Company's investment policy is to invest in high quality securities with the primary intention of holding these securities until the stated maturity. As such, the portfolio has exposure to interest rate risk which is the risk that funds are invested today at a market interest rate and in the future interest rates rise causing the current market price on that investment to be lower. This risk is not a significant factor relative to the Company's buy and hold portfolio, since the original intention was to receive the stated interest rate and principal at maturity to match liability requirements to policyholders. Also, the Company takes steps to manage these risks. For example, the Company purchases the type of mortgage-backed securities that have more predictable cash flow patterns.

In addition, the Company is exposed to credit risk which is continually monitored relating to security holdings. Credit risk is the risk that an issuer of a security will not be able to fulfill their obligations relative to a security payment schedule. The Company has reviewed pertinent information for all issuers in an unrealized loss position at December 31, 2013 including market pricing history, credit ratings, analyst reports, as well as data provided by the issuers themselves. The Company then made a determination on each specific issuer relating to other-than-temporary impairment. For the securities that have not been impaired at December 31, 2013, the Company intends to hold these securities until recovery in fair value and expects to receive all amounts due relative to principal and interest.

The Company held below investment grade debt securities totaling \$178.6 million and \$165.8 million at December 31, 2013 and 2012, respectively. These amounts represent 1.9% and 1.8% of total invested assets for December 31, 2013 and 2012, respectively. Below investment grade holdings are the result of downgrades subsequent to purchase, as the Company only invests in high quality securities with ratings quoted as investment grade. Below investment grade securities generally have greater default risk than higher rated corporate debt. The issuers of these securities are usually more sensitive to adverse industry or economic conditions than are investment grade issuers.

For the year ended December 31, 2013, the Company recorded net realized gains totaling \$9.0 million related to the disposition of investment securities. The net realized gains included \$0.2 million of losses for other-than-temporary impairment write-downs on investments in debt securities. For the years ended December 2012 and 2011, the Company recorded realized gains totaling \$14.5 million and \$6.2 million, respectively, related to disposition of securities.

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The following table shows the gross unrealized losses and fair values of the Company's held to maturity investments by investment category and length of time the individual securities have been in a continuous unrealized loss position at December 31, 2013.

	Held to Maturity		12 Months or Greater		Total		
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	
	(In thousands)						
Debt securities:							
U.S. agencies	\$—	—	—	—	—	—	
U.S. Treasury	—	—	—	—	—	—	
State and political subdivisions	128,711	(9,249	) 8,080	(1,695	) 136,791	(10,944	)
Foreign governments	—	—	—	—	—	—	
Public utilities	260,982	(8,998	) 7,821	(689	) 268,803	(9,687	)
Corporate	1,335,088	(71,330	) 117,179	(10,430	) 1,452,267	(81,760	)
Mortgage-backed	581,373	(32,043	) 13,861	(1,333	) 595,234	(33,376	)
Home equity	—	—	2,617	(32	) 2,617	(32	)
Manufactured housing	—	—	—	—	—	—	
Total temporarily impaired securities	\$2,306,154	(121,620	) 149,558	(14,179	) 2,455,712	(135,799	)

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The following table shows the gross unrealized losses and fair values of the Company's available for sale investments by investment category and length of time the individual securities have been in a continuous unrealized loss position at December 31, 2013.

	Available For Sale		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Debt securities:						
U.S. agencies	\$—	—	—	—	—	—
U.S. Treasury	—	—	—	—	—	—
State and political subdivisions	—	—	484	(110)	484	(110)
Foreign governments	9,775	(156)	—	—	9,775	(156)
Public utilities	20,090	(1,343)	962	(54)	21,052	(1,397)
Corporate	532,310	(26,376)	46,187	(4,356)	578,497	(30,732)
Mortgage-backed	—	—	—	—	—	—
Home equity	4,833	(7)	—	—	4,833	(7)
Manufactured housing	—	—	—	—	—	—
	567,008	(27,882)	47,633	(4,520)	614,641	(32,402)
Equity public	3,707	(757)	—	—	3,707	(757)
Total temporarily impaired securities	\$570,715	(28,639)	47,633	(4,520)	618,348	(33,159)

Liquidity in the bond market improved in 2013 as economic and market conditions started to stabilize. However, unrealized losses increased in 2013 due to the rising rate environment. The Company does not consider these investments to be other-than-temporarily impaired because the Company does not intend to sell these securities until recovery in fair value and expects to receive all amounts due relative to principal and interest.

The Company does not consider securities to be other-than-temporarily impaired where the market decline is attributable to factors such as market volatility, liquidity, spread widening and credit quality where we anticipate a recovery of all amounts due under the contractual terms of the security and have the intent and ability to hold until recovery or maturity. Based on the Company's review in concert with the Company's ability and intent to hold these securities until maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2013. The Company will monitor the investment portfolio for future changes in issuer facts and circumstances that could result in future impairments beyond those currently identified.

Debt securities. The gross unrealized losses for debt securities are made up of 427 individual issues, or 33.4% of the total debt securities held by the Company. The market value of these bonds as a percent of amortized cost averages 94.8%. Of the 427 securities, 33, or approximately 3.0%, fall in the 12 months or greater aging category; and 423 were rated investment grade at December 31, 2013.

Equity securities. The gross unrealized losses for equity securities are made up of 15 individual issues. These holdings are reviewed quarterly for impairment. Two of the equity securities were other-than-temporarily impaired at December 31, 2013, in accordance with Company policy.

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The following table shows the gross unrealized losses and fair values of the Company's held to maturity investments by investment category and length of time the individual securities have been in a continuous unrealized loss position at December 31, 2012.

	Held to Maturity		12 Months or Greater		Total		
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	
	(In thousands)						
Debt securities:							
U.S. agencies	\$—	—	—	—	—	—	
U.S. Treasury	—	—	—	—	—	—	
State and political subdivisions	19,745	(401	) 1,470	(30	) 21,215	(431	)
Foreign governments	—	—	—	—	—	—	
Public utilities	24,271	(80	) 1,982	(23	) 26,253	(103	)
Corporate	303,645	(1,776	) 38,078	(1,977	) 341,723	(3,753	)
Mortgage-backed	15,010	(261	) —	—	15,010	(261	)
Home equity	—	—	6,435	(549	) 6,435	(549	)
Manufactured housing	—	—	—	—	—	—	
Total temporarily impaired securities	\$362,671	(2,518	) 47,965	(2,579	) 410,636	(5,097	)



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The following table shows the gross unrealized losses and fair values of the Company's available for sale investments by investment category, and length of time the individual securities have been in a continuous unrealized loss position at December 31, 2012.

	Available For Sale		12 Months or Greater		Total Fair Value	Unrealized Losses	
	Less than 12 Months Fair Value (In thousands)	Unrealized Losses	Fair Value	Unrealized Losses			
Debt securities:							
U.S. agencies	\$—	—	—	—	—	—	
U.S. Treasury	—	—	—	—	—	—	
State and political subdivisions	571	(28	) —	—	571	(28	)
Foreign governments	—	—	—	—	—	—	
Public utilities	10,949	(47	) —	—	10,949	(47	)
Corporate	64,383	(713	) 14,713	(2,268	) 79,096	(2,981	)
Mortgage-backed	3,839	(64	) —	—	3,839	(64	)
Home equity	4,698	(216	) 6,062	(1,267	) 10,760	(1,483	)
Manufactured housing	—	—	—	—	—	—	
	84,440	(1,068	) 20,775	(3,535	) 105,215	(4,603	)
Equity public	756	(8	) 295	(50	) 1,051	(58	)
Total temporarily impaired securities	\$85,196	(1,076	) 21,070	(3,585	) 106,266	(4,661	)

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The amortized cost and fair value of investments in debt securities at December 31, 2013, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Debt Securities Available for Sale		Debt Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Due in 1 year or less	\$266,984	274,424	214,460	219,206
Due after 1 year through 5 years	742,567	818,223	935,765	1,036,211
Due after 5 years through 10 years	1,407,290	1,430,975	3,335,564	3,358,778
Due after 10 years	22,596	22,953	300,341	291,934
	2,439,437	2,546,575	4,786,130	4,906,129
Mortgage and asset-backed securities	84,681	90,091	1,724,190	1,750,015
Total	\$2,524,118	2,636,666	6,510,320	6,656,144

The Company uses the specific identification method in computing realized gains and losses. The table below details the nature of realized gains and losses, excluding impairments, during the year.

	Years Ended December 31,		
	2013	2012	2011
	(In thousands)		
Available for sale debt securities:			
Realized gains on disposal	\$4,418	7,115	6,448
Realized losses on disposal	(6	) —	(1
Held to maturity debt securities:			
Realized gains on redemption	3,845	6,065	763
Realized losses on redemption	(72	) (679	) (853
Equity securities realized gains	511	193	291
Real estate	262	2,485	(70
Mortgage loans	—	(638	) (609
Other	—	—	233
Totals	\$8,958	14,541	6,202

Due to significant credit deterioration, one bond from the held to maturity portfolio was sold in both 2013 and 2012. The sale in 2013 resulted in an insignificant realized gain. The sale in 2012 resulted in a loss of \$0.3 million. No transfers were made out of the held to maturity portfolio to the available for sale portfolio in 2013, 2012 and 2011.

Except for U.S. government agency mortgage-backed securities, the Company had no other investments in any entity in excess of 10% of stockholders' equity at December 31, 2013 or 2012.



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

	December 31,		
	2013	2012	2011
	(In thousands)		
Total other-than-temporary impairment recoveries (losses) on debt securities	\$909	1,121	(1,738 )
Portion recognized in comprehensive income	(1,151 )	(2,364 )	1,613 )
Net impairment losses on debt securities recognized in earnings	(242 )	(1,243 )	(125 )
Equity securities impairments	(63 )	(98 )	(14 )
Totals	\$(305 )	(1,341 )	(139 )

For the years ended December 31, 2013 and December 31, 2012, the Company recovered \$0.9 million and \$1.1 million, respectively, on previously impaired asset-backed securities. The Company recognized \$1.7 million as other-than-temporary impairment losses on one held to maturity security and two available for sale securities in 2011. The credit component of the impairment was determined to be the difference between amortized cost and the present value of the cash flows expected to be received, discounted at the original yield. The significant inputs used to project cash flows are estimated future prepayment rates, default rates and default loss severity.

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

	Year Ended December 31, 2013 (In thousands)	Year Ended December 31, 2012
Beginning balance, cumulative credit losses related to other-than-temporary impairments	\$2,247	1,122
Reductions for securities sold during current period	(17 )	(118 )
Additions for OTTI where credit losses have been previously recognized	242	1,243
Ending balance, cumulative credit losses related to other-than-temporary impairments	\$2,472	2,247

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## (D) Net Unrealized Gains (Losses)

Net unrealized gains (losses) on investment securities included in stockholders' equity at December 31, 2013 and 2012, are as follows:

	December 31,	
	2013	2012
	(In thousands)	
Gross unrealized gains	\$ 159,080	270,967
Gross unrealized losses	(37,263	) (9,133
Adjustments for:		
Deferred policy acquisition costs and sales inducements	(51,929	) (122,799
Deferred Federal income tax expense	(24,484	) (48,685
	45,404	90,350
Net unrealized gains related to securities transferred to held to maturity	—	—
Net unrealized gains on investment securities	\$ 45,404	90,350

## (E) Transfer of Securities

For the year ended December 31, 2012, the Company made transfers totaling \$4.6 million, respectively, to the held to maturity portfolio from the securities available for sale portfolio. Lower holdings of securities available for sale reduce the Company's exposure to market price volatility, while still providing securities available for liquidity and asset/liability management purposes.

During 2012, the Company decided to fully amortize the remaining balance of \$0.3 million for the net unrealized losses associated with the securities transferred to held to maturity from available for sale. At the time, the Company had been in the process of converting to a new investment system for tracking of investment securities and determined that the amount of work necessary to convert the unamortized balance of these net unrealized losses into the new system would have exceeded any gain derived from continuing to amortize these amounts over the remaining life of the investments and would not have provided any additional information to readers of these financial statements.

## (4) REINSURANCE

Effective January 1, 2011, the Company began reinsuring any risk on any one life in excess of \$500,000. The Company's general policy prior to that date was to reinsure that portion of any risk in excess of \$250,000 on the life of any one individual. Total life insurance in force was \$22.4 billion and \$21.6 billion at December 31, 2013 and 2012, respectively. Of these amounts, life insurance in force totaling \$5.4 billion and \$5.4 billion was ceded to reinsurance companies on a yearly renewable term basis, at December 31, 2013 and 2012, respectively. In accordance with the reinsurance contracts, reinsurance receivables including amounts related to claims incurred but not reported and liabilities for future policy benefits totaled \$8.2 million and \$9.0 million at December 31, 2013 and 2012, respectively. Premiums and contract revenues were reduced by \$18.7 million, \$19.8 million and \$20.7 million for reinsurance premiums ceded during 2013, 2012 and 2011, respectively. Benefit expenses were reduced by \$7.0 million, \$8.2 million and \$7.0 million, for reinsurance recoveries during 2013, 2012 and 2011, respectively. A contingent liability

exists with respect to reinsurance, as the Company remains liable if the reinsurance companies are unable to meet their obligations under the existing agreements. The Company does not assume reinsurance.

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## (5) FEDERAL INCOME TAXES

Total Federal income taxes were allocated as follows:

	Years Ended December 31,		
	2013	2012	2011
	(In thousands)		
Taxes (benefits) on earnings from continuing operations:			
Current	\$71,709	51,886	39,928
Deferred	(26,259)	) (3,863	) (12,719)
Taxes on earnings	45,450	48,023	27,209
Taxes (benefits) on components of stockholders' equity:			
Net unrealized gains and losses on securities available for sale	(24,201)	) 13,011	2,986
Foreign currency translation adjustments	(398)	) (157	) 197
Change in benefit liability	3,005	(410)	) (1,840)
Total Federal income taxes (benefit)	\$23,856	60,467	28,552

The provisions for Federal income taxes attributable to earnings from continuing operations vary from amounts computed by applying the statutory income tax rate of 35% to earnings before Federal income taxes. The reasons for the differences and the corresponding tax effects are as follows:

	Years Ended December 31,		
	2013	2012	2011
	(In thousands)		
Income tax expense at statutory rate of 35%	\$49,594	49,204	28,993
Dividend received deduction	(1,140)	) (1,292	) (1,178)
Tax exempt interest	(2,065)	) (1,977	) (2,033)
Non deductible gifts	1	2	7
Tax adjustment on foreign currency	(214)	) 245	(24)
Adjustments pertaining to prior tax years	(273)	) 1,244	1,122
Nondeductible insurance	160	160	160
Nondeductible meals	120	110	38
Amortization of life interest in a trust	—	116	114
Other, net	(733)	) 211	10
Taxes on earnings from continuing operations	\$45,450	48,023	27,209

There were no deferred taxes attributable to enacted tax rate changes for the years ended December 31, 2013, 2012 and 2011.

The Company expects its effective tax rate to be less than the statutory rate of 35% due to recurring permanent differences that reduce tax expense, principally tax exempt interest income and the dividend received deduction.



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The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2013 and 2012 are presented below.

	December 31,	
	2013	2012
	(In thousands)	
Deferred tax assets:		
Future policy benefits, excess of financial accounting liabilities over tax liabilities	\$305,795	278,407
Investment securities write-downs for financial accounting purposes	7,523	6,724
Pension liabilities	9,055	8,461
Accrued operating expenses recorded for financial accounting purposes not currently tax deductible	6,778	7,380
Mortgage loans, principally due to valuation allowances for financial accounting purposes	—	228
Accrued and unearned investment income recognized for tax purposes and deferred for financial accounting purposes	369	156
Capital loss carryforward	—	—
Other	(4,315)	(4,690)
<b>Total gross deferred tax assets</b>	<b>325,205</b>	<b>296,666</b>
Deferred tax liabilities:		
Deferred policy acquisition and sales inducement costs, principally expensed for tax purposes	(305,700)	(298,435)
Debt securities, principally due to deferred market discount for tax	(8,017)	(8,680)
Real estate, principally due to adjustments for financial accounting purposes	(949)	(117)
Net unrealized gains on securities available for sale	(21,150)	(45,927)
Foreign currency translation adjustments	4,355	4,118
Fixed assets, due to different bases	(897)	(2,342)
Other	(46)	(337)
<b>Total gross deferred tax liabilities</b>	<b>(332,404)</b>	<b>(351,720)</b>
<b>Net deferred tax liabilities</b>	<b>\$(7,199)</b>	<b>(55,054)</b>

There were no valuation allowances for deferred tax assets at December 31, 2013 and 2012. In assessing deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and available tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences.

In accordance with GAAP, the Company assessed whether it had any significant uncertain tax positions related to open examination or other IRS issues and determined that there were none. Accordingly, no reserve for uncertain tax

positions was recorded. Should a provision for any interest or penalties relative to unrecognized tax benefits be necessary, it is the Company's policy to accrue for such in its income tax accounts. There were no such accruals as of December 31, 2013 or 2012. The Company and its corporate subsidiaries file a consolidated U.S. Federal income tax return, which is subject to examination for all years after 2010.

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Allocation of the consolidated Federal income tax liability amongst the Company and its subsidiaries is based on separate return calculations pursuant to the "wait-and-see" method as described in sections 1.1552-1(a)(1) and 1.1502-33(d)(2) of the current Treasury Regulations. Under this method, consolidated group members are not given current credit for net losses until future net taxable income is generated to realize such credits.

(6) INFORMATION REGARDING CONTROLLING STOCKHOLDER

Robert L. Moody, Chairman of the Board of Directors and Chief Executive Officer, owns 99.0% of the total outstanding shares of the Company's Class B common stock and 33.7% of the Class A common stock as of December 31, 2013.

Holders of the Company's Class A common stock elect one-third of the Board of Directors of the Company, and holders of the Class B common stock elect the remainder. Any cash or in-kind dividends paid on each share of Class B common stock shall be only one-half of the cash or in-kind dividends paid on each share of Class A common stock. Also, in the event of liquidation of the Company, the Class A stockholders shall first receive the par value of their shares; then the Class B stockholders shall receive the par value of their shares; and the remaining net assets of the Company shall be divided between the stockholders of both Class A and Class B common stock, based on the number of shares held.

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## (7) PENSION AND OTHER POSTRETIREMENT PLANS

## (A) Defined Benefit Pension Plans

The Company sponsors a qualified defined benefit pension plan covering substantially all employees. The plan provides benefits based on the participants' years of service and compensation. The Company makes annual contributions to the plan that complies with the minimum funding provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). On October 19, 2007, the Company's Board of Directors approved an amendment to freeze the Pension Plan as of December 31, 2007. The freeze ceased future benefit accruals to all participants and closed the Plan to any new participants. In addition, all participants became immediately 100% vested in their accrued benefits as of that date. As participants are no longer earning credit for service, future qualified defined benefit plan expense is projected to be minimal. Fair values of plan assets and liabilities are measured as of December 31 for each year. A detail of plan disclosures is provided below.

## Obligations and Funded Status

	December 31,	
	2013	2012
	(In thousands)	
Changes in projected benefit obligations:		
Projected benefit obligations at beginning of year	\$23,535	21,890
Service cost	190	174
Interest cost	873	928
Actuarial loss	(2,088	) 1,833
Benefits paid	(1,323	) (1,290
		)
Projected benefit obligations at end of year	21,187	23,535
Changes in plan assets:		
Fair value of plan assets at beginning of year	16,813	15,688
Actual return on plan assets	2,967	1,513
Contributions	451	902
Benefits paid	(1,323	) (1,290
		)
Fair value of plan assets at end of year	18,908	16,813
Funded status at end of year	\$(2,279	) (6,722
		)

The service cost of \$190,000 for 2013 represents plan expenses expected to be paid out of plan assets. Under the new and clarified rules of the Pension Protection Act, plan expenses paid from plan assets are to be included in the plan's service cost component.

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	December 31, 2013                      2012 (In thousands)	
Amounts recognized in the Company's consolidated financial statements:		
Assets	\$—	—
Liabilities	(2,279	) (6,722                      )
Net amount recognized	\$(2,279	) (6,722                      )
Amounts recognized in accumulated other comprehensive income:		
Net loss	\$6,551	11,283
Prior service cost	7	12
Net amount recognized	\$6,558	11,295

The accumulated benefit obligation was \$21.2 million and \$23.5 million at December 31, 2013 and 2012, respectively.

Components of Net Periodic Benefit Cost

	Years Ended December 31, 2013                      2012                      2011 (In thousands)		
Components of net periodic benefit costs:			
Interest cost	\$873	928	1,000
Service cost	190	174	147
Expected return on plan assets	(1,134	) (1,070	) (1,094                      )
Amortization of prior service cost	4	4	4
Amortization of net loss	812	786	542
Net periodic benefit cost	745	822	599
Other changes in plan assets and benefit obligations recognized in other comprehensive income:			
Net loss (gain)	(3,921	) 1,389	
Amortization of prior service cost	(4	) (4	)
Amortization of net loss (gain)	(812	) (786	)
Total recognized in other comprehensive income	(4,737	) 599	
Total recognized in net periodic benefit cost and other comprehensive income	\$(3,992	) 1,421	



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The estimated net loss that will be amortized from accumulated other comprehensive income into net periodic benefit cost over 2014, based on the average expected future service of plan participants, is \$387,700. The estimated prior service cost that will be amortized from accumulated other comprehensive income into net periodic benefit cost over 2014 will be minimal.

Assumptions

	December 31,			
	2013	2012		
Weighted-average assumptions used to determine benefit obligations:				
Discount rate	4.60	% 3.75		%
Rate of compensation increase	n/a	n/a		
	December 31,			
	2013	2012	2011	
Weighted-average assumptions used to determine net periodic benefit cost:				
Discount rate	3.75	% 4.25	% 5.25	%
Expected long-term return on plan assets	7.00	% 7.00	% 7.00	%
Rate of compensation increase	n/a	n/a	n/a	

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 plan and the various classes of invested funds, based on the input of the plan's investment advisors and consulting actuary and the plan's historic rate of return. As of December 31, 2013, the plan's average 10-year and inception-to-date returns were 5.76% and 7.17%, respectively.

In setting the annual discount rate assumption, the Pension Committee reviews the current 10 year and 30 year corporate bond yields, the current spread to treasuries and their relative change during the past twelve months. It also considers the present value of the projected benefit payment stream based on the Citigroup Pension Discount Curve. Based on the facts and circumstances currently existing, the Pension Committee elected to use the Citigroup Pension Discount Curve.

In setting the annual portfolio rate of return assumption, the Pension Committee considers the Plan's actual long-term performance, the portfolio's current allocation and individual investment holdings, the Committee's and the investment manager's expectations for future long term investment strategy and expected performance, and the advice of consultants knowledgeable about overall market expectations and benchmark rates of return used by comparable companies.

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Plan Assets

As discussed in Note 14, Fair Values of Financial Instruments, the Company adopted GAAP guidance which defines fair value and establishes a framework for measuring fair value of financial assets. Using this guidance, the Company has categorized its pension plan assets into a three level hierarchy, based on the priority of inputs to the valuation process. The fair value hierarchy classifications are reviewed annually. Reclassification of certain financial assets and liabilities may result based on changes in the observability of valuation attributes. The following table sets forth the Company's pension plan assets within the fair value hierarchy as of December 31, 2013.

	December 31, 2013			
	Total (In thousands)	Level 1	Level 2	Level 3
Cash	\$216	216	—	—
Equity securities				
Domestic	13,037	13,037	—	—
International	248	248	—	—
Debt securities				
U.S. government agencies	—	—	—	—
Corporate bonds	5,407	—	5,407	—
Total	\$18,908	13,501	5,407	—

Investment securities. Fair values for investments in debt and equity securities are based on quoted market prices, where available. For securities not actively traded, fair values are estimated using values obtained from various independent pricing services. In the cases where prices are unavailable from these sources, values are estimated by discounting expected future cash flows using a current market rate applicable to the yield, credit quality, and maturity of the investments.

Cash and short-term investments. The carrying amounts reported in the balance sheet for these instruments approximate their fair values.

The plan's weighted-average asset allocations by asset category are as follows:

Asset Category:	December 31,		
	2013	2012	2011
Equity securities	70%	60%	57%
Debt securities	29%	35%	33%
Cash and cash equivalents	1%	5%	10%
Total	100%	100%	100%

The Company has established and maintains an investment policy statement for the assets held in the plan's trust. The investment strategies are of a long-term nature and are designed to meet the following objectives:



ensure that funds are available to pay benefits as they become due  
set forth an investment structure detailing permitted assets and expected allocation ranges among classes  
ensure that plan assets are managed in accordance with ERISA

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The Pension Plan is a highly diversified portfolio; the 99% of the pension assets not invested in cash or U.S. Government agencies are allocated among 224 different investments, with no single credit representing more than 2.3% of the fair value of the portfolio. The investment policy statement sets forth the following acceptable ranges for each asset's class.

	Acceptable Range
Asset Category:	
Equity securities	55-70%
Debt securities	30-40%
Cash and cash equivalents	0-15%

Deviations from these ranges are permitted if such deviations are consistent with the duty of prudence under ERISA. Investments in natural resources, venture capital, precious metals, futures and options, real estate, and other vehicles that do not have readily available objective valuations are not permitted. Short sales, use of margin or leverage, and investment in commodities and art objects are also prohibited.

The investment policy statement is reviewed annually to ensure that the objectives are met considering any changes in benefit plan design, market conditions, or other material considerations.

#### Contributions

The Company expects to contribute \$858,500 to the plan during 2014 although additional amounts may be contributed. The plan's funding status is reviewed periodically throughout the year by the Company's Pension Plan Committee. The Company intends to contribute at least the minimum amounts necessary for tax compliance and to maintain an Adjusted Funding Target Attainment Percentage (AFTAP) of over 80% to meet the Pension Protection Act Plan's threshold.

#### Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands):

2014	\$1,334
2015	1,318
2016	1,328
2017	1,412
2018	1,382
2019-2023	6,698

The Company also sponsors three non-qualified defined benefit pension plans. The first plan covers certain senior officers and provides benefits based on the participants' years of service and compensation. The primary pension obligations and administrative responsibilities of the plan are maintained by a pension administration firm, which is a subsidiary of American National Insurance Company ("ANICO"), a related party. ANICO has guaranteed the payment of pension obligations under the plan. However, the Company has a contingent liability with respect to the plan should these entities be unable to meet their obligations under the existing agreements. Also, the Company has a contingent liability with respect to the plan in the event that a plan participant continues employment with the

Company beyond age seventy, the aggregate average annual participant salary increases exceed 10% per year, or any additional employees become eligible to participate in the plan. If any of these conditions are met, the Company would be responsible for any additional pension obligations resulting from these items. Amendments were made to this plan to allow an additional employee to participate and to change the benefit formula for the Chairman of the Company. As previously mentioned, these additional obligations are a liability to the Company. Effective December 31, 2004, this plan was frozen with respect to the continued accrual of benefits of the Chairman and the President of the Company in order to comply with law changes under the American Jobs Creation Act of 2004 ("Act").

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

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

A detail of plan disclosures related to the amendments of the original plan and the additional two plans is provided below:

Obligations and Funded Status

	December 31,	
	2013	2012
	(In thousands)	
Changes in projected benefit obligations:		
Projected benefit obligations at beginning of year	\$22,525	21,401
Service cost	177	168
Interest cost	801	912
Actuarial (gain) loss	(1,652	) 2,025
Benefits paid	(1,981	) (1,981
		)
Projected benefit obligations at end of year	19,870	22,525
Change in plan assets:		
Fair value of plan assets at beginning of year	—	—
Contributions	1,981	1,981
Benefits paid	(1,981	) (1,981
		)
Fair value of plan assets at end of year	—	—
Funded status at end of year	\$(19,870	) (22,525
		)

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES  
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	December 31, 2013                      2012 (In thousands)	
Amounts recognized in the Company's consolidated financial statements:		
Assets	\$—	—
Liabilities	(19,870	) (22,525
		)
Net amount recognized	\$(19,870	) (22,525
		)
Amounts recognized in accumulated other comprehensive income:		
Net loss	\$8,293	11,117
Prior service cost	818	878
Net amount recognized	\$9,111	11,995

The accumulated benefit obligation was \$17.6 million and \$19.5 million at December 31, 2013 and 2012, respectively.

Components of Net Periodic Benefit Cost

	Years Ended December 31, 2013                      2012                      2011 (In thousands)		
Components of net periodic benefit cost:			
Service cost	\$177	168	93
Interest cost	801	912	1,033
Amortization of prior service cost	59	59	59
Amortization of net loss	1,173	1,142	888
Net periodic benefit cost	2,210	2,281	2,073
Other changes in plan assets and benefit obligations recognized in other comprehensive income:			
Net (gain) loss	(1,652	) 2,025	
Amortization of prior service cost	(59	) (59	)
Amortization of net (gain) loss	(1,173	) (1,142	)
Total recognized in other comprehensive income	(2,884	) 824	
Total recognized in net periodic benefit cost and other comprehensive income	\$(674	) 3,105	

The estimated net loss to be amortized from accumulated other comprehensive income into net periodic benefit cost over 2014, based on the average expected future service of plan participants, is \$850,000. The estimated prior service cost to be amortized from accumulated other comprehensive income into net periodic benefit cost over 2014 will be

\$59,000.

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## Assumptions

	December 31,			
	2013	2012		
Weighted-average assumptions used to determine benefit obligations:				
Discount rate	4.60	% 3.75		%
Rate of compensation increase	4.00	% 4.00		%
	December 31,			
	2013	2012	2011	
Weighted-average assumptions used to determine net periodic benefit costs:				
Discount rate	3.75	% 4.25	% 5.25	%
Expected long-term return on plan assets	n/a	n/a	n/a	
Rate of compensation increase	4.00	% 4.00	% 4.00	%

The plan is unfunded and therefore no assumption has been made related to the expected long-term return on plan assets.

## Plan Assets

The plan is unfunded and therefore had no assets at December 31, 2013 or 2012.

## Contributions

The Company expects to contribute approximately \$2.0 million to the plan in 2014.

## Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands):

2014	\$1,982
2015	1,982
2016	1,982
2017	1,982
2018	1,982
2019-2023	9,908

## (B) Defined Contribution Pension Plans

In addition to the defined benefit pension plans, the Company sponsors a qualified 401(k) plan for substantially all employees and a non-qualified deferred compensation plan primarily for senior officers. The Company made annual contributions to the 401(k) plan in 2013 and 2012, of up to three percent of each employee's compensation based on the employee's personal level of salary deferrals to the plan. All Company contributions are subject to a vesting schedule based on the employee's years of service. For the years ended December 31, 2013, 2012 and 2011, Company

contributions totaled \$410,000, \$323,000 and \$344,000, respectively.

The non-qualified deferred compensation plan was established to allow eligible employees to defer the payment of a percentage of their compensation and to provide for additional Company contributions. Company contributions are subject to a vesting schedule based on the employee's years of service. For the years ended December 31, 2013, 2012 and 2011, Company contributions totaled \$140,000, \$66,000, and \$62,000, respectively.



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## (C) Postretirement Employment Plans Other Than Pension

The Company sponsors a health care plan that was amended in 2004 to provide postretirement benefits to certain fully-vested individuals. The plan is unfunded. The Company uses a December 31 measurement date for the plan. A detail of plan disclosures related to the plan is provided below:

## Obligations and Funded Status

	December 31, 2013	2012	
	(In thousands)		
Changes in projected benefit obligations:			
Projected benefit obligations at beginning of year	\$3,482	3,471	
Interest cost	117	129	
Actuarial loss (gain)	(827	) (105	)
Benefits paid	(47	) (13	)
Projected benefit obligations at end of year	2,725	3,482	
Changes in plan assets:			
Fair value of plan assets at beginning of year	—	—	
Contributions	47	13	
Benefits paid	(47	) (13	)
Fair value of plan assets at end of year	—	—	
Funded status at end of year	\$(2,725	) (3,482	)
	December 31, 2013	2012	
	(In thousands)		
Amounts recognized in the Company's consolidated financial statements:			
Assets	\$—	—	
Liabilities	(2,725	) (3,482	)
Net amount recognized	\$(2,725	) (3,482	)
Amounts recognized in accumulated other comprehensive income:			
Net loss	\$18	878	
Prior service cost	567	670	
Net amount recognized	\$585	1,548	

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## Components of Net Periodic Benefit Cost

	Years Ended December 31,		
	2013	2012	2011
	(In thousands)		
Components of net periodic benefit cost:			
Interest cost	\$117	129	143
Amortization of prior service cost	103	103	103
Amortization of net loss	33	41	19
Net periodic benefit cost	253	273	265
Other changes in plan assets and benefit obligations recognized in other comprehensive income:			
Net (gain) loss	(827	) (105	)
Amortization of prior service cost	(103	) (103	)
Amortization of net (gain) loss	(33	) (41	)
Total recognized in other comprehensive income	(963	) (249	)
Total recognized in net periodic benefit cost and other comprehensive income	\$(710	) 24	

The estimated net loss to be amortized from accumulated other comprehensive income into net periodic benefit cost over 2014, based on the average expected future service of plan participants, is \$0. The estimated prior service cost to be amortized from accumulated other comprehensive income into net periodic benefit cost over 2014 will be \$103,000.

## Assumptions

	December 31,			
	2013	2012		
Weighted-average assumptions used to determine benefit obligations:				
Discount rate	4.60	% 3.75	%	
Expected long-term return on plan assets	n/a	n/a		

For measurement purposes, a 9% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2014 and future years.

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Assumed health care trend rates have a significant effect on the amounts reported for the health care plans. A one percentage point change in assumed health care cost trend rates would have the following effects for the years ended December 31:

	December 31, 2013		December 31, 2012		
	1% Point Increase (In thousands)	1% Point Decrease	1% Point Increase	1% Point Decrease	
Effect on total of service and interest cost components	\$25	(20	) 29	(22	)
Effect on postretirement benefit obligation	\$575	(447	) 810	(622	)

#### Plan Assets

The plans are unfunded and therefore had no assets at December 31, 2013 and 2012.

#### Contributions

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands):

2014	\$71
2015	77
2016	84
2017	92
2018	100
2019-2023	654

#### (8) SHORT-TERM BORROWINGS

The Company has available a \$40 million bank line of credit (with Moody National Bank, a related party) primarily for cash management purposes. The Company is required to maintain a collateral security deposit in trust with the sponsoring bank equal to 110% of any outstanding liability. The Company had no outstanding borrowings with the bank at December 31, 2013 or 2012. The Company had assets having an amortized value of \$34.1 million on deposit with the lender at year end 2013.

#### (9) COMMITMENTS AND CONTINGENCIES

##### (A) 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 such a class action lawsuit. Given the uncertainty involved in these types of actions, the ability to make a reliable evaluation of the likelihood of an unfavorable outcome or an estimate of

the amount of or range of potential loss is endemic to the particular circumstances and evolving developments of each individual matter on its own merits.

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The Company is a defendant in a 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 parties entered into a Settlement and Release Agreement in August of 2013 ("Settlement") which was preliminarily approved by the Court on August 30th. Notice of the Settlement was sent to all class members on September 20, 2013 and the Company administered the class notice and claim form process. Under the Settlement Agreement the Company has agreed to pay the Court-approved amount of attorneys' fees and costs, make certain payment to surrendered and annuitized policyholders, and has agreed to provide bonuses on annuitization for active policyholders who choose a ten-year or a twenty-year certain and life settlement option. At December 31, 2013, the Company had reserved \$6.5 million for the matter. A Fairness Hearing was held by the Court on February 7, 2014, and on February 12, 2014, the Court issued a redacted final approval granting the Motion for Final Approval of Class Action Settlement. The Settlement becomes final and non-appealable after 60 days.

In addition to the class action lawsuit described above, the Company was the named defendant in the case of *Sheila Newman vs. National Western Life Insurance Company*, which alleged mishandling of policyholder funds by an agent. On February 3, 2010, the 415th Judicial District Court of Parker County in Weatherford, Texas, entered a Final Judgment against the Company of approximately \$208,000 including actual damages of \$113,000 and amounts for attorney's fees, and prejudgment interest on the actual damages. In addition, the Final Judgment included \$150 million for exemplary damages. The Company vigorously defended this case and appealed the Final Judgment to the Court of Appeals Second District of Texas in Fort Worth. The Court of Appeals on August 11, 2011, reversed the trial court judgment in its entirety and rendered a take nothing verdict in favor of National Western. Plaintiffs (Appellees) filed a motion for a rehearing which the Court ruled on October 13, 2011, that the trial court's judgment was still reversed and judgment was still entered that Newman take nothing, all in favor of National Western. The Plaintiffs (Appellees) filed a Motion for Reconsideration En Banc which the Court of Appeals denied on October 27, 2011. The Plaintiffs (Appellees) then filed a Motion for Rehearing of the Court's amended decision, which the Court of Appeals denied on December 22, 2011. On March 21, 2012, Plaintiffs (Appellees) filed a petition for review with the Texas Supreme Court and the Company filed its response on April 20, 2012. The Supreme Court asked the parties for briefs on the issues before deciding on whether to hear the case and both parties submitted their briefs. On February 14, 2013, the Supreme Court denied the Plaintiffs petition for review. On April 3, 2013, Plaintiff filed a Motion for Rehearing. The Supreme Court denied Plaintiff's Motion for Rehearing on June 7, 2013. As a result, this case is now over.

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

has included the foregoing description solely due to the purported amount of the fine sought.

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

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(B) Financial Instruments

In order to meet the financing needs of its customers in the normal course of business, the Company is a party to financial instruments with off-balance sheet risk. These financial instruments are commitments to extend credit which involve elements of credit and interest rate risk in excess of the amounts recognized in the consolidated balance sheet.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amounts, assuming that the amounts are fully advanced and that collateral or other security is of no value. Commitments to extend credit are legally binding agreements to lend to a customer that generally have fixed expiration dates or other termination clauses and may require payment of a fee. Commitments do not necessarily represent future liquidity requirements, as some could expire without being drawn upon. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The Company controls the credit risk of these transactions through credit approvals, limits, and monitoring procedures.

The Company had \$9.4 million of commitments to extend credit relating to mortgage loans at December 31, 2013. The Company evaluates each customer's creditworthiness on a case-by-case basis.

(C) Guaranty Association Assessments

The Company is subject to state guaranty association assessments in all states in which it is licensed to do business. These associations generally guarantee certain levels of benefits payable to resident policyholders of insolvent insurance companies. Many states allow premium tax credits for all or a portion of such assessments, thereby allowing potential recovery of these payments over a period of years. However, several states do not allow such credits.

The Company estimates its liabilities for guaranty association assessments by using the latest information available from the National Organization of Life and Health Insurance Guaranty Associations. The Company monitors and revises its estimates for assessments as additional information becomes available which could result in changes to the estimated liabilities. As of December 31, 2013 and 2012, liabilities for guaranty association assessments totaled \$1.0 million and \$3.8 million, respectively. Other operating expenses related to state guaranty association assessments were minimal for the years ended December 31, 2013, and 2011. Guaranty association assessment expense for the year ended December 31, 2012 was approximately \$1.9 million as a result of an assessment from the State of California Life and Health Insurance Guarantee Association for the final costs associated with the Executive Life insolvency.

(D) Leases

The Company leases various computers and other office related equipment under operating leases. Rental expenses for these leases were \$0.4 million, \$0.2 million and \$0.2 million for the years ended December 31, 2013, 2012 and 2011, respectively. The Company's future annual lease obligations as of December 31, 2013 are in the table below (in thousands).

2014	\$96
2015 and thereafter	384
Total	\$480

(E) Compensation Plan

Effective January 1, 2006, the Company implemented a Non-Qualified Deferred Compensation Plan to provide incentive bonuses to eligible agents. Agents qualify for participation by meeting certain sales goals each year. Company contributions are subject to a vesting schedule based on the agents' years of qualification in the plan. The Company expects to contribute approximately the same amount to the plan in 2014 as in 2013 (less than \$0.1 million).



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## (10) STOCKHOLDERS' EQUITY

## (A) Changes in Common Stock Shares Outstanding

Details of changes in shares of common stock outstanding are provided below.

	Years Ended December 31,		
	2013	2012	2011
	(In thousands)		
Common stock shares outstanding:			
Shares outstanding at beginning of year	3,635	3,635	3,629
Shares exercised under stock option plan	—	—	6
Shares outstanding at end of year	3,635	3,635	3,635

## (B) Dividend Restrictions

The Company is restricted by state insurance laws as to dividend amounts which may be paid to stockholders without prior approval from the Colorado Division of Insurance. The restrictions are based on the greater of statutory earnings from operations excluding capital gains or 10% of statutory capital and surplus of the Company. The maximum dividend payment which may be made without prior approval in 2014 is \$112.3 million.

On August 16, 2013, the Board of Directors of the Company declared a cash dividend to stockholders on record as of October 31, 2013 and payable December 4, 2013. The dividends approved were \$0.36 per common share to Class A stockholders and \$0.18 per common share to Class B stockholders. A dividend in the same amounts per share on Class A and Class B shares was declared in August and paid in December 2012.

## (C) Regulatory Capital Requirements

The Colorado Division of Insurance imposes minimum risk-based capital requirements on insurance companies that were developed by the National Association of Insurance Commissioners ("NAIC"). The formulas for determining the amount of risk-based capital ("RBC") specify various weighting factors that are applied to statutory financial balances or various levels of activity based on the perceived degree of risk. Regulatory compliance is determined by a ratio of the Company's regulatory total adjusted capital to its authorized control level RBC, as defined by the NAIC. Companies below specific trigger points or ratios are classified within certain levels, each of which requires specified corrective action. The Company's current authorized control level RBC of \$81.3 million is significantly below its total adjusted capital of \$1.2 billion.

## (D) Share-Based Payments

The Company has a stock and incentive plan ("1995 Plan") which provides for the grant of any or all of the following types of awards to eligible employees: (1) stock options, including incentive stock options and nonqualified stock options; (2) stock appreciation rights, in tandem with stock options or freestanding; (3) restricted stock; and (4) performance awards. The Company has issued only nonqualified stock options under the 1995 Plan. The 1995 Plan

began on April 21, 1995, and was amended on June 25, 2004 to extend the termination date to April 20, 2010. The number of shares of Class A, \$1.00 par value, common stock which were allowed to be issued under the 1995 Plan, or as to which stock appreciation rights or other awards were allowed to be granted, could not exceed 300,000. Effective June 20, 2008, the Company's shareholders approved a 2008 Incentive Plan ("2008 Plan"). The 2008 Plan is substantially similar to the 1995 Plan and authorized an additional number of Class A, \$1.00 par value, common stock shares eligible for issue not to exceed 300,000. These shares may be current authorized and unissued shares.

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All of the employees of the Company and its subsidiaries are eligible to participate in the two Plans. In addition, directors of the Company are eligible to receive the same types of awards as employees except that they are not eligible to receive incentive stock options. Company directors, including members of the Compensation and Stock Option Committee, are eligible for nondiscretionary stock options. The directors' grants vest 20% annually following one full year of service to the Company from the date of grant. The employees' grants vest 20% annually following three full years of service to the Company from the date of grant. All grants issued expire after ten years.

In 2006, the Company adopted and implemented a limited stock buy-back program with respect to the 1995 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. The buy-back program did not alter the terms and conditions of the Plan, however the program necessitated a change in accounting from the equity classification to the liability classification. In 2008, the Company implemented another limited stock buy-back program, substantially similar to the 2006 program, for shares issued under the 2008 Plan.

The Company uses the current fair value method to measure compensation cost. As of December 31, 2013, the liability balance was \$5.9 million versus \$2.7 million as of December 31, 2012. A summary of shares available for grant and stock option activity is detailed below.

	Shares Available For Grant	Options Outstanding Shares	Weighted-Average Exercise Price
Stock Options:			
Balance at January 1, 2013	291,000	82,468	\$ 186.19
Exercised	—	(45,050)	) \$ 150.00
Forfeited	—	(750)	) \$ 255.13
Expired	—	—	\$—
Stock options granted	—	—	\$—
Balance at December 31, 2013	291,000	36,668	\$ 229.24
		Stock Appreciation Rights Outstanding Awards	Weighted-Average Exercise Price
Balance at January 1, 2013		66,461	\$ 125.03
Exercised		(3,450)	) \$ 115.94
Forfeited		(1,050)	) \$ 175.31
Granted		37,500	\$ 210.22
Balance at December 31, 2013		99,461	\$ 156.93

The total intrinsic value of options exercised was \$2.5 million and \$0.1 million for the years ended December 31, 2013 and 2012, respectively. The total share-based liabilities paid were \$2.5 million and \$0.1 million for the years ended December 31, 2013 and 2012, respectively. For the years ended December 31, 2013 and 2012, the total cash received by the Company from the exercise of options under the Plan was \$0.0 million and \$0.0 million. The total fair value of shares vested during the years ended December 31, 2013 and 2012 was \$0.7 million and \$0.5 million,

respectively.

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The following table summarizes information about stock options and SARs outstanding at December 31, 2013.

	Options and SARs Outstanding		
	Number Outstanding	Weighted-Average Remaining Contractual Life	Number Exercisable
Exercise prices:			
150.00 (options)	5,000	0.4 years	5,000
255.13 (options)	22,668	4.3 years	13,661
208.05 (options)	9,000	4.5 years	9,000
236.00 (SARs)	250	4.6 years	150
114.64 (SARs)	28,693	5.1 years	13,307
132.56 (SARs)	33,018	8.0 years	3,600
210.22 (SARs)	37,500	10.0 years	—
Totals	136,129		44,718
Aggregate intrinsic value (in thousands)	\$6,637		\$2,284

The aggregate intrinsic value in the table above is based on the closing stock price of \$223.55 per share on December 31, 2013.

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

	December 31, 2013	December 31, 2012
Expected term of options	0 to 10 years	0 to 9 years
Expected volatility:		
Range	21.03% to 42.71%	19.54% to 34.93%
Weighted-average	30.50	25.96
Expected dividend yield	0.16	0.23
Risk-free rate:		
Range	0.12% to 3.93%	0.39% to 1.49%
Weighted-average	2.10	0.84

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

The pre-tax compensation cost/(benefit) recognized in the financial statements related to the two Plans was \$5.7 million, \$1.1 million and \$(2.6) million for the years ended December 31, 2013, 2012 and 2011, respectively. The related tax expense/(benefit) recognized was \$2.0 million, \$0.4 million and \$(0.9) million for the years ended December 31, 2013, 2012 and 2011, respectively.

For the years ended December 31, 2013, 2012 and 2011, the total compensation cost related to nonvested options not yet recognized was \$3.7 million, \$1.7 million and \$2.2 million, respectively. This amount is expected to be recognized over a weighted-average period of 2.6 years. The Company recognizes compensation cost over the graded vesting periods.

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## (11) EARNINGS PER SHARE

Earnings per share amounts for the Company are presented using two different computations. Basic earnings per share excludes dilutive effects of certain securities or contracts, such as stock options, and is computed by dividing income available to each class of common stockholders on an as if distributed basis by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock, that then shared in the distributed earnings of each class of common stock. Stock options not included in the weighted-average number of diluted shares, because such shares would have been anti-dilutive, were immaterial. U.S. GAAP requires a two-class presentation for the Company's two classes of common stock (Note 6, Transactions with Controlling Stockholder). Accordingly, the earnings per share for both Class A and Class B are presented. The following table sets forth the computations of basic and diluted earnings per share.

	Years Ended December 31,					
	2013		2012		2011	
	Class A	Class B	Class A	Class B	Class A	Class B
(In thousands except per share amounts)						
Numerator for Basic and Diluted Earnings Per Share:						
Net income	\$96,247		92,558		55,627	
Dividends – Class A shares	(1,237 )		(1,237 )		(1,237 )	
Dividends – Class B shares	(36 )		(36 )		(36 )	
Undistributed income	\$94,974		91,285		54,354	
Allocation of net income:						
Dividends	\$1,237	36	1,237	36	1,237	36
Allocation of undistributed income	92,287	2,687	88,703	2,582	52,816	1,538
Net income	\$93,524	2,723	89,940	2,618	54,053	1,574
Denominator:						
Basic earnings per share - weighted-average shares	3,435	200	3,435	200	3,433	200
Effect of dilutive stock options	4	—	—	—	4	—
Diluted earnings per share - adjusted weighted-average shares for assumed conversions	3,439	200	3,435	200	3,437	200
Basic earnings per share	\$27.23	13.61	26.19	13.09	15.74	7.87
Diluted earnings per share	\$27.19	13.61	26.19	13.09	15.73	7.87





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## (12) COMPREHENSIVE INCOME

GAAP guidance requires that all items recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. This guidance requires that an enterprise (a) classify items of other comprehensive income by their nature in a financial statement and (b) display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position.

This guidance affects the Company's reporting presentation of certain items such as foreign currency translation adjustments, unrealized gains and losses on investment securities, and pension liabilities. These items are reflected as components of other comprehensive income (loss), as reported in the accompanying consolidated financial statements. Components of other comprehensive income (loss) for 2013, 2012 and 2011 and the related tax effect are detailed below.

	Amounts Before Taxes (In thousands)	Tax (Expense)Benefit	Amounts Net of Taxes
2013:			
Unrealized gains on securities, net of effects of deferred costs of \$70,870			
Net unrealized holding gains (losses) arising during the period	\$(64,951 )	22,733	(42,218 )
Unrealized liquidity losses	512	(179 )	333
Reclassification adjustment for net gains included in net earnings	(4,709 )	1,648	(3,061 )
Amortization of net unrealized gains (losses) and related to transferred securities	—	—	—
Net unrealized gains (losses) on securities	(69,148 )	24,202	(44,946 )
Foreign currency translation adjustments	246	406	652
Pension liability adjustment	8,592	(3,004 )	5,588
Other comprehensive income	\$(60,310 )	21,604	(38,706 )

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	Amounts Before Taxes (In thousands)	Tax (Expense)Benefit	Amounts Net of Taxes
2012:			
Unrealized gains on securities, net of effects of deferred costs of \$30,677:			
Net unrealized holding gains (losses) arising during the period	\$41,863	(14,652 )	27,211
Unrealized liquidity losses	2,011	(704 )	1,307
Reclassification adjustment for net gains included in net earnings	(6,929 )	2,425	(4,504 )
Amortization of net unrealized gains (losses) related to transferred securities	227	(79 )	148
Net unrealized gains (losses) on securities	37,172	(13,010 )	24,162
Foreign currency translation adjustments	64	157	221
Pension liability adjustment	(1,183 )	410	(773 )
Other comprehensive income	\$36,053	(12,443 )	23,610
	Amounts Before Taxes (In thousands)	Tax (Expense)Benefit	Amounts Net of Taxes
2011:			
Unrealized gains on securities, net of effects of deferred costs of \$22,561:			
Net unrealized holding gains (losses) arising during the period	\$16,854	(5,899 )	10,955
Unrealized liquidity losses	(331 )	116	(215 )
Reclassification adjustment for net gains included in net earnings	(6,715 )	2,350	(4,365 )
Amortization of net unrealized gains (losses) related to transferred securities	41	(14 )	27
Net unrealized gains (losses) on securities	9,849	(3,447 )	6,402
Foreign currency translation adjustments	(334 )	117	(217 )
Pension liability adjustment	(5,257 )	1,840	(3,417 )
Other comprehensive income	\$4,258	(1,490 )	2,768

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES  
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## (13) SEGMENT AND OTHER OPERATING INFORMATION

## (A) Operating Segment Information

The Company defines its reportable operating segments as domestic life insurance, international life insurance, and annuities. The Company's segments are organized based on product types and geographic marketing areas. In addition, the Company regularly evaluates operating performance using non-GAAP financial measures which exclude or segregate realized investment gains and losses from operating revenues and earnings. 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 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.

A summary of segment information, prepared in accordance with GAAP guidance, is provided below.

	Domestic Life Insurance (In thousands)	International Life Insurance	Annuities	All Others	Totals
2013:					
Selected Balance Sheet Items:					
Deferred policy acquisition costs and sales inducements	\$53,540	240,468	661,268	—	955,276
Total segment assets	610,570	1,200,347	8,586,871	260,007	10,657,795
Future policy benefits	535,710	913,339	7,676,085	—	9,125,134
Other policyholder liabilities	11,450	14,618	116,519	—	142,587
Condensed Income Statements:					
Premiums and contract charges	\$29,567	117,668	20,231	—	167,466
Net investment income	33,818	63,504	543,077	20,033	660,432
Other revenues	29	299	45	23,343	23,716
Total revenues	63,414	181,471	563,353	43,376	851,614
Life and other policy benefits	11,660	25,706	22,684	—	60,050
Amortization of deferred policy acquisition costs	6,738	18,946	82,549	—	108,233
Universal life and annuity contract interest	26,427	58,757	369,410	—	454,594
Other operating expenses	15,515	25,624	33,325	21,229	95,693
Federal income taxes (benefit)	980	16,720	17,660	7,062	42,422
Total expenses	61,320	145,753	525,628	28,291	760,992
Segment earnings (loss)	\$2,094	35,718	37,725	15,085	90,622

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	Domestic Life Insurance (In thousands)	International Life Insurance	Annuities	All Others	Totals
2012:					
Selected Balance Sheet Items:					
Deferred policy acquisition costs and sales inducements	\$40,810	226,899	590,532	—	858,241
Total segment assets	463,569	1,105,862	8,269,445	242,404	10,081,280
Future policy benefits	398,202	846,028	7,324,624	—	8,568,854
Other policyholder liabilities	10,468	13,074	125,019	—	148,561
Condensed Income Statements:					
Premiums and contract charges	\$31,143	114,605	22,196	—	167,944
Net investment income	21,194	43,469	375,431	19,954	460,048
Other revenues	62	485	80	22,843	23,470
Total revenues	52,399	158,559	397,707	42,797	651,462
Life and other policy benefits	10,633	20,877	20,332	—	51,842
Amortization of deferred policy acquisition costs	7,461	18,103	96,358	—	121,922
Universal life and annuity contract interest	17,507	39,639	205,193	—	262,339
Other operating expenses	14,895	26,007	25,456	21,620	87,978
Federal income taxes (benefit)	648	18,377	17,162	7,216	43,403
Total expenses	51,144	123,003	364,501	28,836	567,484
Segment earnings (loss)	\$1,255	35,556	33,206	13,961	83,978

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	Domestic Life Insurance (In thousands)	International Life Insurance	Annuities	All Others	Totals
2011:					
Selected Balance Sheet Items:					
Deferred policy acquisition costs and sales inducements	\$37,102	231,123	610,070	—	878,295
Total segment assets	403,868	1,023,942	7,997,407	225,716	9,650,933
Future policy benefits	344,916	761,926	7,056,613	—	8,163,455
Other policyholder liabilities	9,526	17,400	124,382	—	151,308
Condensed Income Statements:					
Premiums and contract charges	\$30,387	98,021	21,803	—	150,211
Net investment income	16,980	36,806	318,294	18,954	391,034
Other revenues	69	354	3,170	21,846	25,439
Total revenues	47,436	135,181	343,267	40,800	566,684
Life and other policy benefits	11,636	20,709	14,149	—	46,494
Amortization of deferred policy acquisition costs	11,467	29,415	92,206	—	133,088
Universal life and annuity contract interest	9,760	36,674	186,354	—	232,788
Other operating expenses	13,890	22,131	20,474	21,046	77,541
Federal income taxes (benefit)	223	8,578	9,831	6,455	25,087
Total expenses	46,976	117,507	323,014	27,501	514,998
Segment earnings (loss)	\$460	17,674	20,253	13,299	51,686

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

	Years Ended December 31,		
	2013	2012	2011
	(In thousands)		
Premiums and Other Revenue:			
Premiums and contract charges	\$167,466	167,944	150,211
Net investment income	660,432	460,048	391,034
Other revenues	23,716	23,470	25,439
Realized gains (losses) on investments	8,653	13,200	6,063
Total consolidated premiums and other revenue	\$860,267	664,662	572,747

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	Years Ended December 31,		
	2013	2012	2011
	(In thousands)		
Federal Income Taxes:			
Total segment Federal income taxes	\$42,422	43,403	25,087
Taxes on realized gains (losses) on investments	3,028	4,620	2,122
Total taxes on consolidated net earnings	\$45,450	48,023	27,209
	Years Ended December 31,		
	2013	2012	2011
	(In thousands)		
Net Earnings:			
Total segment earnings	\$90,622	83,978	51,686
Realized gains (losses) on investments, net of taxes	5,625	8,580	3,941
Total consolidated net earnings	\$96,247	92,558	55,627
	December 31,		
	2013	2012	2011
	(In thousands)		
Assets:			
Total segment assets	\$10,657,795	10,081,280	9,650,933
Other unallocated assets	172,621	182,578	77,066
Total consolidated assets	\$10,830,416	10,263,858	9,727,999

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## (B) Geographic Information

A significant portion of the Company's premiums and contract revenues are from countries other than the United States. Premiums and contract revenues detailed by country are provided below.

	Years Ended December 31,		
	2013	2012	2011
	(In thousands)		
United States	\$64,267	67,924	58,570
Brazil	38,205	38,605	34,367
Taiwan	14,047	13,958	13,155
Venezuela	14,017	12,223	10,348
Peru	9,366	8,691	8,258
Argentina	9,102	9,818	9,413
Other foreign countries	37,203	36,509	36,753
Revenues, excluding reinsurance premiums	186,207	187,728	170,864
Reinsurance premiums	(18,741	) (19,784	) (20,653
Total premiums and contract revenues	\$167,466	167,944	150,211

Premiums and contract revenues are attributed to countries based on the location of the policyholder. The Company has no significant assets, other than financial instruments, located in countries other than the United States.

## (C) Major Agency Relationships

A portion exceeding 10% of the Company's annuity sales was sold through one of its top independent marketing agencies in recent years. Business from this top agency accounted for approximately 17% of annuity sales in 2013.

## (14) FAIR VALUES OF FINANCIAL INSTRUMENTS

Effective January 1, 2008, the Company adopted FASB guidance which defines fair value, establishes a framework for measuring fair value under GAAP, and requires additional disclosures about fair value measurements. In compliance with this GAAP guidance, the Company has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three level hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded at fair value on the consolidated balance sheets are categorized as follows:

Level 1: Fair value is based on unadjusted quoted prices in active markets that are accessible to the Company for identical assets or liabilities. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. These generally provide the most reliable evidence and are used to measure fair value whenever available. The Company's Level 1 assets include equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources

for market transactions involving identical assets.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES  
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Level 2: Fair value is based upon significant inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable for substantially the full term of the asset or liability through corroboration with observable market data as of the reporting date. Level 2 inputs include quoted market prices in active markets for similar assets and liabilities, quoted market prices in markets that are not active for identical or similar assets or liabilities, model-derived valuations whose inputs are observable or whose significant value drivers are observable and other observable inputs. The Company's Level 2 assets include fixed maturity debt securities (corporate and private bonds, government or agency securities, asset-backed and mortgage-backed securities), preferred stock, certain equity securities. The Company's Level 2 liabilities consisted of certain product-related embedded derivatives in 2012. Valuations are generally obtained from third party pricing services for identical or comparable assets or determined through use of valuation methodologies using observable market inputs.

Level 3: Fair value is based on significant unobservable inputs which reflect the entity's or third party pricing service's assumptions about the assumptions market participants would use in pricing an asset or liability. The Company's Level 3 assets include certain equity securities, over-the-counter derivative contracts and certain less liquid or private fixed maturity debt securities where significant valuation inputs cannot be corroborated with market observable data. The Company's Level 3 liabilities consist of share-based compensation obligations and certain product-related embedded derivatives. Valuations are estimated based on non-binding broker prices or internally developed valuation models or methodologies, discounted cash flow models and other similar techniques.

The following table sets forth the Company's assets and liabilities that are measured at fair value on a recurring basis as of the date indicated.

	December 31, 2013			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Debt securities, available for sale	\$2,636,666	—	2,636,666	—
Equity securities, available for sale	14,878	13,802	1,076	—
Derivatives, index options	169,314	—	—	169,314
<b>Total assets</b>	<b>\$2,820,858</b>	<b>13,802</b>	<b>2,637,742</b>	<b>169,314</b>
Policyholder account balances (a)	\$187,399	—	—	187,399
Other liabilities (b)	5,939	—	—	5,939
<b>Total liabilities</b>	<b>\$193,338</b>	<b>—</b>	<b>—</b>	<b>193,338</b>
	December 31, 2012			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Debt securities, available for sale	\$2,813,734	—	2,813,734	—
Equity securities, available for sale	12,267	11,968	299	—
Derivatives, index options	57,890	—	57,890	—
<b>Total assets</b>	<b>\$2,883,891</b>	<b>11,968</b>	<b>2,871,923</b>	<b>—</b>
Policyholder account balances (a)	\$72,470	—	72,470	—
Other liabilities (b)	2,718	—	—	2,718

Total liabilities	\$75,188	—	72,470	2,718
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(a) Represents the fair value of certain product-related embedded derivatives that were recorded at fair value.

(b) Represents the liability for share-based compensation.

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The following table provides additional information about fair value measurements for which significant unobservable (Level 3) inputs were utilized to determine fair value.

	Twelve Months Ended 2013				
	Debt Securities, Available For Sale (In thousands)	Equity Securities, Available For Sale	Derivatives, Index Options	Total Assets	Other Liabilities
Beginning balance, January 1, 2013	\$—	—	—	—	2,718
Total realized and unrealized gains (losses):					
Included in net income	—	—	—	—	5,725
Included in other comprehensive income (loss)	—	—	—	—	—
Purchases, sales, issuances and settlements, net	—	—	—	—	(2,504 )
Transfers into (out of) Level 3	—	—	169,314	169,314	187,399
Ending balance, December 31, 2013	\$—	—	169,314	169,314	193,338
Amount of total gains (losses) for the period included in net income attributable to the change in unrealized gains (losses) relating to assets or liabilities still held as of December 31, 2013	\$—	—	—	—	7,419

During the year ended December 31, 2013, the Company transferred its index option holdings from level 2 to level 3. Although these securities contain significant inputs which are directly or indirectly observable, the pricing of these derivative instruments involves judgment regarding assumptions market participants would use. Consequently, the Company determined that these assets did not meet the criteria for Level 2 classification. The Company correspondingly transferred the policyholder account balance liability with the associated embedded derivatives from level 2 to level 3.

	Twelve Months Ended 2012				
	Debt Securities, Available For Sale (In thousands)	Equity Securities, Available For Sale	Derivatives, Index Options	Total Assets	Other Liabilities
Beginning balance, January 1, 2012	\$—	8,118	—	8,118	1,647
Total realized and unrealized gains (losses):					
Included in net income	—	—	—	—	1,144
Included in other comprehensive income (loss)	—	897	—	897	—
Purchases, sales, issuances and settlements, net	—	—	—	—	(73 )
Transfers into (out of) Level 3	—	(9,015 )	—	(9,015 )	—
Ending balance, December 31, 2012	\$—	—	—	—	2,718

Amount of total gains (losses) for the period  
included in net income attributable to the change  
in unrealized gains (losses) relating to assets or  
liabilities still held as of December 31, 2012 \$— — — — 1,337

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

The following tables show the quantitative information about the Company's level 3 assets and liabilities.

	December 31, 2013		
	Fair Value (In thousands)	Valuation Technique	Unobservable Input
Derivatives, index options	\$ 169,314	Broker prices	Implied volatility Inputs from broker proprietary models
Total assets	\$ 169,314		
Policyholder account balances	\$ 187,399	Deterministic cash flow model	Projected option cost
Other liabilities	5,939	Black Scholes	Expected term Forfeiture assumptions
Total liabilities	\$ 193,338		

	December 31, 2012		
	Fair Value (In thousands)	Valuation Technique	Unobservable Input
Other liabilities	\$2,718	Black Scholes	Expected term Forfeiture assumptions
Total liabilities	\$2,718		

Realized gains (losses) on Level 3 assets and liabilities are reported in the consolidated statements of earnings as net investment gains (losses). Unrealized gains (losses) on debt and equity securities are reported as other comprehensive income (loss) within stockholders' equity.

The fair value hierarchy classifications are reviewed each reporting period. Reclassification of certain financial assets and liabilities may result based on changes in the observability of valuation attributes. Reclassifications are reported as transfers into and out of Level 3 at the beginning fair value for the reporting period in which the changes occur.

GAAP defines fair value, establishes a framework for measuring fair value and requires additional disclosures about fair value measurements. Fair value is based on an exit price, which 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. The objective of a fair value measurement is to determine that price for each financial instrument at each measurement date. GAAP also establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring financial instruments at fair value. Market price observability is affected by a variety of factors including the type of instrument and the characteristics of instruments. Financial instruments with readily available active quoted prices or those for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is the Company's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measures.

The following methods and assumptions were used in estimating the fair value of financial instruments and liabilities during the periods presented in the consolidated financial statements.

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Fixed maturity securities. Fair values for investments in debt securities available for sale are based on quoted market prices, where available. For securities not actively traded, fair values are estimated using values obtained from various independent pricing services with any adjustments based upon observable data. In the cases where prices are unavailable for these sources, values are estimated by discounting expected future cash flows using a current market rate applicable to the yield, credit quality, and maturity of the investments.

Equity securities. Fair values for equity securities are based upon quoted market prices, where available. For equity securities that are not actively traded, estimated values are based on values of comparable issues or audited financial statements of the issuer.

Cash and short-term investments. The carrying amounts reported in the balance sheet for these instruments approximate their fair values due to the relatively short time between the purchase of the instrument and its expected repayment or maturity.

Mortgage and other loans. The fair values of performing mortgage and other loans are estimated by discounting scheduled cash flows through the scheduled maturities of the loans, using interest rates currently being offered for similar loans to borrowers with similar credit ratings. Fair values for significant nonperforming loans are based on recent internal or external appraisals. If appraisals are not available, estimated cash flows are discounted using a rate commensurate with the risk associated with the estimated cash flows. Assumptions regarding credit risk, cash flows, and discount rates are judgmentally determined using available market information and specific borrower information.

Policy Loans. The carrying value of policy loans approximates fair values.

Derivatives. Fair values for index (call) options are based on counterparty market prices. The counterparties use market standard valuation methodologies incorporating market inputs for volatility and risk free interest rates in arriving at a fair value for each option contract. Prices are monitored for reasonableness by the Company using analytical tools. There are no performance obligations related to the call options purchased to hedge the Company's fixed-index life and annuity policy liabilities.

Life interest in Libbie Shearn Moody Trust. The fair value of the life interest is estimated based on assumptions as to future distributions from the Trust over the life expectancy of Mr. Robert L. Moody, Chairman of the Board and Chief Executive Officer. These estimated cash flows were discounted at a rate consistent with uncertainties relating to the amount and timing of future cash distributions. However, the Company has limited the fair value to the maximum amount to be received from insurance proceeds in the event of Mr. Moody's premature death.

Annuity and supplemental contracts. Fair values for the Company's insurance contracts other than annuity contracts are not required to be disclosed. This includes the Company's traditional and universal life products. Fair values for immediate annuities without mortality features are based on the discounted future estimated cash flows using current market interest rates for similar maturities. Fair values for deferred annuities, including fixed-indexed annuities, are determined using estimated projected future cash flows discounted at the rate that would be required to transfer the liability in an orderly transaction. The fair values of liabilities under all insurance contracts are taken into consideration in the Company's overall management of interest rate risk, which minimizes exposure to changing interest rates through the matching of investment maturities with amounts due under insurance and annuity contracts.

The Company utilizes independent third-party pricing services to determine the majority of its fair values of investment securities. The independent pricing services provide quoted market prices when available or otherwise incorporate a variety of observable market data in their valuation techniques including reported trading prices,

broker-dealer quotes, bids and offers, benchmark securities, benchmark yields, credit ratings, and other reference data. The Company reviews prices received from service providers for unusual fluctuations to ensure that the prices represent a reasonable estimate of fair value but generally accepts the price identified from the primary pricing service.

When quoted market prices in active markets are unavailable, the Company determines fair values using various valuation techniques and models based on a range of observable market inputs including pricing models, quoted market price of publicly traded securities with similar duration and yield, time value, yield curve, prepayment speeds, default rates and discounted cash flow. In most cases, these estimates are determined based on independent third party valuation information, and the amounts are disclosed in Level 2 of the fair value hierarchy. Generally, the Company obtains a single price or quote per instrument from independent third parties to assist in establishing the fair value of these investments.



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Fair value measurements for investment securities where there exists limited or no observable data are calculated using the Company's own estimates based on current interest rates, credit spreads, liquidity premium or discount, the economic and competitive environment, unique characteristics of the security and other pertinent factors. These estimates are derived a number of ways including, but not limited to, pricing provided by brokers where the price indicates reliability as to value, fair values of comparable securities incorporating a spread adjustment (for maturity differences, credit quality, liquidity, collateralization), discounted cash flow models and margin spreads, bond yield curves, and observable market prices and exchange transaction information not provided by external pricing services. The resulting prices may not be realized in an actual sale or immediate settlement and there may be inherent weaknesses in any calculation technique. In addition, changes in underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results of current or future values.

The following table presents, by pricing source and fair value hierarchy level, the Company's assets that are measured at fair value on a recurring basis:

	December 31, 2013			
	Total (In thousands)	Level 1	Level 2	Level 3
Fixed maturities, available for sale:				
Priced by third-party vendors	\$2,636,666	—	2,636,666	—
Priced internally	—	—	—	—
Subtotal	2,636,666	—	2,636,666	—
Equity securities, available for sale:				
Priced by third-party vendors	14,878	13,802	1,076	—
Priced internally	—	—	—	—
Subtotal	14,878	13,802	1,076	—
Derivatives, index options:				
Priced by third-party vendors	169,314	—	—	169,314
Priced internally	—	—	—	—
Subtotal	169,314	—	—	169,314
Total	\$2,820,858	13,802	2,637,742	169,314
Percent of total	100.0	% 0.5	% 93.5	% 6.0

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The carrying amounts and fair values of the Company's financial instruments are as follows:

	December 31, 2013		December 31, 2012	
	Carrying Values	Fair Values	Carrying Values	Fair Values
	(In thousands)			
<b>ASSETS</b>				
Investments in debt and equity securities:				
Securities held to maturity	\$6,510,320	6,656,144	5,962,120	6,503,627
Securities available for sale	2,651,544	2,651,544	2,826,001	2,826,001
Cash and short-term investments	120,859	120,859	124,561	124,561
Mortgage loans	132,765	138,159	142,170	147,365
Policy loans	65,969	65,969	71,549	71,549
Other loans	2,986	3,143	14,997	15,273
Derivatives, index options	169,314	169,314	57,890	57,890
Life interest in Libbie Shearn Moody Trust	—	12,775	—	12,775
<b>LIABILITIES</b>				
Deferred annuity contracts	\$7,288,861	6,941,902	6,907,055	6,624,111
Immediate annuity and supplemental contracts	463,276	483,690	492,853	531,857

Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instruments. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(15) DERIVATIVE INVESTMENTS

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

The Company purchases over-the-counter index options, which are derivative financial instruments, to hedge the equity return component of its fixed-index annuity and life products. The index options act as hedges to match closely the returns on the underlying index or indices. The amounts which may be credited to policyholders are linked, in part, to the returns of the underlying index or indices. As a result, changes to policyholders' liabilities are substantially offset by changes in the value of the options. Cash is exchanged upon purchase of the index options and no principal

or interest payments are made by either party during the option periods. Upon maturity or expiration of the options, cash may be paid to the Company depending on the performance of the underlying index or indices and terms of the contract.

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

Although there is credit risk in the event of nonperformance by counterparties to the index options, the Company does not expect any of its 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.

The tables below present the fair value of derivative instruments.

	December 31, 2013		Liability Derivatives	
	Asset Derivatives		Balance Sheet	Fair Value
	Balance Sheet Location	Fair Value	Location	
		(In thousands)		(In thousands)
Derivatives not designated as hedging instruments				
Equity index options	Derivatives, Index Options	\$ 169,314		
Fixed-indexed products			Universal Life and Annuity Contracts	\$ 187,399
Total		\$ 169,314		\$ 187,399
	December 31, 2012		Liability Derivatives	
	Asset Derivatives		Balance Sheet	Fair Value
	Balance Sheet Location	Fair Value	Location	
		(In thousands)		(In thousands)
Derivatives not designated as hedging instruments				
Equity index options	Derivatives, Index Options	\$ 57,890		
Fixed-indexed products			Universal Life and Annuity Contracts	\$ 72,470
Total		\$ 57,890		\$ 72,470



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

The table below presents the effect of derivative instruments in the consolidated statements of earnings for the years ended December 31, 2013 and 2012.

Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized In Income on Derivatives	Amount of	Amount of Gain
		Gain or (Loss) Recognized In Income on Derivatives 2013 (In thousands)	or (Loss) Recognized In Income on Derivatives 2012
Equity index options	Net investment income	\$225,899	27,147
Fixed-indexed products	Universal life and annuity contract interest	(229,404 )	(28,852 )
		\$ (3,505 )	(1,705 )

(16) RELATED PARTY TRANSACTIONS

Robert L. Moody, Jr. ("Mr. Moody, Jr.") is the son of Robert L. Moody, the Company's Chairman and Chief Executive Officer, and is the brother of Ross R. Moody, the Company's President and Chief Operating Officer, and of Russell S. Moody and Frances A. Moody-Dahlberg who serve as directors of National Western. Frances A. Moody-Dahlberg is also an employee of the Company.

Mr. Moody, Jr. wholly owns an insurance marketing organization that maintains agency contracts with National Western pursuant to which agency commissions are paid in accordance with the Company's standard commission schedules. Mr. Moody, Jr. also maintains an independent agent contract with National Western for policies personally sold under which commissions are paid in accordance with standard commission schedules. In 2013, commissions paid under these agency contracts aggregated approximately \$502,000. In his capacity as an insurance marketing organization with the Company, Mr. Moody, Jr. also received fees of \$48,000 in 2013 under a marketing consultant agreement and use of a Company vehicle valued at \$33,981.

Mr. Moody, Jr. further serves as the agent of record for several of the Company's benefit plans including the self-insured health plan for which Mr. Moody, Jr. provides utilization review services through a wholly-owned utilization review company. In 2013, amounts paid to Mr. Moody, Jr. as commissions and service fees pertaining to the Company's benefit plans approximated \$55,500.

Mr. Moody, Jr. is an Advisory Director of a wholly owned subsidiary of the Company. As an Advisory Director, Mr. Moody, Jr. received director fees of \$500 during 2013, and received \$12,412 of Company paid guest travel to attend Company sales conferences and functions.

During 2013, management fees totaling \$916,232 were paid to Regent Management Services, Limited Partnership ("RMS") for services provided to downstream nursing home subsidiaries of National Western. RMS is 1% owned by general partner RCC Management Services, Inc. ("RCC"), and 99% owned by limited partner, Three R Trusts. RCC is 100% owned by the Three R Trusts. The Three R Trusts are four Texas trusts for the benefit of the children of Robert L. Moody (Robert L. Moody, Jr., Ross R. Moody, Russell S. Moody, and Frances A. Moody-Dahlberg). Charles D. Milos, Senior Vice President-Mortgage Loans and Real Estate, and a director of the

Company, is a director and President of RCC.

The Company holds a common stock investment totaling approximately 6.5% of the issued and outstanding shares of Moody Bancshares, Inc. at December 31, 2013. Moody Bancshares, Inc. owns 100% of the outstanding shares of Moody Bank Holding Company, Inc., which owns approximately 98% of the outstanding shares of The Moody National Bank of Galveston ("MNB"). The Company utilizes MNB for certain bank custodian services as well as for certain administrative services with respect to the Company's defined benefit and contribution plans. During 2013, fees totaling \$594,971 were paid to MNB with respect to these services. Effective November 1, 2011, the Company amended a 36 month sublease on one of the Company's leased office locations for \$6,363 per month with Moody National Bank. Robert L. Moody, the Company's Chairman and Chief Executive Officer, serves as Chairman of the Board and Chief Executive Officer of MNB. The ultimate controlling person of MNB is the Three R Trusts.

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

During 2013, the Company paid American National Insurance Company (“ANICO”) \$175,951 in premiums for certain company sponsored benefit plans and \$1,561,865 in reimbursements for claim costs for which ANICO provides third party administrative services. ANICO paid the Company \$1,756,873 in premiums for its company sponsored benefit plans. Robert L. Moody, the Company’s Chairman and Chief Executive Officer is also ANICO’s Chairman and Chief Executive Officer.

## (17) UNAUDITED QUARTERLY FINANCIAL DATA

Quarterly results of operations for 2013 are summarized as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands except per share data)			
2013:				
Revenues	\$231,032	182,859	188,192	258,184
Earnings (loss)	\$16,632	26,991	24,782	27,482
Basic earnings (loss) per share:				
Class A	\$4.71	7.64	7.01	7.88
Class B	\$2.35	3.82	3.51	3.94
Diluted earnings (loss) per share:				
Class A	\$4.70	7.62	7.00	7.87
Class B	\$2.35	3.82	3.51	3.94

Quarterly results of operations for 2012 are summarized as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands except per share data)			
2012:				
Revenues	\$196,662	127,609	190,985	149,407
Earnings (loss)	\$19,741	23,246	24,322	25,249
Basic earnings (loss) per share:				
Class A	\$5.58	6.58	6.88	7.14
Class B	\$2.79	3.29	3.44	3.57
Diluted earnings (loss) per share:				
Class A	\$5.58	6.58	6.88	7.14
Class B	\$2.79	3.29	3.44	3.57





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

(18) SUBSEQUENT EVENTS

Subsequent events have been evaluated and no reportable items were identified.

## NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES

## SCHEDULE I

## SUMMARY OF INVESTMENTS

## OTHER THAN INVESTMENTS IN RELATED PARTIES

December 31, 2013

(In thousands)

Type of Investment	(1) Cost	Fair Value	Balance Sheet Amount
Fixed maturity bonds:			
Securities held to maturity:			
United States government and government agencies and authorities	\$25,001	27,135	25,001
States, municipalities, and political subdivisions	423,286	425,775	423,286
Foreign governments	9,997	10,156	9,997
Public utilities	864,324	907,859	864,324
Corporate	3,463,521	3,535,203	3,463,521
Mortgage-backed	1,696,887	1,717,546	1,696,887
Asset-backed	27,304	32,470	27,304
Total securities held to maturity	6,510,320	6,656,144	6,510,320
Securities available for sale:			
United States government and government agencies and authorities	—	—	—
States, municipalities, and political subdivisions	594	484	484
Foreign governments	9,931	9,775	9,775
Public utilities	233,788	247,405	247,405
Corporate	2,195,124	2,288,911	2,288,911
Mortgage-backed	68,799	73,839	73,839
Asset-backed	15,882	16,252	16,252
Total securities available for sale	2,524,118	2,636,666	2,636,666
Total fixed maturity bonds	9,034,438	9,292,810	9,146,986
Equity securities:			
Securities available for sale:			
Common stocks:			
Public utilities	1,021	1,590	1,590
Banks, trust and insurance companies	740	1,080	1,080
Corporate	3,769	6,208	6,208
Preferred stocks	5,616	6,000	6,000
Total equity securities	11,146	14,878	14,878
Derivatives, index options	169,314	—	169,314
Mortgage loans	132,765	—	132,765
Policy loans	65,969	—	65,969
Other long-term investments (2)	30,991	—	30,991
Total investments other than investments in related parties	\$399,039	\$—	399,039

## Notes:

(1) Bonds are shown at amortized cost, mortgage loans are shown at unpaid principal balances before allowances for possible losses, derivatives are shown at fair value, and real estate is stated at cost before allowances for possible losses.

(2) There was no real estate acquired by foreclosure included in other long-term investments.

See accompanying report of Independent Registered Public Accounting Firm.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES  
SCHEDULE V  
VALUATION AND QUALIFYING ACCOUNTS  
For the Years Ended December 31, 2013, 2012 and 2011  
(In thousands)

Description	Balance at Beginning of Period	(1) Charged to Costs and Expenses	Reductions	Transfers	Balance at End of Period
Valuation accounts deducted from applicable assets:					
Allowance for possible losses on mortgage loans:					
December 31, 2013	\$ 650	—	—	—	650
December 31, 2012	\$4,571	650	(4,571	) —	650
December 31, 2011	\$3,926	645	—	—	4,571
Allowance for possible losses on real estate:					
December 31, 2013	\$1,813	—	(78	) —	1,735
December 31, 2012	\$1,758	55	—	—	1,813
December 31, 2011	\$2,124	278	(644	) —	1,758

## Notes:

(1) Amounts were recorded to realized (gains) losses on investments.

See accompanying report of Independent Registered Public Accounting Firm.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NATIONAL WESTERN LIFE INSURANCE COMPANY  
(Registrant)

Date: March 19, 2014

/S/Robert L. Moody  
By: Robert L. Moody  
Chairman of the Board and  
Chief Executive Officer, and Director  
(Principal Executive Officer)

/S/ Brian M. Pribyl  
By: Brian M. Pribyl  
Senior Vice President  
Chief Financial Officer and Treasurer  
(Principal Financial Officer)