

National Western Life Group, Inc.
Form 10-Q
May 10, 2018

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

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2018
 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: 000-55522

NATIONAL WESTERN LIFE GROUP, INC.
(Exact name of Registrant as specified in its charter)

DELAWARE
(State of Incorporation)

47-3339380
(I.R.S. Employer Identification Number)

10801 N. MOPAC EXPY BLDG 3
AUSTIN, TEXAS 78759-5415

(Address of Principal Executive Offices) (Zip Code) (512) 836-1010
(Telephone Number, including area code)

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

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). :

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if a smaller reporting company)
Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of May 8, 2018, the number of shares of Registrant's common stock outstanding was: Class A – 3,436,166 and Class B - 200,000.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NATIONAL WESTERN LIFE GROUP, INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (In thousands)

ASSETS	(Unaudited)	
	March 31, 2018	December 31, 2017
Investments:		
Debt securities held to maturity, at amortized cost (fair value: \$7,302,034 and \$7,434,104)	\$7,280,200	7,247,024
Debt securities available for sale, at fair value (cost: \$3,087,827 and \$2,964,510)	3,084,789	3,041,131
Mortgage loans, net of allowance for possible losses (\$650 and \$650)	204,948	208,249
Policy loans	55,515	56,405
Derivatives, index options	116,356	194,731
Equity securities	18,173	18,478
Other long-term investments	51,733	51,828
Total investments	10,811,714	10,817,846
Cash and cash equivalents	82,924	217,624
Deferred policy acquisition costs	840,039	819,511
Deferred sales inducements	138,993	135,570
Accrued investment income	99,784	96,818
Federal income tax receivable	10,750	—
Other assets	142,114	137,725
Total assets	\$12,126,318	12,225,094

See accompanying notes to Condensed Consolidated Financial Statements (unaudited).

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NATIONAL WESTERN LIFE GROUP, INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (In thousands, except share amounts)

	(Unaudited)	
	March 31, 2018	December 31, 2017
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Future policy benefits:		
Universal life and annuity contracts	\$9,855,395	9,962,589
Traditional life reserves	136,804	135,895
Other policyholder liabilities	137,109	128,009
Deferred Federal income tax liability	29,082	25,408
Federal income tax payable	—	2,701
Other liabilities	139,697	138,318
Total liabilities	10,298,087	10,392,920
COMMITMENTS AND CONTINGENCIES (Note 8)		
STOCKHOLDERS' EQUITY:		
Common stock:		
Class A - \$.01 par value; 7,500,000 shares authorized; 3,436,166 issued and outstanding in 2018 and 2017	34	34
Class B - \$.01 par value; 200,000 shares authorized, issued, and outstanding in 2018 and 2017	2	2
Additional paid-in capital	41,716	41,716
Accumulated other comprehensive income	(20,951) 14,281
Retained earnings	1,807,430	1,776,141
Total stockholders' equity	1,828,231	1,832,174
Total liabilities and stockholders' equity	\$12,126,318	12,225,094

Note: The Condensed Consolidated Balance Sheet at December 31, 2017 has been derived from the audited Consolidated Financial Statements as of that date.

See accompanying notes to Condensed Consolidated Financial Statements (unaudited).

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NATIONAL WESTERN LIFE GROUP, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

For the Three Months Ended March 31, 2018 and 2017

(Unaudited)

(In thousands, except per share amounts)

	2018	2017
Premiums and other revenues:		
Universal life and annuity contract charges	\$38,520	41,364
Traditional life premiums	4,145	4,221
Net investment income	60,745	171,742
Other revenues	4,997	4,505
Net realized investment gains (losses):		
Total other-than-temporary impairment (“OTTI”) gains (losses)	3	20
Portion of OTTI (gains) losses recognized in other comprehensive income	(3) (20)
Net OTTI losses recognized in earnings	—	—
Other net investment gains (losses)	611	2,585
Total net realized investment gains (losses)	611	2,585
 Total revenues	 109,018	 224,417
Benefits and expenses:		
Life and other policy benefits	21,401	19,757
Amortization of deferred policy acquisition costs	32,229	34,212
Universal life and annuity contract interest	(1,818) 109,893
Other operating expenses	23,633	25,092
 Total benefits and expenses	 75,445	 188,954
 Earnings before Federal income taxes	 33,573	 35,463
 Federal income taxes	 6,698	 11,925
 Net earnings	 \$26,875	 23,538
Basic earnings per share:		
Class A	\$7.60	\$ 6.66
Class B	\$3.80	\$ 3.33
Diluted earnings per share:		
Class A	\$7.60	\$ 6.65
Class B	\$3.80	\$ 3.33

See accompanying notes to Condensed Consolidated Financial Statements (unaudited).

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NATIONAL WESTERN LIFE GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the Three Months Ended March 31, 2018 and 2017

(Unaudited)

(In thousands)

	2018	2017
Net earnings	\$26,875	23,538
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	(34,754)	5,479
Net unrealized liquidity gains (losses)	—	43
Reclassification adjustment for net amounts included in net earnings	(33)	(690)
Net unrealized gains (losses) on securities	(34,787)	4,832
Foreign currency translation adjustments	1,168	(85)
Benefit plans:		
Amortization of net prior service cost and net gain (loss)	2,801	(887)
Other comprehensive income (loss)	(30,818)	3,860
Comprehensive income (loss)	\$(3,943)	27,398

See accompanying notes to Condensed Consolidated Financial Statements (unaudited).

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NATIONAL WESTERN LIFE GROUP, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS'
 EQUITY

For the Three Months Ended March 31, 2018 and 2017

(Unaudited)

(In thousands)

	2018	2017
Common stock:		
Balance at beginning of period	\$ 36	36
Shares exercised under stock option plan	—	—
Balance at end of period	36	36
Additional paid-in capital:		
Balance at beginning of period	41,716	41,716
Shares exercised under stock option plan	—	—
Balance at end of period	41,716	41,716
Accumulated other comprehensive income:		
Unrealized gains on non-impaired securities:		
Balance at beginning of period	33,664	22,813
Change in unrealized gains (losses) during period, net of tax	(34,787)	4,789
Cumulative effect of change in accounting principle, net of tax (See Note 2)	(4,414)	—
Balance at end of period	(5,537)	27,602
Unrealized losses on impaired held to maturity securities:		
Balance at beginning of period	(10)	Ø203
Amortization	2	85
Other-than-temporary impairments, non-credit, net of tax	—	—
Additional credit loss on previously impaired securities	—	—
Change in shadow deferred policy acquisition costs	(2)	Ø42
Balance at end of period	(10)	Ø160
Unrealized losses on impaired available for sale securities:		
Balance at beginning of period	(1)	Ø1
Other-than-temporary impairments, non-credit, net of tax	—	—
Change in shadow deferred policy acquisition costs	—	—
Recoveries, net of tax	—	—
Balance at end of period	(1)	Ø1

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NATIONAL WESTERN LIFE GROUP, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF
 CHANGES
 IN STOCKHOLDERS' EQUITY (continued)
 For the Three Months Ended March 31, 2018 and 2017
 (Unaudited)
 (In thousands)

	2018	2017
Foreign currency translation adjustments:		
Balance at beginning of period	3,223	2,661
Change in translation adjustments during period	1,168	ø85
Balance at end of period	4,391	2,576
Benefit plan liability adjustment:		
Balance at beginning of period	ø22,595	(14,718)