

NATIONAL WESTERN LIFE INSURANCE CO
Form 10-Q
August 08, 2012

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

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2012

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)

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 R No £

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 R No £

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

Large accelerated filer £ Accelerated filer R Non-accelerated filer £

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

As of August 7, 2012, the number of shares of Registrant's common stock outstanding was: Class A – 3,434,763 and Class B - 200,000.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

ASSETS	(Unaudited) June 30, 2012	December 31, 2011
Investments:		
Securities held to maturity, at amortized cost (fair value: \$6,245,687 and \$6,082,330)	\$5,738,777	5,641,909
Securities available for sale, at fair value (cost: \$2,530,815 and \$2,422,650)	2,754,759	2,624,953
Mortgage loans, net of allowance for possible losses (\$0 and \$4,571)	132,614	157,460
Policy loans	74,369	74,967
Derivatives, index options	65,555	30,844
Other long-term investments	43,467	34,472
Total investments	8,809,541	8,564,605
Cash and short-term investments	111,264	119,290
Deferred policy acquisition costs	708,220	722,542
Deferred sales inducements	152,360	155,753
Accrued investment income	90,176	87,875
Federal income tax receivable	—	—
Other assets	83,900	77,934
Total assets	\$9,955,461	9,727,999

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	(Unaudited) June 30, 2012	December 31, 2011
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Future policy benefits:		
Universal life and annuity contracts	\$8,178,279	8,023,798
Traditional life and annuity contracts	138,452	139,657
Other policyholder liabilities	154,105	151,308
Deferred Federal income tax liability	44,023	46,481
Federal income tax payable	1,462	5,962
Other liabilities	107,819	84,008
Total liabilities	8,624,140	8,451,214
COMMITMENTS AND CONTINGENCIES (Note 8)		
STOCKHOLDERS' EQUITY:		
Common stock:		
Class A - \$1 par value; 7,500,000 shares authorized; 3,434,763 and 3,434,766 issued and outstanding in 2012 and 2011	3,435	3,435
Class B - \$1 par value; 200,000 shares authorized, issued, and outstanding in 2012 and 2011	200	200
Additional paid-in capital	37,767	37,767
Accumulated other comprehensive income	64,725	53,176
Retained earnings	1,225,194	1,182,207
Total stockholders' equity	1,331,321	1,276,785
Total liabilities and stockholders' equity	\$9,955,461	9,727,999

Note: The Condensed Consolidated Balance Sheet at December 31, 2011, has been derived from the audited Consolidated Financial Statements as of that date.

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

For the Three Months Ended June 30, 2012 and 2011

(Unaudited)

(In thousands, except per share amounts)

	2012	2011
Premiums and other revenues:		
Universal life and annuity contract charges	\$36,653	32,632
Traditional life and annuity contract premiums	4,904	4,607
Net investment income	78,181	97,724
Other revenues	5,866	4,698
Net realized investment gains (losses):		
Total other-than-temporary impairment (“OTTI”) losses	(185) —
Portion of OTTI losses recognized in other comprehensive income	(235) —
Net OTTI losses recognized in earnings	(420) —
Other net investment gains (losses)	2,425	490
Total net realized investment gains (losses)	2,005	490
 Total revenues	 127,609	 140,151
Benefits and expenses:		
Life and other policy benefits	13,857	9,598
Amortization of deferred policy acquisition costs	31,349	38,848
Universal life and annuity contract interest	26,004	53,232
Other operating expenses	22,452	19,060
 Total benefits and expenses	 93,662	 120,738
 Earnings before Federal income taxes	 33,947	 19,413
 Federal income taxes	 10,701	 5,623
 Net earnings	 \$23,246	 13,790
Basic earnings per share:		
Class A	\$6.58	3.90
Class B	\$3.29	1.95
Diluted earnings per share:		
Class A	\$6.58	3.90
Class B	\$3.29	1.95

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

For the Six Months Ended June 30, 2012 and 2011

(Unaudited)

(In thousands, except per share amounts)

	2012	2011
Premiums and other revenues:		
Universal life and annuity contract charges	\$72,852	62,464
Traditional life and annuity premiums	8,987	8,629
Net investment income	227,739	231,239
Other revenues	11,521	14,604
Net realized investment gains (losses):		
Total other-than-temporary impairment (“OTTI”) losses	(462)) —
Portion of OTTI losses recognized in other comprehensive income	(157)) —
Net OTTI losses recognized in earnings	(619)) —
Other net investment gains (losses)	3,791	3,582
Total net realized investment gains (losses)	3,172	3,582
 Total revenues	 324,271	 320,518
Benefits and expenses:		
Life and other policy benefits	27,535	21,814
Amortization of deferred policy acquisition costs	63,060	66,337
Universal life and annuity contract interest	127,547	145,381
Other operating expenses	42,470	39,778
 Total benefits and expenses	 260,612	 273,310
 Earnings before Federal income taxes	 63,659	 47,208
 Federal income taxes	 20,672	 15,207
 Net earnings	 \$42,987	 32,001
Basic earnings per share:		
Class A	\$12.16	9.06
Class B	\$6.08	4.53
Diluted earnings per share:		
Class A	\$12.16	9.04
Class B	\$6.08	4.53

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three Months Ended June 30, 2012 and 2011

(Unaudited)

(In thousands)

	2012	2011
Net earnings	\$23,246	13,790
Other comprehensive income, net of effects of deferred costs and taxes:		
Unrealized gains (losses) on securities:		
Net unrealized holding gains arising during period	5,624	5,769
Net unrealized liquidity gains (losses)	161	149
Reclassification adjustment for net amounts included in net earnings	(1,658)	) (194)
Amortization of net unrealized (gains) losses related to transferred securities	—	14
Net unrealized gains (losses) on securities	4,127	5,738
Foreign currency translation adjustments	(101)	) (59)
Benefit plans:		
Amortization of net prior service cost and net gain	225	292
Other comprehensive income	4,251	5,971
Comprehensive income	\$27,497	19,761

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Six Months Ended June 30, 2012 and 2011

(Unaudited)

(In thousands)

	2012	2011
Net earnings	\$42,987	32,001
Other comprehensive income, net of effects of deferred costs and taxes:		
Unrealized gains (losses) on securities:		
Net unrealized holding gains arising during period	13,376	5,775
Net unrealized liquidity gains (losses)	137	350
Reclassification adjustment for net amounts included in net earnings	(2,698)	) (2,079)
Amortization of net unrealized (gains) losses related to transferred securities	1	7
Net unrealized gains (losses) on securities	10,816	4,053
Foreign currency translation adjustments	285	(134)
Benefit plans:		
Amortization of net prior service cost and net gain	448	582
Other comprehensive income	11,549	4,501
Comprehensive income	\$54,536	36,502

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the Six Months Ended June 30, 2012 and 2011

(Unaudited)

(In thousands)

	2012	2011
Common stock:		
Balance at beginning of period	\$3,635	3,629
Shares exercised under stock option plan	—	6
Balance at end of period	3,635	3,635
Additional paid-in capital:		
Balance at beginning of period	37,767	37,140
Shares exercised under stock option plan	—	1,211
Balance at end of period	37,767	38,351
Accumulated other comprehensive income:		
Unrealized gains on non-impaired securities:		
Balance at beginning of period	69,116	62,499
Change in unrealized gains during period, net of tax	10,679	3,703
Balance at end of period	79,795	66,202
Unrealized losses on impaired held to maturity securities:		
Balance at beginning of period	(2,320	) (2,713
Cumulative effect of change in accounting principal	—	—
Amortization	15	165
Other-than-temporary impairments, non-credit, net of tax	92	—
Additional credit loss on previously impaired securities	—	—
Change in shadow deferred policy acquisition costs	30	185
Balance at end of period	(2,183	) (2,363
Unrealized losses on impaired available for sale securities:		
Balance at beginning of period	(608) —
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	(608) —

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (continued)
 For the Six Months Ended June 30, 2012 and 2011
 (Unaudited)
 (In thousands)

	2012	2011
Foreign currency translation adjustments:		
Balance at beginning of period	2,368	2,585
Change in translation adjustments during period	285	(134)
Balance at end of period	2,653	2,451
Benefit plan liability adjustment:		
Balance at beginning of period	(15,380)	(11,963)
Amortization of net prior service cost and net gain, net of tax	448	582
Balance at end of period	(14,932)	(11,381)
Accumulated other comprehensive income at end of period	64,725	54,909
Retained earnings:		
Balance at beginning of period	1,182,207	1,127,614
Net earnings	42,987	32,001
Stockholder dividends	—	—
Balance at end of period	1,225,194	1,159,615
Total stockholders' equity	\$1,331,321	\$1,256,510

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Six Months Ended June 30, 2012 and 2011

(Unaudited)

(In thousands)

	2012	2011	
Cash flows from operating activities:			
Net earnings	\$42,987	32,001	
Adjustments to reconcile net earnings to net cash from operating activities:			
Universal life and annuity contract interest	127,547	145,381	
Surrender charges and other policy revenues	(7,009)	(15,280))
Realized (gains) losses on investments	(7,743)	(3,582))
Accrual and amortization of investment income	(1,400)	(1,369))
Depreciation and amortization	1,113	390	
(Increase) decrease in value of index options	(9,959)	(22,750))
Decrease (increase) in deferred policy acquisition and sales inducement costs	3,664	(26,674))
Increase in accrued investment income	(2,301)	(5,967))
Increase in other assets	(2,232)	(2,756))
Increase in liabilities for future policy benefits	3,602	7,775	
(Decrease) increase in other policyholder liabilities	2,797	(5,774))
Decrease in Federal income taxes	(12,757)	(8,555))
(Decrease) increase in other liabilities	3,385	(2,390))
Other, net	128	—	
Net cash provided by operating activities	141,822	90,450	
Cash flows from investing activities:			
Proceeds from sales of:			
Securities available for sale	(367)	11,196)
Other investments	3,492	3,348	
Proceeds from maturities and redemptions of:			
Securities held to maturity	696,502	221,449	
Securities available for sale	177,601	52,482	
Index options	941	34,615	
Purchases of:			
Securities held to maturity	(785,820)	(530,454))
Securities available for sale	(271,552)	(143,859))
Index options	(26,153)	(29,279))
Other investments	(4,263)	(7,779))
Principal payments on mortgage loans	38,154	8,961	
Cost of mortgage loans acquired	(8,403)	(28,476))
Decrease (increase) in policy loans	598	2,705	
Other, net	—	—	
Net cash used in investing activities	(179,270)	(405,091))

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED

For the Six Months Ended June 30, 2012 and 2011

(Unaudited)

(In thousands)

	2012	2011
Cash flows from financing activities:		
Deposits to account balances for universal life and annuity contracts	454,963	719,078
Return of account balances on universal life and annuity contracts	(425,827	) (405,185
Issuance of common stock under stock option plan	—	1,217
Net cash provided by financing activities	29,136	315,110
Effect of foreign exchange	286	(134
Net increase (decrease) in cash and short-term investments	(8,026	) 335
Cash and short-term investments at beginning of period	119,290	80,332
Cash and short-term investments at end of period	\$111,264	\$80,667
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	\$20	\$10
Income taxes	\$33,495	\$24,211
Noncash operating activities:		
Deferral of sales inducements	\$158	\$5,225

See accompanying notes to condensed consolidated financial statements.

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

(1) CONSOLIDATION AND BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for annual financial statements. In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments necessary to present fairly the financial position of National Western Life Insurance Company and its subsidiaries ("Company" or "National Western") as of June 30, 2012, and the results of its operations and its cash flows for the three and six months ending June 30, 2012 and 2011. The results of operations for the six months ended June 30, 2012 and 2011 are not necessarily indicative of the results to be expected for the full year. It is recommended that these condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 accessible free of charge through the Company's internet site at www.nationalwesternlife.com or the Securities and Exchange Commission internet site at www.sec.gov. The condensed consolidated balance sheet at December 31, 2011 has been derived from the audited consolidated financial statements as of that date.

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

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

The Company implemented new actuarial reserving systems that enhance its ability to provide better estimates used in establishing future policy liabilities, monitor the deferred acquisition cost asset and the deferred sales inducements asset as well as support other actuarial processes within the Company. The implementation of these new reserving systems for specific blocks of business began in the second quarter of 2009 and was completed in the fourth quarter of 2011. As the Company applied these new systems to a line of business, current reserving assumptions were reviewed and updated as appropriate. In different reporting periods during this time period, certain corrections were made to reserve and Deferred Policy Acquisition Costs balances as a result of the implementation of the new reserving system. As the amounts of these corrections were determined to have occurred over the course of multiple previously reported periods, it was concluded that the amounts of the corrections were immaterial to the financial results reported in any of these periods. None of these corrections occurred in 2012.

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

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

(2) NEW ACCOUNTING PRONOUNCEMENTS

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

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 qualify for deferral. The new guidance specifies the acquisition costs which are capitalizable and those which must be expensed. The effective date is for interim and annual periods ending after December 15, 2011. The Company has evaluated the impact of this guidance on the condensed consolidated financial statements. Based on evaluation of actual expenses from 2011 the Company determined that \$2.5 million of capitalized expenses during 2011 would not have been deferrable under the new guidance. The change would have reduced 2011 pretax operating income by 3.0%. Thus, management prospectively adapted the guidance and has concluded the new guidance does not have a significant impact on the condensed consolidated financial statements.

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

In May 2011, the FASB issued ASU No. 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS,". ASU No. 2011-04 does not extend the use of the existing concepts or guidance regarding fair value. The guidance emphasizes using the same meaning and disclosures of fair value within the financial statements prepared in accordance with U.S. GAAP and International Financial Reporting Standards ("IFRS"). The guidance requires disclosure of additional information about transfers between Level 1 and Level 2 of the fair value hierarchy, additional disclosures for Level 3 fair value measurement, including quantitative and qualitative information about significant unobservable inputs and discussions about the sensitivity of these unobservable inputs and a description of the Company's valuation process. ASU No. 2011-04 is effective for annual reporting periods beginning after December 15, 2011. The Company has included the additional disclosures in the notes to the condensed consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05 "Comprehensive Income (Topic 220): Presentation of Comprehensive Income" ("ASU No. 2011-05"). ASU No. 2011-05 provides that entities must present the components of net income, the components of comprehensive income and the total of comprehensive income for all periods presented. ASU No. 2011-05 is effective for interim or annual periods beginning on or after December 15, 2011. The provisions of ASU No. 2011-05 relate only to the presentation of other comprehensive income and, accordingly, its adoption did not have an impact on the Company's condensed consolidated financial position or the results of its operations. This guidance was amended by ASU No. 2011-12 below.

In December 2011, the FASB issued ASU 2011-12, Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05, which defers certain provisions of ASU 2011-05, Presentation

of Comprehensive Income. One of ASU 2011-05's provisions requires entities to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented. This requirement is indefinitely deferred by ASU 2011-12. ASUs 2011-05 and 2011-12 are effective for fiscal years, and interim periods beginning after December 15, 2011. The guidance did not have a significant impact on condensed consolidated financial statements and current disclosures.

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(3) STOCKHOLDERS' EQUITY

The Company is restricted by state insurance laws from the Colorado Division of Insurance as to dividend amounts which may be paid to stockholders without prior approval. The restrictions are based on statutory earnings and surplus levels of the Company. The maximum dividend payment which may be made without prior approval in 2012 is \$91.9 million. The Company did not declare or pay cash dividends on common stock during the six months ended June 30, 2012 and 2011.

(4) EARNINGS PER SHARE

Basic earnings per share of common stock are computed by dividing net income by the weighted-average basic common shares outstanding during the period. Diluted earnings per share assumes the issuance of common shares applicable to stock options in the denominator.

	Three Months Ended June 30,			
	2012		2011	
	Class A	Class B	Class A	Class B
	(In thousands except per share amounts)			
Numerator for Basic and Diluted Earnings Per Share:				
Net income	\$23,246		13,790	
Dividends - Class A shares	—		—	
Dividends - Class B shares	—		—	
Undistributed income	\$23,246		13,790	
Allocation of net income:				
Dividends	\$—	—	—	—
Allocation of undistributed income	22,589	658	13,400	390
Net income	\$22,589	658	13,400	390
Denominator:				
Basic earnings per share - weighted-average shares	3,435	200	3,434	200
Effect of dilutive stock options	—	—	3	—
Diluted earnings per share - adjusted weighted-average shares for assumed conversions	3,435	200	3,437	200
Basic Earnings Per Share	\$6.58	3.29	3.90	1.95
Diluted Earnings Per Share	\$6.58	3.29	3.90	1.95

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

	Six Months Ended June 30,		2011	
	2012		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	\$42,987		32,001	
Dividends - Class A shares	—		—	
Dividends - Class B shares	—		—	
Undistributed income	\$42,987		32,001	
Allocation of net income:				
Dividends	\$—	—	—	—
Allocation of undistributed income	41,771	1,216	31,096	905
Net income	\$41,771	1,216	31,096	905
Denominator:				
Basic earnings per share - weighted-average shares	3,435	200	3,432	200
Effect of dilutive stock options	—	—	6	—
Diluted earnings per share - adjusted weighted-average shares for assumed conversions	3,435	200	3,438	200
Basic Earnings Per Share	\$12.16	6.08	9.06	4.53
Diluted Earnings Per Share	\$12.16	6.08	9.04	4.53

For the three and six month per share calculations as of June 30, 2012, the exercise price of all outstanding stock options is above the market price of the Company's Class A common shares as of that date. Accordingly, there is no dilutive impact for stock options upon earnings per share during these periods.

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(5) PENSION AND OTHER POSTRETIREMENT PLANS

(A) Defined Benefit Pension Plans

The Company sponsors a qualified defined benefit pension plan covering substantially all employees. The plan provides benefits based on the participants' years of service and compensation. The Company makes annual contributions to the plan that 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. Going forward future pension expense is projected to be minimal. Fair values of plan assets and liabilities are measured as of the prior December 31 for each respective year. The following table summarizes the components of net periodic benefit cost.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Service cost	\$44	—	87	—
Interest cost	232	258	464	517
Expected return on plan assets	(267	) (259	) (535	) (518
Amortization of prior service cost	1	1	2	2
Amortization of net loss	196	126	393	250
Net periodic benefit cost	\$206	126	411	251

The Company's minimum required contribution for the 2012 plan year is \$1.1 million of which it expects to contribute \$0.5 million during 2012 with the remainder to be contributed in 2013. In addition, the Company has contributions for the 2011 plan year payable during 2012 of \$0.4 million. As of June 30, 2012, the Company has contributed \$0.3 million to the plan for the 2011 and 2012 plan years.

The Company also sponsors a non-qualified defined benefit plan primarily for senior officers. The plan provides benefits based on the participants' years of service and compensation. The pension obligations and administrative responsibilities of the plan are maintained by a pension administration firm, which is a subsidiary of American National Insurance Company ("ANICO"). ANICO has guaranteed the payment of pension obligations under the plan. However, the Company has a contingent liability with respect to the plan should these entities be unable to meet their obligations under the existing agreements. Also, the Company has a contingent liability with respect to the plan in the event that a plan participant continues employment with the Company beyond age seventy, the aggregate average annual participant salary increases exceed 10% per year, or any additional employees become eligible to participate in the plan. If any of these conditions are met, the Company would be responsible for any additional pension obligations resulting from these items. Amendments were made to the plan to allow an additional employee to participate and to change the benefit formula for the Chairman of the Company. As previously mentioned, these additional obligations are a liability to the Company. Effective December 31, 2004, this plan was frozen with respect to the continued accrual of benefits of the Chairman and the President of the Company in order to comply with law changes under the American Jobs Creation Act of 2004 ("Act").

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

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The following table summarizes the components of net periodic benefit costs for the Chairman and President non-qualified defined benefit plans.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Service cost	\$42	13	84	26
Interest cost	228	266	456	532
Amortization of prior service cost	15	129	30	258
Amortization of net loss	286	165	571	329
Net periodic benefit cost	\$571	573	1,141	1,145

The Company expects to contribute \$2.0 million to these plans in 2012. As of June 30, 2012, the Company has contributed \$0.9 million to the plans.

(B) Defined Benefit Postretirement Healthcare Plans

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Interest cost	\$32	38	65	76
Amortization of prior service cost	\$26	29	52	57
Amortization of net loss	10	—	20	—
Net periodic benefit cost	\$68	67	137	133

The Company expects to contribute minimal amounts to the plan in 2012.

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(6) SEGMENT AND OTHER OPERATING INFORMATION

The Company defines its reportable operating segments as domestic life insurance, international life insurance, and annuities. These segments are organized based on product types and geographic marketing areas. A summary of segment information for the quarters ended June 30, 2012 and 2011 is provided below.

Selected Segment Information:

	Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
			(In thousands)		
June 30, 2012					
Selected Condensed Consolidated Balance Sheet Items:					
Deferred policy acquisition costs and sales inducements	\$35,681	229,034	595,865	—	860,580
Total segment assets	430,613	1,062,917	8,149,053	228,674	9,871,257
Future policy benefits	367,968	795,992	7,152,771	—	8,316,731
Other policyholder liabilities	11,899	13,710	128,496		154,105
Three Months Ended June 30, 2012					
Condensed Consolidated Income Statements:					
Premiums and contract revenues	\$4,280	32,115	5,162	—	41,557
Net investment income	3,991	7,315	61,875	5,000	78,181
Other revenues	45	314	(260	) 5,767	5,866
Total revenues	8,316	39,744	66,777	10,767	125,604
Life and other policy benefits	1,620	6,315	5,922	—	13,857
Amortization of deferred acquisition costs	2,068	7,757	21,524	—	31,349
Universal life and annuity contract interest	1,230	6,431	18,343	—	26,004
Other operating expenses	2,578	6,718	7,744	5,412	22,452
Federal income taxes (benefit)	261	3,943	4,110	1,685	9,999
Total expenses	7,757	31,164	57,643	7,097	103,661
Segment earnings (loss)	\$559	8,580	9,134	3,670	21,943

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	Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
			(In thousands)		
Six Months Ended June 30, 2012					
Condensed Income Statements:					
Premiums and contract revenues	\$14,819	55,546	11,474	—	81,839
Net investment income	9,809	22,712	186,264	8,954	227,739
Other revenues	52	346	(199	) 11,322	11,521
Total revenues	24,680	78,604	197,539	20,276	321,099
Life and other policy benefits	3,268	9,795	14,472	—	27,535
Amortization of deferred acquisition costs	4,459	13,365	45,236	—	63,060
Universal life and annuity contract interest	8,443	21,243	97,861	—	127,547
Other operating expenses	7,346	12,536	11,772	10,816	42,470
Federal income taxes	376	7,006	9,120	3,060	19,562
Total expenses	23,892	63,945	178,461	13,876	280,174
Segment earnings	\$788	14,659	19,078	6,400	40,925

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Selected Segment Information:

	Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
			(In thousands)		
June 30, 2011					
Selected Condensed Consolidated Balance Sheet Items:					
Deferred policy acquisition costs and sales inducements	\$41,113	227,166	580,224	—	848,503
Total segment assets	398,712	1,035,273	7,555,300	219,328	9,208,613
Future policy benefits	331,037	747,058	6,621,456	—	7,699,551
Other policyholder liabilities	12,206	16,999	116,548	—	145,753
Three Months Ended June 30, 2011					
Condensed Consolidated Income Statements:					
Premiums and contract revenues	\$6,617	25,616	5,006	—	37,239
Net investment income	4,485	9,532	78,830	4,877	97,724
Other revenues	(2	) 342	(1,070	) 5,428	4,698
Total revenues	11,100	35,490	82,766	10,305	139,661
Life and other policy benefits	(810	) 4,199	6,209	—	9,598
Amortization of deferred acquisition costs	2,771	7,927	28,150	—	38,848
Universal life and annuity contract interest	1,849	8,507	42,876	—	53,232
Other operating expenses	3,361	4,273	6,320	5,106	19,060
Federal income taxes (benefit)	1,339	3,273	(751	) 1,590	5,451
Total expenses	8,510	28,179	82,804	6,696	126,189
Segment earnings (loss)	\$2,590	7,311	(38) 3,609	13,472

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	Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
			(In thousands)		
Six Months Ended June 30, 2011					
Condensed Income Statements:					
Premiums and contract revenues	\$12,649	50,176	8,268	—	71,093
Net investment income	9,481	22,553	191,942	7,263	231,239
Other revenues	5	366	2,991	11,242	14,604
Total revenues	22,135	73,095	203,201	18,505	316,936
Life and other policy benefits	4,424	9,161	8,229	—	21,814
Amortization of deferred acquisition costs	5,654	16,125	44,558	—	66,337
Universal life and annuity contract interest	4,487	21,426	119,468	—	145,381
Other operating expenses	7,027	11,199	11,223	10,329	39,778
Federal income taxes (benefit)	174	4,856	6,308	2,615	13,953
Total expenses	21,766	62,767	189,786	12,944	287,263
Segment earnings (loss)	\$369	10,328	13,415	5,561	29,673

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

	Three Months Ended June 30, 2012		Six Months Ended June 30, 2012	
	2011	2011	2011	2011
	(In thousands)			
Premiums and Other Revenues:				
Premiums and contract revenues	\$41,557	37,239	81,839	71,093
Net investment income	78,181	97,724	227,739	231,239
Other revenues	5,866	4,698	11,521	14,604
Realized gains (losses) on investments	2,005	490	3,172	3,582
Total condensed consolidated premiums and other revenues	\$127,609	140,151	324,271	320,518

	Three Months Ended June 30, 2012		Six Months Ended June 30, 2012	
	2011	2011	2011	2011
	(In thousands)			
Federal Income Taxes:				
Total segment Federal income taxes	\$9,999	5,451	19,562	13,953
Taxes on realized gains (losses) on investments	702	172	1,110	1,254
Total condensed consolidated Federal income taxes	\$10,701	5,623	20,672	15,207

	Three Months Ended June 30, 2012		Six Months Ended June 30, 2012	
	2011	2011	2011	2011
	(In thousands)			
Net Earnings:				
Total segment earnings	\$21,943	13,472	40,925	29,673
Realized gains (losses) on investments, net of taxes	1,303	318	2,062	2,328
Total condensed consolidated net earnings	\$23,246	13,790	42,987	32,001

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	June 30, 2012 (In thousands)	2011
Assets:		
Total segment assets	\$9,871,257	9,208,613
Other unallocated assets	84,204	53,817
Total condensed consolidated assets	\$9,955,461	9,262,430

(7) SHARE-BASED PAYMENTS

The Company had a stock and incentive plan ("1995 Plan") which provided for the grant of any or all of the following types of awards to eligible employees: (1) stock options, including incentive stock options and nonqualified stock options; (2) stock appreciation rights, in tandem with stock options or freestanding; (3) restricted stock; and (4) performance awards. The 1995 Plan began on April 21, 1995, and was amended on June 25, 2004 to extend the termination date to April 20, 2010. The number of shares of Class A, \$1.00 par value, common stock which 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 authorized and unissued shares. The Company has issued only nonqualified stock options and stock appreciation rights under these plans.

All of the employees of the Company and its subsidiaries are eligible to participate in the current 2008 Plan (as well as previously in the expired 1995 Plan). In addition, directors of the Company are eligible to receive the same types of awards as employees except that they are not eligible to receive incentive stock options. Company directors, including members of the Compensation and Stock Option Committee, are eligible for nondiscretionary stock options. The directors' grants vest 20% annually following one full year of service to the Company from the date of grant. The employees' grants vest 20% annually following three full years of service to the Company from the date of grant. All grants issued expire after ten years. No awards were issued during the first or second quarter of 2012 and 2011.

Effective during March 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 1995 Plan; however, the program necessitated a change in accounting from the equity classification to the liability classification.

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

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The Company uses the current fair value method to measure compensation cost. As of June 30, 2012 and 2011, the liability balance was \$2.2 million and \$3.1 million, respectively. 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, 2012	291,000	86,118	\$187.83
Exercised	—	—	—
Forfeited	—	(1,450	) 222.50
Expired	—	—	—
Stock options granted	—	—	—
Balance at June 30, 2012	291,000	84,668	\$187.23
		Stock Appreciation Rights Outstanding Awards	Weighted- Average Exercise Price
Stock Appreciation Rights:			
Balance at January 1, 2012	75,411		\$126.64
Exercised	(500	)	114.64
Forfeited	(2,250	)	149.57
Granted	—		—
Balance at June 30, 2012	72,661		\$126.01

Stock options and stock appreciation rights (SARs) shown as forfeited in the above tables represent vested and unvested awards not exercised by plan participants prior to their termination from the Company. Forfeited stock options during the six months ended June 30, 2012 were each awarded under the 1995 Plan. As the 1995 Plan terminated during calendar year 2010, the forfeited shares are not shown as being added back to the "Shares Available For Grant" balance.

The total intrinsic value of options exercised was \$17,000 and \$557,000 for the six months ended June 30, 2012 and 2011, respectively. The total share-based liabilities paid were \$17,000 and \$179,000 for the six months ended June 30, 2012 and 2011, respectively. The total fair value of shares vested during the six months ended June 30, 2012 and 2011 was \$0.4 million and \$0.7 million, respectively. For the quarters ended June 30, 2012 and 2011, the total cash received from the exercise of options under the Plans was \$0 and \$167,000, respectively.

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The following table summarizes information about stock options and SARs outstanding at June 30, 2012.

	Options/SARs Outstanding	Weighted-Average Remaining Contractual Life	Options Exercisable
Exercise prices:			
\$150.00	50,650	1.8 years	50,650
255.13	25,018	5.6 years	10,608
208.05	9,000	6.0 years	7,200
251.49	1,000	6.2 years	200
236.00	250	6.1 years	50
114.64	34,643	6.5 years	11,329
132.56	36,768	9.2 years	1,000
Totals	157,329		81,037
Aggregate intrinsic value (in thousands)	\$1,289		\$318

The aggregate intrinsic value in the table above is based on the closing stock price of \$141.92 per share on June 30, 2012.

In estimating the fair value of the options outstanding at June 30, 2012 and December 31, 2011, the Company employed the Black-Scholes option pricing model with assumptions as detailed below.

	June 30, 2012	December 31, 2011
Expected term of options	2 to 9 years	2 to 10 years
Expected volatility:		
Range	26.73% to 35.52%	25.39% to 37.73%
Weighted-average	29.98	% 30.87
Expected dividend yield	0.25	% 0.26
Risk-free rate:		
Range	0.55% to 1.65%	0.73% to 2.03%
Weighted-average	1.03	% 1.16

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

The pre-tax compensation cost (benefit) recognized in the financial statements related to the two plans defined above was \$0.6 and \$(0.8) million for the six months ended June 30, 2012 and 2011, respectively. The related tax expense (benefit) recognized was \$0.2 million and \$(0.3) million for the six months ended June 30, 2012 and 2011,

respectively.

As of June 30, 2012, the total compensation cost related to nonvested options not yet recognized was \$1.9 million. This amount is expected to be recognized over a weighted-average period of 3.5 years. The Company recognizes compensation cost over the graded vesting periods.

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(8) 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 two such class action lawsuits. Given the uncertainty involved in these types of actions, the ability to make a reliable evaluation of the likelihood of an unfavorable outcome or an estimate of the amount of or range of potential loss is endemic to the particular circumstances and evolving developments of each individual matter on its own merits.

The Company is currently 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. Trial is presently set for November 5, 2012. The Company believes that it has meritorious defenses in this cause and intends to vigorously defend itself against the asserted claims. In addition, given the speculative and vague damage theories presented by the plaintiffs in the matter, the inability to ascertain any financial harm to the class of policyholders, and the current status of the case before the Court, the Company is unable to reasonably estimate a possible range of loss for disclosure in the accompanying financial statements. Therefore, no amounts have been provided in the financial statements of the Company as of June 30, 2012 for this matter.

In addition to the class action lawsuit described above, the Company is the named defendant in the case of *Sheila Newman vs. National Western Life Insurance Company*, which alleged mishandling of policyholder funds by an agent. On February 3, 2010, the 415th Judicial District Court of Parker County in Weatherford, Texas, entered a Final Judgment against the Company of approximately \$208,000 including actual damages of \$113,000 and amounts for attorney's fees, and prejudgment interest on the actual damages. In addition, the Final Judgment included \$150 million for exemplary damages. 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 Life Insurance Company. 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 Life Insurance Company. 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 petition and response is currently pending before the Texas Supreme Court.

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

The Company was involved in litigation as the plaintiff in a matter pending in the United States District Court for the Western District of Texas (“District Court”) against defendant, Western National Life Insurance Company and its parent company, AGC Life Insurance Company. The matter dealt with the alleged infringement of registered trademarks held by the Company. On March 25, 2011, the parties executed a Memorandum of Understanding on Settlement (“Memorandum”) under which the Company was to receive a settlement payment of \$4 million. This amount was subsequently received and included in Other revenues, net of attorney fees, in the financial statements in the second quarter, 2011. The parties entered into a final written confidential settlement agreement originally dated May 2, 2011 and amended August 15, 2011.

Brazilian insurance regulators have sought to impose substantial penal fines against National Western Life Insurance Company. The Company firmly believes that Brazilian insurance regulators have no jurisdiction over the Company and that any such fines would be unenforceable against it.

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(9) INVESTMENTS

(A) Investment Gains and Losses

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

	Three Months Ended		Six Months Ended	
	June 30, 2012	2011	June 30, 2012	2011
	(In thousands)			
Available for sale debt securities:				
Realized gains on disposal	\$2,579	330	4,207	3,137
Realized losses on disposal	—	—	—	—
Held to maturity debt securities:				
Realized gains on disposal	44	104	160	478
Realized losses on disposal	(39	) —	(413) —
Equity securities realized gains (losses)	—	56	(4	) 56
Real estate write-down	(159	) —	(159	) (50
Mortgage loans write-downs	—	—	—	(39
Other	—	—	—	—
Totals	\$2,425	490	3,791	3,582

The Company uses the specific identification method in computing realized gains and losses. Substantially all of the gains on bonds above are due to calls of securities rather than sales. This includes calls out of the Company's available for sale securities.

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

	Three Months Ended		Six Months Ended	
	June 30, 2012	2011	June 30, 2012	2011
	(In thousands)			
Total other-than-temporary impairment losses on debt securities	\$(156	) —	(409) —
Portion of loss (gain) recognized in comprehensive income	(235	) —	(157) —
Net impairment losses on debt securities recognized in earnings	(391) —	(566) —
Equity securities impairments	(29) —	(53)
Totals	\$(420) —	(619) —

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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.

	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012	Twelve Months Ended December 31, 2011
		(In thousands)	
Beginning balance, cumulative credit losses related to other-than-temporary impairments	\$1,297	1,122	997
Additions for credit losses not previously recognized in other-than-temporary impairments	391	566	125
Ending balance, cumulative credit losses related to other-than-temporary impairment	\$1,688	1,688	1,122

(B) Debt and Equity Securities

The table below presents amortized costs and fair values of securities held to maturity at June 30, 2012.

	Securities Held to Maturity			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
	(In thousands)			
Debt securities:				
U.S. agencies	\$48,126	3,230	—	51,356
U.S. Treasury	1,938	651	—	2,589
States and political subdivisions	375,771	38,491	(160)	) 414,102
Foreign governments	9,983	813	—	10,796
Public utilities	699,854	80,557	(3,782)	) 776,629
Corporate	2,588,950	231,034	(5,305)	) 2,814,679
Mortgage-backed	1,978,293	158,406	(40)	) 2,136,659
Home equity	22,824	3,466	(1,317)	) 24,973
Manufactured housing	13,038	872	(6)) 13,904
Totals	\$5,738,777	517,520	(10,610)) 6,245,687

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The table below presents amortized costs and fair values of securities available for sale at June 30, 2012.

	Securities Available for Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Debt securities:				
States and political subdivisions	\$4,080	22	(69	) 4,033
Foreign governments	15,138	789	—	15,927
Public utilities	309,684	30,600	(703	) 339,581
Corporate	2,045,526	182,476	(2,392	) 2,225,610
Mortgage-backed	132,199	11,616	(96	) 143,719
Home equity	10,891	132	(1,841	) 9,182
Manufactured housing	6,953	655	—	7,608
	2,524,471	226,290	(5,101	) 2,745,660
Equity public	6,344	2,845	(90	) 9,099
Totals	\$2,530,815	229,135	(5,191	) 2,754,759

The table below presents amortized costs and fair values of securities held to maturity at December 31, 2011.

	Securities Held to Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Debt securities:				
U.S. agencies	\$205,464	3,519	(330	) 208,653
U.S. Treasury	1,937	648	—	2,585
States and political subdivisions	358,364	27,338	(280	) 385,422
Foreign governments	9,979	927	—	10,906
Public utilities	685,989	77,060	(4,498	) 758,551
Corporate	2,258,640	195,551	(14,483	) 2,439,708
Mortgage-backed	2,082,650	155,413	(29	) 2,238,034
Home equity	23,815	439	(1,649	) 22,605
Manufactured housing	15,071	876	(81) 15,866
Totals	\$5,641,909	461,771	(21,350) 6,082,330

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The table below presents amortized costs and fair values of securities available for sale at December 31, 2011.

	Securities Available for Sale			
	Amortized	Gross	Gross	Fair
	Cost	Unrealized	Unrealized	Value
		Gains	Losses	
	(In thousands)			
Debt securities:				
States and political subdivisions	\$4,042	16	(170	) 3,888
Foreign governments	20,145	588	—	20,733
Public utilities	327,794	32,511	(907	) 359,398
Corporate	1,881,735	155,144	(5,839	) 2,031,040
Mortgage-backed	163,856	12,389	(189	) 176,056
Home equity	10,887	30	(2,054	) 8,863
Manufactured housing	7,689	740	—	8,429
	2,416,148	201,418	(9,159	) 2,608,407
Equity private	195	7,923	—	8,118
Equity public	6,307	2,266	(145	) 8,428
Totals	\$2,422,650	211,607	(9,304	) 2,624,953

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 June 30, 2012.

	Securities Held to Maturity						
	Less than 12 Months		12 Months or Greater		Total	Unrealized	
	Fair	Unrealized	Fair	Unrealized	Fair		
	Value	Losses	Value	Losses	Value	Losses	
	(In thousands)						
Debt securities:							
U.S. agencies	\$—	—	—	—	—	—	
U.S. Treasury	—	—	—	—	—	—	
States and political subdivisions	4,879	(157) 370	(3) 5,249	(160)
Foreign governments	—	—	—	—	—	—	
Public utilities	41,660	(909) 17,477	(2,873) 59,137	(3,782)
Corporate	187,310	(2,526) 44,267	(2,779) 231,577	(5,305)
Mortgage-backed	2,906	(40) —	—	2,906	(40)
Home equity	744	(137) 11,840	(1,180) 12,584	(1,317)
Manufactured housing	345	(6) —	—	345	(6)
	\$237,844	(3,775) 73,954	(6,835) 311,798	(10,610)

Total temporarily impaired
securities

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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 as of June 30, 2012.

	Securities Available for Sale					
	Less than 12 Months		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	—	—	—	—	—	—
States and political subdivisions	1,392	(69)	—	—	1,392	(69)
Foreign governments	—	—	—	—	—	—
Public utilities	8,449	(703)	—	—	8,449	(703)
Corporate	86,094	(517)	30,082	(1,875)	116,176	(2,392)
Mortgage-backed	3,834	(96)	—	—	3,834	(96)
Home equity	—	—	5,564	(1,841)	5,564	(1,841)
Manufactured housing	—	—	—	—	—	—
	99,769	(1,385)	35,646	(3,716)	135,415	(5,101)
Equity public	357	(19)	370	(71)	727	(90)
Total temporarily impaired securities	\$100,126	(1,404)	36,016	(3,787)	136,142	(5,191)

Liquidity in the bond market improved in 2012 and 2011 as economic and market conditions started to stabilize. Although the unrealized losses declined substantially in 2011 and continued to decline in the first and second quarter of 2012, there continues to be uncertainty in the bond markets regarding the economic recovery and some unrealized losses remain in the Company's portfolio. The Company does not consider these investments to be other-than-temporarily impaired as the Company does not intend to sell these securities until recovery in fair value or maturity, and expects to receive all amounts due relative to principal and interest.

The Company does not consider securities to be other-than-temporarily impaired when the market decline is attributable to factors such as market volatility, liquidity, spread widening and credit quality and when recovery of all amounts due under the contractual terms of the security is anticipated. Based on the 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 June 30, 2012. 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.

During the second quarter of 2012, the Company recorded an other-than-temporary impairment on one asset-backed security. The security had a \$390,000 credit impairment which is reported in the Condensed Consolidated Statements of Earnings and a \$235,000 liquidity gain which did not affect current earnings. The Company intends to hold the

security until recovery of fair market value or maturity.

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Debt securities. The gross unrealized losses for debt securities are made up of 83 individual issues, or 6.9% of the total debt securities held by the Company. The market value of these bonds as a percent of amortized cost averages 96.6%. Of the 83 securities, 17, or approximately 20.5%, fall in the 12 months or greater aging category; and 74 were rated investment grade at June 30, 2012. Additional information on debt securities by investment category is summarized below.

U.S. Treasury. No securities had an unrealized loss.

U.S. Government agencies. No securities had an unrealized loss.

State and political subdivisions. The unrealized losses on these investments are the result of holdings in 11 securities. Of these securities, all are rated A or above except 1 security which is rated BBB. Based on these facts and the Company's intent to hold to maturity, no other-than-temporary loss was recognized as of June 30, 2012.

Foreign governments. No securities had an unrealized loss.

Public utilities. Of the 10 securities, all are rated BB+ or above. At this time, the Company does not consider any of these unrealized losses as other-than-temporary.

Corporate bonds. Corporate securities with unrealized losses are reviewed based on monitoring procedures described previously. The review includes the amount of the unrealized loss, the length of time that the issue has been in an unrealized loss position, credit ratings, analyst reports, and recent issuer financial information. A total of 53 securities had unrealized losses; with 5 issues rated below investment grade. More extensive analysis was performed on these 5 issues. Based on the work performed, none of these securities are considered other-than-temporarily impaired at June 30, 2012.

Mortgage-backed securities. 2 securities had unrealized losses. 1 is rated AA+ and 1 is rated CCC. The Company generally purchases these investments at a discount relative to their face amount and it is expected that the securities will not be settled at a price less than the stated par. Because the decline in market value is attributable to the current illiquidity in the market and not credit quality, and because the Company has the ability and intent to hold these securities until a recovery of fair value, which may be maturity, and based on the lack of adverse changes in expected cash flows, the Company does not consider the investments to be other-than-temporarily impaired at June 30, 2012.

Home equity. Of the 6 securities, 3 are rated AAA, 2 are rated AA, and 1 is rated CC. The Company performs a quarterly cash flow analysis on asset-backed securities that are rated below AA. Based on cash flow analysis, no other-than-temporary impairment loss was recognized as of June 30, 2012 .

Manufactured housing. One security had a negligible unrealized loss. The security is rated A and is not considered to be other than temporarily impaired.

Equity securities. The gross unrealized losses for equity securities are made up of 17 individual issues. These holdings are reviewed for impairment quarterly. As of June 30, 2012, 2 equity securities were other-than-temporarily impaired.

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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, 2011.

	Securities Held to Maturity				Total Fair Value	Unrealized Losses
	Less than 12 Months		12 Months or Greater			
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses		
	(In thousands)					
Debt securities:						
U.S. agencies	\$24,985	(16	) 27,010	(314	) 51,995	(330
U.S. Treasury	—	—	—	—	—	—
States and political subdivisions	805	(82	) 17,117	(198	) 17,922	(280
Foreign governments	—	—	—	—	—	—
Public utilities	26,509	(1,388	) 17,242	(3,110	) 43,751	(4,498
Corporate	199,934	(7,215	) 95,975	(7,268	) 295,909	(14,483
Mortgage-backed	23,256	(29	) —	—	23,256	(29
Home equity	—	—	11,660	(1,649	) 11,660	(1,649
Manufactured housing	—	—	2,436	(81	) 2,436	(81
Total temporarily impaired securities	\$275,489	(8,730) 171,440	(12,620) 446,929	(21,350

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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, 2011.

	Securities Available for Sale					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Debt securities:						
U.S. agencies	\$—	—	2,257	(170	) 2,257	(170
U.S. Treasury	—	—	—	—	—	—
States and political subdivisions	19,314	(907	) —	—	19,314	(907
Foreign governments	—	—	—	—	—	—
Public utilities	—	—	—	—	—	—
Corporate	100,584	(4,009	) 20,944	(1,830	) 121,528	(5,839
Mortgage-backed	3,950	(189	) —	—	3,950	(189
Home equity	—	—	5,351	(2,054	) 5,351	(2,054
Manufactured housing	—	—	—	—	—	—
	123,848	(5,105	) 28,552	(4,054	) 152,400	(9,159
Equity public	722	(84	) 299	(61	) 1,021	(145
Total temporarily impaired securities	\$124,570	(5,189	) 28,851	(4,115	) 153,421	(9,304

(C) Transfer of Securities

During the six months ended June 30, 2012 and 2011, the Company made no transfers to the held to maturity category from securities available for sale. Lower holdings of securities available for sale reduces the Company's exposure to market price volatility while still providing securities available for liquidity and asset/liability management purposes.

(D) 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. Mortgage, equity, participation and mezzanine loans on real estate are considered financing receivables reported by the Company.

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.

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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 Condensed Consolidated Statements of Earnings. The loan is independently monitored and evaluated as to potential impairment or foreclosure. If delinquent payments are made and the loan is brought current, then the Company returns the loan to active status and accrues income accordingly. The Company has no loans past due 90 days which are accruing interest.

The following table represents the loan-to-value ratio using the most recent appraised value.

	June 30, 2012		December 31, 2011			
	Amount (In thousands)	%	Amount (In thousands)	%		
Mortgage Loans by Loan-to-Value Ratio (1):						
Less than 50%	62,711	47.3	% 68,048	43.2	%	
50% to 60%	15,617	11.8	% 32,091	20.4	%	
60% to 70%	25,787	19.4	% 25,692	16.3	%	
70% to 80%	4,978	3.8	% 5,505	3.5	%	
80% to 90%	—	—	% —	—	%	
Greater than 90%	23,521	17.7	% 26,124	16.6	%	
Totals	132,614	100.0	% 157,460	100.0	%	

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

The mortgage loans in the greater than 90% category relate to new loans made with a long standing borrower. The loans are backed by the investment property, contracted leases, as well as a separate and additional guarantee of the long standing 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.

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 Condensed Consolidated Statements of Earnings.

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The following table represents the mortgage loan allowance for the six months ended June 30, 2012 and the year ended December 31, 2011:

	June 30, 2012	December 31, 2011
	(In thousands)	
Balance, beginning of period	\$4,571	3,962
Provision	—	609
Releases	(4,571) —
Balance, end of period	\$—	4,571

The mortgage loan allowance released in the second quarter of 2012 pertained to a property forced into bankruptcy which the Company subsequently acquired in a bankruptcy auction. The mortgage loan was closed and the property reclassified as a real estate investment included in other long-term investments on the Company's balance sheet at June 30, 2012.

(10) 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 Condensed 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.

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, and over-the-counter derivative contracts. The Company's Level 2 liabilities

consist of certain product-related embedded derivatives. 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 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. Valuations are estimated based on non-binding broker prices or internally developed valuation models or methodologies, discounted cash flow models and other similar techniques.

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

	June 30, 2012			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Debt securities, available for sale	\$2,745,660	—	2,745,660	—
Equity securities, available for sale	9,099	8,901	198	—
Derivatives, index options	65,555	—	65,555	—
Total assets	\$2,820,314	8,901	2,811,413	—
Policyholder account balances (a)	\$76,737	—	76,737	—
Other liabilities (b)	2,217	—	—	2,217
Total liabilities	\$78,954	—	76,737	2,217

During the six months ended June 30, 2012, the Company transferred out of Level 3, equity securities available for sale, its investment in an affiliated company, Moody National Bank. The security is held at its equity value and was transferred to other long-term investments. The Company did not make any other transfers of assets into or out of levels 1, 2 or 3.

	December 31, 2011			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Debt securities, available for sale	\$2,608,407	—	2,608,407	—
Equity securities, available for sale	16,546	8,233	195	8,118
Derivatives, index options	30,844	—	30,844	—
Total assets	\$2,655,797	8,233	2,639,446	8,118
Policyholder account balances (a)	\$47,129	—	47,129	—
Other liabilities (b)	1,647	—	—	1,647
Total liabilities	\$48,776	—	47,129	1,647

(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 tables present, by pricing source and fair value hierarchy level, the Company's assets that are measured at fair value on a recurring basis:

	June 30, 2012 Total (In thousands)	Level 1	Level 2	Level 3	
Debt securities, available for sale:					
Priced by third-party vendors	\$2,745,660	—	2,745,660	—	
Priced internally	—	—	—	—	
Subtotal	2,745,660	—	2,745,660	—	
Equity securities, available for sale:					
Priced by third-party vendors	9,099	8,901	198	—	
Priced internally	—	—	—	—	
Subtotal	9,099	8,901	198	—	
Derivatives, index options:					
Priced by third-party vendors	65,555	—	65,555	—	
Priced internally	—	—	—	—	
Subtotal	65,555	—	65,555	—	
Total	\$2,820,314	8,901	2,811,413	—	
Percent of total	100.0	% 0.3	% 99.7	% —	%

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	December 31, 2011				
	Total (In thousands)	Level 1	Level 2	Level 3	
Debt securities, available for sale:					
Priced by third-party vendors	\$2,608,407	—	2,608,407	—	
Priced internally	—	—	—	—	
Subtotal	2,608,407	—	2,608,407	—	
Equity securities, available for sale:					
Priced by third-party vendors	8,428	8,233	195	—	
Priced internally	8,118	—	—	8,118	
Subtotal	16,546	8,233	195	8,118	
Derivatives, index options:					
Priced by third-party vendors	30,844	—	30,844	—	
Priced internally	—	—	—	—	
Subtotal	30,844	—	30,844	—	
Total	\$2,655,797	8,233	2,639,446	8,118	
Percent of total	100.0	% 0.3	% 99.4	% 0.3	%

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

	For the Three Months Ended June 30, 2012			
	Debt Securities, Available for Sale (In thousands)	Equity Securities, Available for Sale	Total Assets	Other Liabilities
Beginning balance, April 1, 2012	\$—	—	—	1,623
Total realized and unrealized gains (losses):				
Included in net income	—	—	—	594
Included in other comprehensive income	—	—	—	—
Purchases, sales, issuances and settlements, net	—	—	—	—
Transfers into (out of) Level 3	—	—	—	—
Balance at end of period	\$—	—	—	2,217
Amount of total gains (losses) for the period included in net income attributable to the change in unrealized gains (losses) relating to assets still held at end of period	\$—	—	—	621

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	For the Three Months Ended June 30, 2011			
	Debt Securities, Available for Sale (In thousands)	Equity Securities, Available for Sale	Total Assets	Other Liabilities
Beginning balance, April 1, 2011	\$19,059	8,118	27,177	3,511
Total realized and unrealized gains (losses):				
Included in net income	—	—	—	(196)
Included in other comprehensive income	(1,115)	—	(1,115)	—
Purchases, sales, issuances and settlements, net	(787)	—	(787)	(225)
Transfers into (out of) Level 3	—	—	—	—
Balance at end of period	\$17,157	8,118	25,275	3,090
Amount of total gains (losses) for the period included in net income attributable to the change in unrealized gains (losses) relating to assets still held at end of period	\$—	—	—	(196)

	For the Six Months Ended June 30, 2012			
	Debt Securities, Available for Sale (In thousands)	Equity Securities, Available for Sale	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	—	—	—	587
Included in other comprehensive income	—	897	897	—
Purchases, sales, issuances and settlements, net	—	—	—	(17)
Transfers into (out of) Level 3	—	(9,015)	(9,015)	—
Balance at end of period	\$—	—	—	2,217
Amount of total gains (losses) for the period included in net income attributable to the change in unrealized gains (losses) relating to assets still held at end of period	\$—	—	—	651

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	For the Six Months Ended June 30, 2011			
	Debt Securities, Available for Sale (In thousands)	Equity Securities, Available for Sale	Total Assets	Other Liabilities
Beginning balance, January 1, 2011	\$ 18,602	7,564	26,166	4,512
Total realized and unrealized gains (losses):				
Included in net income	—	—	—	(865)
Included in other comprehensive income	(813)	554	(259)	—
Purchases, sales, issuances and settlements, net	(632)	—	(632)	(557)
Transfers into (out of) Level 3	—	—	—	—
Balance at end of period	\$ 17,157	8,118	25,275	3,090
Amount of total gains (losses) for the period included in net income attributable to the change in unrealized gains (losses) relating to assets still held at end of period	\$—	—	—	(865)

Realized gains (losses) on debt and equity securities are reported in the Condensed Consolidated Statements of Earnings as net investment gains (losses). Unrealized gains (losses) on available for sale debt and equity securities are reported as other comprehensive income (loss) within stockholders' equity of the Condensed Consolidated Balance Sheet.

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.

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

	June 30, 2012		December 31, 2011	
	Carrying Values	Fair Values	Carrying Values	Fair Values
(In thousands)				
ASSETS				
Investments in debt and equity securities:				
Securities held to maturity	\$5,738,777	6,245,687	5,641,909	6,082,330
Securities available for sale	2,754,759	2,754,759	2,624,953	2,624,953
Cash and short-term investments	111,264	111,264	119,290	119,290
Mortgage loans	132,614	138,556	157,460	158,958
Policy loans	74,369	74,223	74,967	74,967
Other loans	14,150	14,350	16,287	16,780
Derivatives, index options	65,555	65,555	30,844	30,844
Life interest in Libbie Shearn Moody Trust	165	12,775	330	12,775
LIABILITIES				
Deferred annuity contracts	\$6,716,796	6,356,967	6,606,886	6,273,379
Immediate annuity and supplemental contracts	510,974	544,078	506,982	521,122

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.

(11) DERIVATIVE INVESTMENTS

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

The Company does not elect hedge accounting relative to these derivative instruments. The index options are reported at fair value in the accompanying condensed consolidated financial statements. The changes in the values of the index options and the changes in the policyholder liabilities are both reflected in the Condensed Consolidated Statements of Earnings. Any changes relative to the embedded derivatives associated with policy contracts are reflected in contract interest in the Condensed 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 Condensed 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 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 as of June 30, 2012 and December 31, 2011, respectively.

	June 30, 2012		Liability Derivatives	
	Asset Derivatives		Balance	Fair
	Balance	Fair	Sheet	Value
	Sheet	Value	Location	
	Location	(In thousands)		(In thousands)
Derivatives not designated as hedging instruments				
Equity index options	Derivatives, Index Options	\$65,555		
Fixed-indexed products			Universal Life and Annuity Contracts	\$76,737
Total		\$65,555		\$76,737
	December 31, 2011		Liability Derivatives	
	Asset Derivatives		Balance	Fair
	Balance	Fair	Sheet	Value
	Sheet	Value	Location	
	Location	(In thousands)		(In thousands)
Derivatives not designated as hedging instruments				
Equity index options	Derivatives, Index Options	\$30,844		

Fixed-indexed products		Universal Life and Annuity Contracts	\$47,129
Total	\$30,844		\$47,129

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Table of ContentsNATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

The table below presents the effect of derivative instruments in the Condensed Consolidated Statement of Earnings for the three months ended June 30, 2012 and 2011.

Derivatives Not Designated As Hedging Instruments	Location of Gain or (Loss) Recognized In Income on Derivative	June 30,	June 30,
		2012	2011
		Amount of Gain or (Loss) Recognized in Income on Derivative (In thousands)	
Equity index options	Net investment income	\$ (32,478	) (9,098
Fixed-index products	Universal life and annuity contract interest	32,553	7,614
		\$ 75	(1,484

The table below presents the effect of derivative instruments in the Condensed Consolidated Statement of Earnings for the six months ended June 30, 2012 and 2011.

Derivatives Not Designated As Hedging Instruments	Location of Gain or (Loss) Recognized In Income on Derivative	June 30,	June 30,
		2012	2011
		Amount of Gain or (Loss) Recognized in Income on Derivative (In thousands)	
Equity index options	Net investment income	\$ 9,959	22,751
Fixed-index products	Universal life and annuity contract interest	(15,062	) (23,781
		\$ (5,103	) (1,030

(12) SUBSEQUENT EVENTS

Subsequent events have been evaluated through August 9, 2012, which is the date that the financial statements have been issued, and no reportable items were identified.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES
ABOUT MARKET RISK

This information is included in Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, in the Investments in Debt and Equity Securities section.

ITEM 4. CONTROLS AND PROCEDURES

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) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective in recording, processing, summarizing, and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act.

There have been no changes in the Company's internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended June 30, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting. Internal controls over financial reporting change as the Company modifies or 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.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

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

Management's discussion and analysis of the financial condition and results of operations (“MD&A”) of National Western Life Insurance Company for the six months ended June 30, 2012 follows. This discussion should be read in conjunction with the Company's condensed consolidated financial statements and related notes beginning on page 3 of this report and with the 2011 Annual Report filed on Form 10-K with the SEC.

Overview

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

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

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

The Company monitors these factors continually as key business indicators. The discussion that follows in this Item 2 includes these indicators and presents information useful to an overall understanding of the Company's business performance in 2012, incorporating required disclosures in accordance with the rules and regulations of the Securities and Exchange Commission.

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Insurance Operations - Domestic

The Company is currently licensed to do business in all states and the District of Columbia except for New York. Products marketed are annuities, universal life insurance, fixed-indexed universal life, and traditional life insurance, which include both term and whole life products. The Company's domestic sales have historically been more heavily weighted toward annuity products, which include single and flexible premium deferred annuities, single premium immediate annuities, and fixed-indexed annuities. Most of these annuities can be sold as tax qualified or nonqualified products. At June 30, 2012, the Company maintained approximately 140,600 annuity contracts in force.

National Western markets and distributes its domestic products primarily through independent national marketing organizations ("NMOs"). These NMOs assist the Company in recruiting, contracting, and managing independent agents. The Company currently has approximately 13,300 domestic independent agents contracted. Roughly 25% of these contracted agents have submitted policy applications to the Company in the past twelve months.

Insurance Operations - International

The Company's international focus is on foreign nationals in upper socioeconomic classes. Insurance products are issued primarily to residents of countries in Central and South America, the Caribbean, Eastern Europe, Asia and the Pacific Rim. Issuing policies to residents of countries in these different regions provides diversification that helps to minimize large fluctuations that could arise due to various economic, political, and competitive pressures that may occur from one country to another. Products issued to international residents are almost entirely universal life and traditional life insurance products. However, certain annuity and investment contracts are also available. At June 30, 2012, the Company had approximately 73,440 international life insurance policies in force representing approximately \$18.9 billion in face amount of coverage.

International applications are submitted by independent contractor consultants and broker-agents. The Company has approximately 3,540 independent international consultants and brokers currently contracted, 33% of which have submitted policy applications to the Company in the past twelve months.

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

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SALES

Life Insurance

The following table sets forth information regarding the Company's life insurance sales activity as measured by annualized first year premiums. While the figures shown below are in accordance with industry practice and represent the amount of new business sold during the periods indicated, they are considered a non-GAAP financial measure. The Company believes sales are a measure of distribution productivity and are a leading indicator of future revenue trends. However, revenues are driven by sales in prior periods as well as in the current period and therefore, a reconciliation of sales to revenues is not meaningful or determinable.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
International:				
Universal life	\$ 1,732	1,692	3,177	3,370
Traditional life	843	828	1,528	1,620
Equity-indexed life	3,659	4,898	6,978	9,102
	6,234	7,418	11,683	14,092
Domestic:				
Universal life	40	30	74	51
Traditional life	13	13	24	20
Equity-indexed life	2,210	1,244	3,834	1,729
	2,263	1,287	3,932	1,800
Totals	\$ 8,497	8,705	15,615	15,892

Life insurance sales as measured by annualized first year premiums declined 2.4% in the second quarter of 2012 as compared to the second quarter of 2011. By market segment, the domestic life insurance line of business posted a 76% increase over the comparable results during the second quarter of 2011 while international life sales decreased 16% during the same time frame. For the six months ended June 30th, total life insurance sales declined 1.7% as international life sales decreased by 17% during this period while domestic life insurance sales increased 118%.

The Company's international life business consists of applications accepted from residents of various regions outside of the United States, the volume of which typically varies based upon changes in the socioeconomic climates of these regions. Historically, the Company has experienced a simultaneous combination of rising and declining sales in various countries; however, the appeal of the Company's dollar-denominated life insurance products overcomes many of the local and national difficulties. In the "Great Recession" economic climate during 2008-2009, individuals in countries outside of the United States became increasingly leery of the U.S. economy and the stability of financial institutions and markets. These concerns resulted in reduced international sales during this time period. As fiscal and regulatory policies were enacted in response to the financial market turmoil, the ensuing level of relative stability served to recapture the confidence of international markets. Consequently, the Company witnessed an increased level of submitted life insurance applications beginning during the latter half of 2010.

As reported in the Company's Form 10-Q filing for the quarter ended September 30, 2011, Brazilian insurance regulators publicly stated their intention to curtail the sales activity of certain foreign multinational insurers, including National Western, and attempt to levy fines. This public announcement has served to decrease the number of new applications for insurance from residents of Brazil since that time.

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

	Six Months Ended June 30,			
	2012	2011		
Percentage of International Sales:				
Latin America	85.3	% 87.0		%
Pacific Rim	13.4	11.6		
Eastern Europe	1.3	1.4		
Totals	100.0	% 100.0		%

Year-to-date, the Company has accepted new business from residents outside of the United States in over thirty different countries with Brazil (21%), Venezuela (19%), and Taiwan (13%) comprising the largest contributions. Sales to residents in Venezuela increased 49% in the first six months of 2012 compared to the same period in 2011.

The Company's domestic operations have historically been more heavily skewed toward annuity sales rather than life insurance sales. Partially in response to comments from outside rating agencies who expressed a preference for a greater proportion of overall Company earnings to derive from the life insurance line of business, management began placing emphasis on building domestic life insurance sales as a strategic focus for future growth. The Company revamped its domestic life operations by changing the way it contracts distribution for life business, eliminating products and distribution that had not contributed significantly to earnings, and creating new and competitive products. These new offerings included single premium universal life ("SPUL") and equity-indexed universal life ("EIUL") products.

More recently the Company has developed hybrids of its EIUL and SPUL products, combining features, and discontinued the marketing of smaller premium and volume life insurance policies. The Company's product development emphasis in creating SPUL, EIUL, and single or limited pay EIUL products has been positioned to take advantage of the changing demographic in the marketplace as the "Baby Boomer" generation began reaching 65 years of age in 2011. These products are designed to facilitate the wealth transfer of accumulated savings of this segment of the population via systematic funding mechanisms such as single premium immediate annuities. These life products have been valuable offerings for the Company's distributors as evidenced by the 118% increase in domestic life sales in the first six months of 2012 versus 2011.

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

Average New Policy Face
Amount

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	Domestic	International
Year ended December 31, 2006	315,800	254,700
Year ended December 31, 2007	416,800	251,000
Year ended December 31, 2008	455,200	272,000
Year ended December 31, 2009	201,400	315,300
Year ended December 31, 2010	164,800	338,600
Year ended December 31, 2011	178,500	363,600
Six months ended June 30, 2012	217,300	382,500

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After several challenging years of life insurance sales in the wake of the global financial crisis, life insurers are looking for new ways to rebuild premium levels. The Company's focus is directed toward its competitive advantages in international markets and wealth transfer strategies for domestic life sales. Critical to these strategies is the Company's portfolio of fixed-index (equity indexed) life insurance products. Fixed-index life products accounted for over 69% of total life sales in the first six months of 2012, an increase from 68% for the same period in 2011.

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

	Insurance In Force as of June 30,	
	2012	2011
	(\$ in thousands)	
Universal life:		
Number of policies	58,980	61,900
Face amounts	\$7,472,100	7,493,470
Traditional life:		
Number of policies	42,630	44,290
Face amounts	\$3,064,900	2,779,660
Fixed-indexed life:		
Number of policies	33,340	31,440
Face amounts	\$8,268,910	7,633,830
Rider face amounts	\$2,364,630	2,255,580
Total life insurance:		
Number of policies	134,950	137,630
Face amounts	\$21,170,540	20,162,540

The Company's domestic in force business includes final expense policies and other smaller face amount traditional life policies written over the past several decades. As the Company's domestic product portfolio has changed to higher face amount universal life and fixed-indexed life policies, a decline in the number of traditional life policies in force has been steadily occurring.

At June 30, 2012, the Company's face amount of life insurance in force was comprised of \$18.9 billion from the international line of business and \$2.3 billion from the domestic line of business. At December 31, 2011, these amounts were \$18.6 billion and \$2.3 billion for the international and domestic lines of business, respectively.

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Annuities

The following table sets forth information regarding the Company's annuity sales activity as measured by single and annualized first year premiums. Similar to life insurance sales, these figures are considered a non-GAAP financial measure but are shown in accordance with industry practice and depict the Company's sales productivity.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Fixed-indexed annuities	\$164,901	237,985	318,397	464,901
Other deferred annuities	39,585	101,320	67,335	203,561
Immediate annuities	11,610	12,965	23,840	16,700
Totals	\$216,096	352,270	409,572	685,162

Annuity sales in the second quarter of 2012 were 39% lower than in the second quarter of 2011. Likewise, annuity sales for the first six months of 2012 were 40% lower than the comparable period in 2011. Although both periods are lower than the pace of 2011, annuity sales thus far in 2012 are in line with the Company's sales goals for the 2012 calendar year.

The recessionary contraction and financial market crisis that began in the latter half of 2007 and persisted into 2009 impacted many annuity carriers. Losses from investment impairments and equity exposure (for insurers with variable annuity product offerings) crippled the capital position of numerous companies and limited their ability to write new business. In contrast, the Company's substantial capital position attained through profitable operations and limited investment loss exposure positioned it to write additional levels of annuity business. In the past two years, the Company sold approximately \$1.4 billion of annuity products per year indicative of the Company's enhanced competitive position in the marketplace.

Under the auspices of the Company's enterprise risk management (ERM) processes, management evaluated the potential ramifications of continuing a high level of annuity sales in the current depressed interest rate environment precipitated by the "quantitative easing" programs enacted by the Federal Reserve and the European debt crisis. Considered was the Federal Reserve's announced intention to maintain interest rates at current levels over the next several years and hints of future quantitative easing initiatives. While the Company does not subsidize its interest crediting rates on new policies in order to obtain market share, the Company's ERM considerations determined that managing to a lower level of annuity sales was prudent in the present environment.

The Company's mix of annuity sales tends to shift with interest rate levels and the relative performance of the equity market. Over the past several years, sales of fixed-indexed products have accounted for 55% to 75% of all annuity sales. During the first six months of 2012 this percentage reached nearly 80% reflecting the bull market run in equities since bottoming out in the first quarter of 2009 and the low level of fixed interest rates. For all fixed-indexed products, the Company purchases over the counter options to hedge the equity return feature. The options are purchased relative to the issuance of the annuity contracts in such a manner to minimize timing risk. Generally, the index return during the indexing period (if the underlying index increases) becomes a component in a formula (set forth in the annuity), the result of which is credited as interest to contract holders electing the index formula crediting method at the beginning of the indexing period. The formula result can never be less than zero with these products. The Company does not deliberately mismatch or under hedge for the equity feature of the products. Fixed-indexed products also provide the contract holder the alternative to elect a fixed interest rate crediting option.

Although a relatively smaller proportion of total annuity sales, sales of single premium immediate annuities (SPIAs) have increased during the past year in conjunction with the Company's life insurance sales strategy of wealth transfer. SPIAs are often used as the funding mechanism for transferring accumulated wealth into a life insurance product given its tax deferral advantages. Consequently, the Company's sales of these products have shown growth during the periods shown.

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The increased level of annuity sales volume the past several years has required a greater level of asset/liability analysis. The Company monitors its asset/liability matching within the self-constraints of desired capital levels and risk tolerance. Despite the amounts of new business, the Company's capital level remains substantially above industry averages and regulatory targets. Management has performed analyses of the capital strain associated with incrementally higher levels of annuity new business and determined that the Company's capital position is more than sufficient to handle increased sales activity.

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

	Annuities In Force as of June 30,	
	2012	2011
	(\$ in thousands)	
Fixed-indexed annuities		
Number of policies	57,705	50,730
GAAP annuity reserves	\$3,968,542	3,491,059
Other deferred annuities		
Number of policies	65,110	67,730
GAAP annuity reserves	\$2,734,335	2,690,891
Immediate annuities		
Number of policies	17,780	17,050
GAAP annuity reserves	\$429,414	427,169
Total annuities		
Number of policies	140,595	135,510
GAAP annuity reserves	\$7,132,291	6,609,119

Impact of Recent Business Environment

Economic data has shown mixed signs of improvement and backsliding over the past several quarters generating uncertainty about the direction of the economy at least in the near term. While corporate earnings have generally pleasantly surprised versus expectations in recent quarters, there are various pockets of anecdotal evidence that suggest tougher times ahead. Retail sales in the U.S. have fallen three consecutive months for the first time since 2008. Several municipalities in California have recently defaulted on their debt and filed petitions for bankruptcy. Severe drought conditions are impacting crop yields leading to predictions of increases in food costs. It remains uncertain whether the financial stresses of various countries in the European community will be contained or disrupt the economic expansion in core Europe. Weaker growth figures from China seem to indicate a slowing down by one of the major underlying global economic machines. Concerns about the oncoming "fiscal cliff" in the U.S. appear to be restraining business owners from making investment commitments needed to fund future growth. All of the above have served to decrease interest rate levels to historic lows.

With so much uncertainty regarding the future, it is difficult to confidently predict the direction that the U.S. and global economies are headed. Strong economic expansion generally benefits the Company's business. Alternatively, a tepid economic recovery consisting of higher unemployment, lower personal income, muted consumer spending and lackluster corporate earnings and business investment could adversely impact the demand for the Company's products. Household financial income compression may also cause us to experience a higher incidence of claims, lapses or

surrenders of policies. It is not possible to predict with certainty whether or when such activity may occur or what impact, if any, such actions could have on the Company's business, results of operations, cash flows or financial condition.

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As noted previously, the Company has enjoyed substantially higher annuity sales the past two years. While there may be many underlying reasons for this expansion in our annuity business, we believe that at least the following factors may explain this outcome: (1) during uncertain economic periods, consumers follow a flight to safety toward lower risk assets such as annuity products; (2) the Company's strong financial position, upgrade in financial strength rating from A.M. Best during 2009 and ample capital resources enhanced our presence in the annuity marketplace with independent distributors and end market consumers; (3) many of the Company's competitors incurred reductions in their capital base due to a deterioration in the quality of their investment portfolios, including investment impairments and losses, which caused them to curtail sales activity and recruitment of independent distribution; and (4) the uncertainty surrounding the potential regulation of fixed-indexed annuities by the SEC was eliminated when the U.S. Court of Appeals vacated the proposed regulation (Rule 151A) and Congress passed the Dodd-Frank Act which exempted annuities under the Securities Act of 1933. Despite these factors and their impact on the growth in the Company's annuity sales, the low interest rate environment expected to last over the next few years will present a different set of challenges in terms of managing risk and profitability.

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

The unprecedented low U. S. Treasury yields combined with tightening credit spreads (difference between bond yields and risk-free interest rates) on fixed maturity securities has produced new challenges in managing Company profitability given the resulting "compression" on interest spreads (difference between the yield on investments and the amounts required to credit on associated policy values). Industry analysts and observers generally agree that a sudden jump in interest rate levels would be harmful to life insurers with interest-sensitive products as it could provide an impetus for abnormal product surrenders and withdrawals at the same time fixed debt securities held by insurers declined in market value. The federal government's burgeoning deficit and initial "quantitative easing" initiatives served to put upward pressure on longer term interest rates. The second round of initiatives announced by the Federal Reserve, referred to as "Operation Twist", targeted longer term yields in the hopes that lowering this end of the yield curve may prompt economic expansion particularly in the moribund housing sector. At this time, there are indications the Federal Reserve will pursue additional programs of a stimulative nature given the sluggishness of the economy. Second quarter GDP growth of 1.4% was recently released reflecting a migration downward from previous quarters. Consequently, although it appears that the economy may be in a prolonged period of low interest rates, it is uncertain what direction and at what pace interest rate movements may occur in the future and what impact, if any, such movements would have on the Company's business, results of operations, cash flows or financial condition.

Our operating strategy continues to be to maintain capital levels substantially above regulatory and rating agency requirements. The Company maintains resources more than adequate to fund future growth and absorb abnormal periods of cash outflows.

RESULTS OF OPERATIONS

The Company's condensed consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). In addition, the Company regularly evaluates operating performance using non-GAAP financial measures which exclude or segregate derivative and realized investment gains and losses from operating revenues. Similar measures are commonly used in the insurance industry in order to assess profitability and results from ongoing operations. The Company believes that the presentation of these non-GAAP financial measures

enhances the understanding of the Company's results of operations by highlighting the results from ongoing operations and the underlying profitability factors of the Company's business. The Company excludes or segregates derivative and realized investment gains and losses because such items are often the result of events which may or may not be at the Company's discretion and the fluctuating effects of these items could distort trends in the underlying profitability of the Company's business. Therefore, in the following sections discussing condensed consolidated operations and segment operations, appropriate reconciliations have been included to report information management considers useful in enhancing an understanding of the Company's operations to reportable GAAP balances reflected in the condensed consolidated financial statements.

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Consolidated Operations

Revenues. The following details Company revenues.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Universal life and annuity contract charges	\$36,653	32,632	72,852	62,464
Traditional life and annuity premiums	4,904	4,607	8,987	8,629
Net investment income (excluding derivatives)	110,659	106,822	217,780	208,488
Other revenues	5,866	4,698	11,521	14,604
Operating revenues	158,082	148,759	311,140	294,185
Derivative gain (loss)	(32,478	) (9,098	) 9,959	22,751
Net realized investment gains (losses)	2,005	490	3,172	3,582
Total revenues	\$127,609	140,151	324,271	320,518

Universal life and annuity contract charges - Revenues for universal life and annuity contracts increased for the six months in 2012 compared to 2011 primarily due to (1) higher cost of insurance and administrative charge revenues associated with a larger block of annuity business and life insurance volume in force and (2) greater surrender charges collected on terminated policies. For the six months ended June 30, 2012, revenues before reinsurance premiums ceded increased 12.5% compared to the comparable period in 2011. Effective April 1, 2011, the Company increased its retention on life insurance coverage from \$300,000 on any one life to \$500,000 which lowered the amount of reinsurance premium ceded.

Revenues for these products consist of policy charges for the cost of insurance, administration charges, and surrender charges assessed against policyholder account balances, less reinsurance charges, as shown in the following table.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Contract Revenues:				
Cost of insurance and administrative charges	\$30,875	28,706	61,255	56,741
Surrender charges	9,687	8,340	19,505	14,871
Other charges	(15	) 138	196	377
Gross contract revenues	40,547	37,184	80,956	71,989
Reinsurance premiums	(3,894	) (4,552	) (8,104	) (9,525
Net contract revenues	\$36,653	32,632	72,852	62,464

Traditional life and annuity premiums - Traditional life and annuity premiums increased 4.1% in the first six months of 2012 compared to the same period in 2011. Traditional life insurance premiums for products such as whole life and term life are recognized as revenues over the premium-paying period. The Company's life insurance sales focus has been primarily centered around universal life products. Universal life products, especially the Company's equity

indexed universal life products which offer the opportunity for consumers to acquire life insurance protection and receive credited interest linked in part to an outside market index such as the S&P 500 Index[®], have been more popular product offerings in the Company's markets.

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Net investment income - To ensure the Company will be able to honor future commitments to policyholders and provide a financial return, the funds received as premium payments and deposits are invested in high quality investments, primarily fixed maturity debt securities. The income from these investments is closely monitored by the Company due to its significant impact on the business. A detail of net investment income (with and without index options) is provided below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Gross investment income:				
Debt securities	\$ 102,423	99,653	204,407	197,118
Mortgage loans	3,758	2,965	6,684	5,658
Policy loans	1,259	1,289	2,607	2,644
Short-term investments	269	15	504	60
Other invested assets	3,240	3,066	4,155	3,434
Total investment income	110,949	106,988	218,357	208,914
Less: investment expenses	290	166	577	426
Net investment income (excluding derivatives)	110,659	106,822	217,780	208,488
Derivative gain (loss)	(32,478	) (9,098	) 9,959	22,751
Net investment income	\$ 78,181	97,724	227,739	231,239

For the six months ended June 30, 2012, investment grade debt securities generated approximately 93.6% of total investment income, excluding derivative gain (loss). The growth in investment income from debt securities in the second quarter of 2012 versus 2011 reflects the increase in the size of the portfolio fueled by investable cash inflows from annuity sales. Mortgage loan investment income for the three and six months ended June 30, 2012 increased over the comparable periods in 2011 reflecting additional payoff amounts received on loans closed in 2012.

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

	Six Months Ended June 30,		
	2012	2011	
	(In thousands)		
Excluding derivatives:			
Net investment income	\$ 217,780	208,488	
Average invested assets, at amortized cost	\$ 8,196,845	7,890,388	
Annual yield on average invested assets	5.03	% 5.28	%
Including derivatives:			
Net investment income	\$ 227,739	231,239	
Average invested assets, at amortized cost	\$ 8,264,785	7,994,227	
Annual yield on average invested assets	5.24	% 5.79	%

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The slightly higher yield on average invested assets through the second quarter of 2012 compared to 2011 is due to additional income received from mortgage loan closings and maintaining lower levels of short-term cash investments. This is partially offset by the lower yields obtained on new fixed maturity debt securities investments during the last 12 months. During 2011, the average yield on bond purchases to fund insurance operations was 4.18% representing a 1.43% spread over treasury rates. Insurance operation bond purchases through the second quarter of 2012 had an average yield of 3.60% with spreads expanding to 1.70% over treasury rates.

Other revenues - Other revenues primarily pertain to the Company's two nursing home operations in Reno, Nevada and San Marcos, Texas. Revenues associated with these operations were \$11.3 million and \$11.2 million for the six months ended June 30, 2012 and 2011, respectively. Other revenues in the first six months of 2011 also includes a \$4.0 million gross settlement amount, netted for legal expenses incurred, from a lawsuit in which the Company was the plaintiff.

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

Gains and losses from index options are due to equity market conditions. Index options are intended to act as hedges to match the returns on the product's underlying reference index and the rise or decline in the index relative to index level at the time of the option purchase causes option values to likewise rise or decline. As income from index options fluctuates with the underlying index, the contract interest expense to policyholder accounts for the Company's fixed-indexed products also fluctuates in a similar manner and direction. For the quarter ended June 30, 2012 and 2011, the reference indices decreased and the Company recorded an overall loss from index options with a corresponding decrease in contract interest expense during these periods.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Derivatives:				
Unrealized gain (loss)	\$(15,920	) (17,966	) 38,297	13,091
Realized gain (loss)	(16,558	) 8,868	(28,338	) 9,660
Total gain (loss) included in net investment income	\$(32,478	) (9,098	) 9,959	22,751
Total contract interest	\$26,004	53,232	127,547	145,381

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

Net realized investment gains (losses) - Realized gains on investments in the second quarter of 2012 primarily resulted from bond calls and sales. The net gains reported for the six months ended June 30, 2012 consisted of gross gains of \$4.4 million offset by gross losses of \$1.2 million, which include other-than-temporary impairment losses.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Impairment or valuation write-downs:				
Bonds	\$ 391	—	566	—
Equities	29	—	53	—
Mortgage loans	—	—	—	50
Real estate	—	—	—	39
Total	\$ 420	—	619	89

Bond impairments during the quarter and six months ended June 30, 2012 pertained to asset-backed securities whose cash flows and fair values did not support the amortized cost basis at which the instrument was recorded in the financial records. Equity impairments represent a mark-to-market write-down on securities in which the market discount to book value was significant and had been maintained for several reporting periods. Equity securities represent 0.1% of invested assets and individual holdings have an average cost basis of approximately \$50,000.

Benefits and Expenses. The following table details benefits and expenses.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Life and other policy benefits	\$ 13,857	9,598	27,535	21,814
Amortization of deferred policy acquisition costs	31,349	38,848	63,060	66,337
Universal life and annuity contract interest	26,004	53,232	127,547	145,381
Other operating expenses	22,452	19,060	42,470	39,778
Totals	\$ 93,662	120,738	260,612	273,310

Life and other policy benefits - Death claim benefits, the largest component of policy benefits, increased to \$7.7 million during the second quarter of 2012 compared to \$6.8 million for the quarter ended June 30, 2011. For the six months ending June 30, death claims were \$17.3 million and \$15.2 million for 2012 and 2011, respectively. Although not utilized previously, the Company has initiated a project to identify unreported death claims by researching the Social Security Administration master data base for deceased individuals which matches with insureds under in force policies. While the results thus far have not been substantial, the claim activity for the second quarter of 2012 includes incremental amounts associated with this project. Death claim amounts are generally subject to variation from period to period and the Company's mortality experience has been consistent with or better than its product pricing assumptions.

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

The following table identifies the effects of unlocking and true-up adjustments on DPAC balances recorded through amortization expense for the three and six months ending June 30, 2012 and 2011.

Increase (Decrease) in DPAC Balance	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Unlocking	\$—	—	—	—
True-up	(1,276	) (4,987	) (498	) (8,028
Totals	\$(1,276	) (4,987	) (498	) (8,028

True-up adjustments were recorded in 2012 and 2011 relative to partial surrender rates, mortality rates, credited interest rates and earned rates for the current year's experience. This resulted in a \$1.3 million increase in amortization expense for the three months ended June 30, 2012, and a \$0.5 million increase in amortization expense for the six months ended June 30, 2012. The true-up adjustments for the life lines of business have been positive (decrease to amortization expense) thus far in 2012 whereas for the comparable periods shown for 2011 the true-up adjustments for the life lines of business incrementally added to amortization expense. In addition to the true-up adjustments shown above, during the second quarter of 2011 the Company decreased its DPAC balances (increased amortization expense) an additional \$4.0 million for adjustments determined in conjunction with the implementation of a new actuarial software platform which allowed the Company to perform an analysis of DPAC balances in finer detail. Refer to the discussion on segment results for further information.

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

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The Company's approximated average credited rates, excluding and including fixed-indexed (derivative) products, were as follows:

	June 30, 2012 (Excluding fixed-index products)		June 30, 2011 (Including fixed-index products)		
Annuity	2.94	% 3.16	% 2.85	% 3.73	%
Interest sensitive life	4.09	% 4.16	% 5.28	% 5.67	%

Contract interest including fixed-index products also encompasses the performance of the index options associated with the Company's fixed-index products. As previously noted, the market performance of these derivative features resulted in net realized and unrealized losses of \$(32.5) million and \$(9.1) million for the quarter ended June 30, 2012 and 2011, respectively.

Other operating expenses - Other operating expenses consist of general administrative expenses, licenses and fees, commissions not subject to deferral, nursing home expenses and compensation costs. These expenses for the three and six months ending June 30, 2012 and 2011 are summarized in the table that follows.

	Three Months Ended June 30, 2012 (In thousands)		Six Months Ended June 30, 2012 2011	
General insurance expense	\$5,865	4,890	12,827	12,471
Nursing home expenses	5,412	5,126	10,816	10,343
Compensation expense	6,208	5,202	11,457	9,816
Commission expense	2,920	2,845	4,961	4,955
Taxes, licenses and fees	2,047	997	2,409	2,193
Totals	\$22,452	19,060	42,470	39,778

General insurance expense includes amortization expense associated with capitalized system costs. The Company has been involved in major information system initiatives to enhance actuarial, accounting, policy acquisition, and policy administration processes. Costs related to these systems are capitalized during the development process and then amortized once they are placed into service and used in operations. Amortization expense in association with these system implementations was \$1.7 million and \$1.6 million in 2012 and 2011, respectively. The increasing trend in amortization expense is attributable to additional functionality being placed into operation during the period.

Compensation expense includes share based compensation costs for the Company's stock option plans related to outstanding vested and unvested stock options. As these costs vary in tandem with the Company's Class A common share price as a result of marking the stock options to fair value under the liability method of accounting, the related expense amount varies positive or negative in any given period. For the six months ended June 30, 2012 share based compensation expense was \$0.6 million while for the comparable period in 2011 share based compensation expense was \$(0.8) million. Although the price of the Company's Class A common stock decreased between June 2011 and June 2012, total compensation expense related to share based compensation has increased primarily due to the granting of SARs in December 2011. The negative expense in June 2011 was the result of a decline in the Company's Class A common stock price.

Federal Income Taxes. Federal income taxes on earnings from operations reflect an effective tax rate of 32.5% for the six months ended June 30, 2012 and 31.5% for the three months ended June 30, 2012 compared to 32.2% for six months ended June 30, 2011 and 29.0% for the three months ended June 30, 2011. The effective tax rate is lower than the Federal rate of 35% primarily due to tax-exempt investment income related to municipal securities and dividends-received deductions on income from stocks.

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Segment Operations

Summary of Segment Earnings

A summary of segment earnings for the for the three and six months ending June 30, 2012 and 2011 is provided below. The segment earnings exclude realized gains and losses on investments, net of taxes.

	Domestic Life Insurance (In thousands)	International Life Insurance	Annuities	All Others	Totals
Segment earnings (losses):					
Three months ended:					
June 30, 2012	\$ 559	8,580	9,134	3,670	21,943
June 30, 2011	\$ 2,590	7,311	(38	) 3,609	13,472
Six months ended:					
June 30, 2012	\$ 788	14,659	19,078	6,400	40,925
June 30, 2011	\$ 369	10,328	13,415	5,561	29,673

Domestic Life Insurance Operations

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Premiums and other revenue:				
Premiums and contract charges	\$ 4,280	6,617	14,819	12,649
Net investment income	3,991	4,485	9,809	9,481
Other revenues	45	(2	) 52	5
Total revenues	8,316	11,100	24,680	22,135
Benefits and expenses:				
Life and other policy benefits	1,620	(810	) 3,268	4,424
Amortization of deferred policy acquisition costs	2,068	2,771	4,459	5,654
Universal life insurance contract interest	1,230	1,849	8,443	4,487
Other operating expenses	2,578	3,361	7,346	7,027
Total benefits and expenses	7,496	7,171	23,516	21,592
Segment earnings (loss) before Federal income taxes	820	3,929	1,164	543
Provision (benefit) for Federal income taxes	261	1,339	376	174

Segment earnings (loss)	\$559	2,590	788	369
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Revenues from domestic life insurance operations include life insurance premiums on traditional type products and contract revenues from universal life insurance. Revenues from traditional products are simply premiums collected, while revenues from universal life insurance consist of policy charges for the cost of insurance, policy administration fees, and surrender charges assessed during the period. A comparative detail of premiums and contract revenues is provided below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Universal life insurance revenues	\$4,200	6,256	14,581	11,982
Traditional life insurance premiums	1,495	1,665	3,183	3,234
Reinsurance premiums	(1,415)	) (1,304)	) (2,945)	) (2,567)
Totals	\$4,280	6,617	14,819	12,649

The Company's domestic life insurance in force has been declining since 2008 resulting in lower universal life contract revenue charges. The pace of new policies issued has lagged the number of policies terminating from death or surrender by roughly a six-to-one rate over the past several years causing a declining level of insurance in force from which contract charge revenue is received. This ratio has improved somewhat in the first six months of 2012 to a four-to-one relationship. Nonetheless, the number of domestic life insurance policies has declined from 66,000 at December 31, 2010 to 62,900 at December 31, 2011, and to 61,500 at June 30, 2012. Universal life insurance revenues are also generated with the issuance of new business based upon amounts per application and percentages of the face amount (volume) of insurance issued. Revenues associated with issuing new business are typically greater than that realized in a renewal period for in force policies. The number of domestic life policies issued in the first six months of 2012 was 68% higher than in the comparable period for 2011 and the volume of insurance issued was 137% greater than that in 2011. Contract revenues associated with this increased new business activity account for the overall increase in domestic life premiums and contract charges.

Premiums collected on universal life products are not reflected as revenues in the Company's Condensed Consolidated Statements of Earnings in accordance with GAAP. Actual domestic universal life premiums collected are detailed below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Universal life insurance:				
First year and single premiums	\$13,608	5,336	23,642	7,317
Renewal premiums	4,387	4,978	9,109	10,584
Totals	\$17,995	10,314	32,751	17,901

The Company's efforts over the past several years have been to attract new independent agents and to promote life products to improve domestic life sales. During 2011, the Company began to achieve some success in this regard with the number of new policies issued increasing 76% over the prior year, reversing a multi-year trend of declining activity. This trend continued in the first half of 2012 as noted above. Sales over the past two years have been substantially weighted toward single premium policies which do not have recurring premium payments. These

products are targeting wealth transfer strategies involving the movement of accumulated wealth in alternative investment vehicles, including annuities, into life insurance products.

Net investment income includes the gains and losses on index options purchased to back the index crediting mechanism on equity-indexed universal products. As noted previously in the Results of Operations discussion, option values have increased less rapidly in the first six months of 2012 as compared to 2011 with the second quarter in particular incurring larger option value losses.

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Life and policy benefits for a smaller block of business are subject to variation from quarter to quarter. Claim activity during the first six months of 2012 was consistent compared to historical trends. The claim activity in the second quarter of 2011 reflects reinsurance amounts not previously recorded and reclassifications of certain claims to the International life segment. The Company's overall mortality experience for this segment is in line with pricing assumptions.

As noted previously in the discussion of Results Operations, the Company records true-up adjustments to DPAC balances each period to reflect current policy lapse or termination rates, expense levels and credited rates on policies as compared to anticipated experience with the adjustment reflected in current period amortization expense. To the extent required, the Company may also record unlocking adjustments to DPAC balances. The following table identifies the effects of unlocking and true-up adjustments on domestic life insurance DPAC balances recorded through amortization expense for the three and six months ending June 30, 2012 and 2011.

	Three Months Ended June 30,		Six Months Ended June 30,		
	2012	2011	2012	2011	
	(In thousands)				
Increase (Decrease) in DPAC Balance					
Unlocking	\$—	—	—	—	
True-up	726	(90) 1,319	(37)
Totals	\$726	(90) 1,319	(37)

As noted in the table above, the true-up adjustments recorded in 2012 increased the DPAC balance which conversely reduced amortization expense by a like amount for the periods shown.

International Life Insurance Operations

The Company's international life operations have been a significant factor in the Company's overall earnings performance and represents a market niche where the Company believes it has a competitive advantage. A productive agency force has been developed given the Company's longstanding reputation for supporting its international life products coupled with the instability of competing companies in international markets.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Premiums and other revenue:				
Premiums and contract charges	\$32,115	25,616	55,546	50,176
Net investment income	7,315	9,532	22,712	22,553
Other revenues	314	342	346	366
Total revenues	39,744	35,490	78,604	73,095
Benefits and expenses:				
Life and other policy benefits	6,315	4,199	9,795	9,161
Amortization of deferred policy acquisition costs	7,757	7,927	13,365	16,125
Universal life insurance contract interest	6,431	8,507	21,243	21,426
Other operating expenses	6,718	4,273	12,536	11,199
Total benefits and expenses	27,221	24,906	56,939	57,911
Segment earnings before Federal income taxes	12,523	10,584	21,665	15,184
Provision for Federal income taxes	3,943	3,273	7,006	4,856
Segment earnings	\$8,580	7,311	14,659	10,328

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Universal life insurance revenues	\$31,185	25,920	54,901	51,740
Traditional life insurance premiums	4,132	3,704	7,309	6,822
Reinsurance premiums	(3,202)	(4,007)	(6,664)	(8,385)
Totals	\$32,115	25,617	55,546	50,177

In general, universal life revenues and operating earnings are anticipated to emerge with the amount of international life insurance in force and a steady growth in new sales. The volume of insurance in force has grown from \$17.9 billion at June 30, 2011 to \$18.6 billion at December 31, 2011 and to \$18.9 billion at June 30, 2012. Universal life insurance revenues are generated with the issuance of new business based upon amounts per application and percentages of the face amount (volume) of insurance issued and have been lower in 2012 than 2011. The number of international life policies issued in the first six months of 2012 was 20% lower than in the first six months of 2011 and

the volume of insurance issued was 14% less than that in 2011 during the same period.

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International universal life revenues also include surrender charges assessed upon surrender of contracts by policyholders. In the midst of the financial crisis the past few years, the Company's international policyholders in particular exhibited concern regarding the developments in U.S. financial markets. This evidenced itself in the Company's termination activity in its international life policies in force. During 2009, the Company incurred higher termination experience than is typical which resulted in recognition of increased surrender charge fee income. This level of termination activity subsequently subsided, although the first half of 2012 has witnessed an increase over the pace incurred in 2011. The following table illustrates the Company's recent international life termination experience.

	Amount in \$'s (millions)	Annualized Termination Rate	
Volume In Force Terminations			
Six months ended June 30, 2012	\$879.4	8.4	%
Year ended December 31, 2011	1,465.1	7.3	%
Year ended December 31, 2010	1,721.8	9.0	%
Year ended December 31, 2009	2,423.2	13.0	%
Year ended December 31, 2008	1,923.2	10.8	%
Year ended December 31, 2007	1,674.3	10.2	%

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Universal life insurance:				
First year and single premiums	\$7,507	9,135	15,664	17,630
Renewal premiums	29,876	29,193	57,312	56,770
Totals	\$37,383	38,328	72,976	74,400

The Company's most popular international products have been its fixed-indexed universal life products in which the policyholder can elect to have the interest rate credited to their policy account values linked in part to the performance of the S&P 500 Index[®]. Included in the totals in the above table are collected premiums for fixed-indexed universal life products of approximately \$45.3 million and \$46.0 million for the first six months of 2012 and 2011, respectively.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Net investment income (excluding derivatives)	\$11,345	10,658	21,041	20,646
Derivative gain (loss)	(4,030	) (1,126	) 1,671	1,907
Net investment income	\$7,315	9,532	22,712	22,553

A comparable impact for the derivative component in the equity-indexed universal life product is reflected in the contract interest expense for each respective period.

Life and policy benefits primarily consist of death claims on policies. The Company's clientele for international products are wealthy individuals with access to U.S. dollars and quality medical care. Consequently, the amounts of coverage purchased tend to be larger amounts. In the year ended December 31, 2011, the average face amount of insurance purchased was approximately \$364,000, and in the first six months of 2012 the average was \$383,000. While life and policy benefit expense for the international life segment reflects the larger policies purchased, mortality due to natural causes is comparable to that in the United States.

As noted previously, the Company records true-up adjustments to DPAC balances each period to reflect current policy lapse or termination rates, expense levels and credited rates on policies as compared to anticipated experience as well as unlocking adjustments as necessary. The following table identifies the effects of unlocking and true-up adjustments on international life insurance DPAC balances recorded through amortization expense for the three and six months ending June 30, 2012 and 2011.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Increase (Decrease) in DPAC Balance				
Unlocking	\$—	—	—	—
True-up	2,309	(848	) 6,594	(1,315
Totals	\$2,309	(848	) 6,594	(1,315

True-up adjustments in the first six months of 2012 increased the DPAC balance and decreased amortization expense while in the first six months of 2011 true-up assumptions decreased the DPAC balance and increased amortization expense.

As indicated in the discussion concerning net investment income, contract interest expense includes fluctuations that are the result of the performance of underlying equity indices associated with fixed-indexed universal life products. The derivative gain (loss) realized on purchased call options is included in the amounts the Company credits to

policyholders. For more details about the Company's use of index options to hedge the performance of equity indices refer to the derivative gain (loss) discussion in the Condensed Consolidated Operations section of this Item 2.

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Annuity Operations

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Premiums and other revenue:				
Premiums and contract charges	\$5,162	5,006	11,474	8,268
Net investment income	61,875	78,830	186,264	191,942
Other revenues	(260	) (1,070	) (199	) 2,991
Total revenues	66,777	82,766	197,539	203,201
Benefits and expenses:				
Life and other policy benefits	5,922	6,209	14,472	8,229
Amortization of deferred policy acquisition costs	21,524	28,150	45,236	44,558
Annuity contract interest	18,343	42,876	97,861	119,468
Other operating expenses	7,744	6,320	11,772	11,223
Total benefits and expenses	53,533	83,555	169,341	183,478
Segment earnings (loss) before Federal income taxes	13,244	(789	) 28,198	19,723
Provision (benefit) for Federal income taxes	4,110	(751	) 9,120	6,308
Segment earnings (loss)	\$9,134	(38	) 19,078	13,415

A comparative detail of the components of premiums and annuity contract revenues is provided below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Surrender charges	\$5,162	5,006	11,470	8,264
Payout annuity and other revenues	—	—	—	—
Traditional annuity premiums	—	—	4	4
Totals	\$5,162	5,006	11,474	8,268

The Company's lapse rate for annuity contracts in the first six months of 2012 was 6.0% compared to 6.6% during the same frame of time in 2011. Surrender charge revenue is also dependent upon the duration of the policy at the time of termination as typical surrender charge provisions decrease during the tenure of the contract. Accordingly, the increase in surrender charge revenue in the first half of 2012 is primarily a function of the growth in the annuity block

of business the past couple of years and an earlier termination of contracts.

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Deposits collected on annuity contracts are not reflected as revenues in the Company's Condensed Consolidated Statements of Earnings, in accordance with GAAP. Actual annuity deposits collected for the three and six months ending June 30, 2012 and 2011 are detailed below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Fixed-indexed annuities	\$168,311	215,494	318,617	436,517
Other deferred annuities	42,429	122,625	75,320	226,775
Immediate annuities	7,299	14,877	16,554	20,226
Totals	\$218,039	352,996	410,491	683,518

Fixed-indexed products are more attractive for consumers when interest rate levels remain low and equity markets produce positive returns. Since the Company does not offer variable products or mutual funds, fixed-indexed products provide an important alternative to the Company's existing fixed interest rate annuity products. Fixed-indexed annuity deposits as a percentage of total annuity deposits were 78% and 64% for the six months ended June 30, 2012 and 2011, respectively. The increasing percentage of fixed-indexed products of total annuity sales reflects the low interest rate environment and the current bull market in equities.

As a selling inducement, some of the deferred products, as well as the fixed-indexed annuity products, include a first year interest bonus ranging from 1% to 7% depending upon the product, in addition to a base interest rate. Other products include a premium bonus ranging from 2% to 10% which is credited to the account balance when premiums are applied. These bonus rates are deferred in conjunction with other capitalized policy acquisition costs. The amount deferred to be amortized over future periods amounted to approximately \$18.0 and \$21.2 million during the first six months of 2012 and 2011, respectively. Amortization of deferred sales inducements is included as a component of annuity contract interest as described later in this discussion of Annuity operations.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Net investment income (excluding derivatives)	\$90,889	86,644	179,368	171,575
Derivative gain (loss)	(29,014	) (7,814	) 6,896	20,367
Net investment income	\$61,875	78,830	186,264	191,942

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

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Consistent with the domestic and international life segments, the Company records true-up adjustments to DPAC balances each period to reflect current policy lapse or termination rates, expense levels and credited rates on policies as compared to anticipated experience as well as unlocking adjustments as necessary. The following table identifies the effects of unlocking and true-up adjustments on annuity DPAC balances recorded through amortization expense for the three and six months ending June 30, 2012 and 2011.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Increase (Decrease) in DPAC Balance				
Unlocking	\$—	—	—	—
True-up	(4,311	) (4,048	) (8,411	) (6,675
Totals	\$ (4,311	) (4,048	) (8,411	) (6,675

As the true-up adjustments decreased the DPAC balances as of the dates shown, a corresponding increase in DPAC amortization was recorded in the Company's Condensed Consolidated Statements of Earnings in each respective period. In addition to the true-up adjustments shown above, during the second quarter of 2011 the Company decreased its DPAC balances (increased amortization expense) an additional \$4.0 million for adjustments determined in conjunction with the implementation of a new actuarial software platform which allowed the Company to perform an analysis of DPAC balances in finer detail.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Fixed-indexed annuities	\$3,458	30,799	64,209	83,952
All other annuities	13,010	12,212	36,867	40,795
Gross contract interest	16,468	43,011	101,076	124,747
Bonus interest deferred and capitalized	(7,064	) (9,932	) (17,969	) (21,192
Bonus interest amortization	8,939	9,797	14,754	15,913
Total contract interest	\$18,343	42,876	97,861	119,468

The fluctuation in reported contract interest amounts for fixed-indexed annuities is driven by sales levels, the level of the business in force and the positive or negative performance of equity markets on option values. The derivative gain (loss) information included in the net investment income discussion above is largely reflected in the amounts shown for contract interest for fixed-indexed annuities. In the second quarter of 2011, the Company decreased its deferred sales inducements balance (increased bonus interest amortization) by \$1.6 million pertaining to its implementation of new actuarial system technology.

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Other Operations

National Western Life Insurance Company's primary business encompasses its domestic and international life insurance operations and its annuity operations. However, National Western also has small real estate, nursing home, and other investment operations through its wholly-owned subsidiaries. Nursing home operations generated \$0.5 million and \$0.9 million of operating earnings in the first six months of 2012 and 2011, respectively. The decrease in operating earnings reflects an increase in expenses incurred at the Company's San Marcos location in an effort to build a presence in the community for this operation that started in the latter half of 2009. The remaining earnings of \$5.9 million and \$4.7 million for the six months ended June 30, 2012 and 2011, respectively, in Other Operations represent investment income from real estate, municipal bonds, and common and preferred equities held in subsidiary company portfolios. Included in these amounts are the semi-annual distributions from the life interest in the Libby Shearn Moody Trust which is an asset held in NWLSM, Inc.

INVESTMENTS

General

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

The Company's overall conservative investment philosophy is reflected in the allocation of its investments, which is detailed below. The Company emphasizes investment grade debt securities with smaller holdings in mortgage loans.

	June 30, 2012		December 31, 2011	
	Carrying Value (In thousands)	%	Carrying Value (In thousands)	%
Debt securities	\$8,484,437	96.3	\$8,250,316	96.3
Mortgage loans	132,614	1.5	157,460	1.8
Policy loans	74,369	0.9	74,967	0.9
Derivatives, index options	65,555	0.7	30,844	0.4
Real estate	21,463	0.2	19,220	0.2
Equity securities	9,099	0.1	16,546	0.2
Other	22,004	0.3	15,252	0.2
Totals	\$8,809,541	100.0	\$8,564,605	100.0

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Debt and Equity Securities

The Company maintains a diversified portfolio which consists mostly of corporate, mortgage-backed, and public utility fixed income securities. Investments in mortgage-backed securities primarily include U.S. Government agency pass-through securities and collateralized mortgage obligations ("CMO"). The Company's investment guidelines prescribe limitations by type of security as a percent of the total investment portfolio and all holdings were within these threshold limits. As of June 30, 2012 and December 31, 2011, the Company's debt securities portfolio consisted of the following:

	June 30, 2012		December 31, 2011	
	Carrying Value (In thousands)	%	Carrying Value (In thousands)	%
Corporate	\$4,814,560	56.7	\$4,289,680	52.0
Mortgage-backed securities	2,122,012	25.0	2,258,706	27.4
Public utilities	1,039,435	12.3	1,045,387	12.6
State and political subdivisions	379,803	4.5	362,252	4.4
U.S. agencies	48,126	0.6	205,464	2.5
Asset-backed securities	52,653	0.6	56,178	0.7
Foreign governments	25,910	0.3	30,712	0.4
U.S. Treasury	1,938	—	1,937	—
Totals	\$8,484,437	100.0	\$8,250,316	100.0

Substantially all of the Company's investable cash flows are directed toward the purchase of debt securities. The Company's investment policy calls for investing in debt securities that are investment grade, meet quality and yield objectives, and provide adequate liquidity for obligations to policyholders. Debt securities with intermediate maturities are targeted by the Company as they more closely match the intermediate nature of the Company's policy liabilities and provide an appropriate strategy for managing cash flows. Debt securities purchased to fund insurance company operations are summarized below.

	Six Months Ended June 30, 2012 (\$ In thousands)	Year Ended December 31, 2011	
Cost of acquisitions	\$739,178	\$1,410,389	
Average S&P® quality	A-	AA-	
Effective annual yield	3.60	% 4.18	%
Spread to treasuries	1.70	% 1.43	%
Effective duration	8.1 years	7.1 years	

The Company predominantly holds agency mortgage-backed securities. Because mortgage-backed securities are subject to prepayment and extension risk, the Company has substantially reduced these risks by investing in collateralized mortgage obligations, which have more predictable cash flow patterns than pass-through securities. These securities, known as planned amortization class I ("PAC I"), very accurately defined maturity ("VADM") and sequential tranches are designed to amortize in a more predictable manner than other CMO classes or pass-throughs. The Company does not purchase tranches, such as PAC II and support tranches, that subject the portfolio to greater

than average prepayment risk. Using this strategy, the Company can more effectively manage and reduce prepayment and extension risks, thereby helping to maintain the appropriate matching of the Company's assets and liabilities.

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In addition to diversification, an important aspect of the Company's investment approach is managing the credit quality of its investment in debt securities. Thorough credit analysis is performed on potential corporate investments including examination of a company's credit and industry outlook, financial ratios and trends, and event risks. This emphasis is reflected in the high average credit rating of the Company's debt securities portfolio with 98.2% held in investment grade securities. In the table below, investments in debt securities are classified according to credit ratings by Standard and Poor's ("S&P®"), or other nationally recognized statistical rating organizations if securities were not rated by S&P®.

	June 30, 2012		December 31, 2011	
	Carrying Value (In thousands)	%	Carrying Value (In thousands)	%
AAA	\$154,142	1.8	\$173,176	2.0
AA	2,791,544	32.9	3,067,454	37.2
A	2,396,290	28.2	2,078,808	25.2
BBB	2,987,165	35.3	2,784,711	33.8
BB and other below investment grade	155,296	1.8	146,167	1.8
Totals	\$8,484,437	100.0	\$8,250,316	100.0

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

	Below Investment Grade Debt Securities				% of Invested Assets
	Amortized Cost	Carrying Value	Fair Value		
	(In thousands, except percentages)				
June 30, 2012	\$150,175	155,296	152,638	1.8	%
December 31, 2011	\$144,131	146,466	140,590	1.7	%

The Company's percentage of below investment grade securities compared to total invested assets increased slightly from December 31, 2011 primarily due to several securities being downgraded during the first six months of 2012. The Company's holdings of below investment grade securities are relatively small and as a percentage of total invested assets low compared to industry averages.

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Holdings in below investment grade securities by category as of June 30, 2012 are summarized below, including June 30, 2012 and December 31, 2011 fair values for comparison. The Company is continually monitoring developments in these industries that may affect security valuation issues.

Industry Category	Below Investment Grade Debt Securities			Fair Value December 31, 2011
	Amortized Cost June 30, 2012 (In thousands)	Carrying Value June 30, 2012	Fair Value June 30, 2012	
Retail	\$9,584	9,646	9,646	8,478
Telecommunications	5,686	8,838	8,838	7,863
Asset-backed securities	10,680	11,074	11,679	12,498
Mortgage-backed	7,904	7,849	7,849	8,173
Banking/finance	42,524	42,537	39,775	35,927
Manufacturing	44,758	45,779	47,138	55,210
Transportation	—	356	356	415
Other	29,039	29,217	27,357	12,026
Totals	\$150,175	155,296	152,638	140,590

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

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

However, the Company does have exposure to the debt of non-financial companies in these countries. The following table shows bond holdings at June 30, 2012 of non-financial companies that are domiciled in Portugal, Ireland, Italy, Greece or Spain held in the available for sale and held to maturity debt security portfolios.

Securities Available for Sale

Company	S&P Rating	Amortized Cost 6/30/12	Fair Value 6/30/12	Country Domiciled
(In thousands)				
Covidien	A	\$24,215	25,819	Ireland
CRH	BBB+	10,996	11,558	Ireland
Telecom Italia	BBB	11,997	12,030	Italy
Telefonica	BBB	11,746	11,102	Spain

Totals	\$58,954	60,509
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Securities Held to Maturity

Company	S&P Rating (In thousands)	Book Value 6/30/12	Fair Value 6/30/12	Country Domiciled
Coca-Cola HBC	BBB	\$4,020	4,328	Greece
CRH	BBB+	3,011	3,121	Ireland
EDP	BB+	17,202	14,795	Portugal
Enel	BBB+	19,909	19,835	Italy
Finmeccanica	BBB-	15,026	13,305	Italy
Iberdrola Finance	BBB+	2,893	2,771	Spain
Telecom Italia	BBB	2,995	2,977	Italy
Telefonica	BBB	8,149	7,155	Spain
Totals		\$73,205	68,287	

Generally accepted accounting principles require that investments in debt securities be written down to fair value when declines in value are judged to be other-than-temporary. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price methodology). Refer to Note 10, Fair Values of Financial Instruments, of the accompanying condensed consolidated financial statements for further discussion.

During the six months ended June 30, 2012 the Company recorded other-than-temporary impairment credit related write-downs on debt securities totaling \$0.6 million and negligible amounts on equity securities. The Company had no other-than-temporary impairment write-downs on debt securities other than on certain asset-backed securities whose fair value and net present value of future cash flows fell below the amortized cost of the security. See Note 9, Investments, of the accompanying condensed consolidated financial statements for further discussion. Since the Company's adoption of the GAAP guidance on the recognition and accounting for other-than-temporary impairments due to credit loss versus non-credit loss, the Company has recognized a total of \$9.7 million of other-than-temporary impairments of which \$2.5 million was deemed credit related and recognized as realized investment losses in earnings, and \$7.2 million was deemed a non-credit related impairment and recognized in other comprehensive income.

The Company is required to classify its investments in debt and equity securities into one of three categories: (a) trading securities; (b) securities available for sale; or (c) securities held to maturity. The Company purchases securities with the intent to hold to maturity and accordingly does not maintain a portfolio of trading securities. Of the remaining two categories, available for sale and held to maturity, the Company makes a determination on categorization based on various factors including the type and quality of the particular security and how it will be incorporated into the Company's overall asset/liability management strategy. As shown in the table below, at June 30, 2012, approximately 31% of the Company's total debt and equity securities, based on fair values, were classified as securities available for sale. These holdings in available for sale provide flexibility to the Company to react to market opportunities and conditions and to practice active management within the portfolio to provide adequate liquidity to meet policyholder obligations and other cash needs.

Fair Value (In thousands)	Amortized Cost	Unrealized Gains (Losses)
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Securities held to maturity:

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Debt securities	\$6,245,687	5,738,777	506,910
Securities available for sale:			
Debt securities	2,745,660	2,524,471	221,189
Equity securities	9,099	6,344	2,755
Totals	\$9,000,446	8,269,592	730,854

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Asset-Backed Securities

The Company holds approximately \$52.7 million in asset-backed securities as of June 30, 2012. This portfolio includes \$20.7 million of manufactured housing bonds and \$32.0 million of home equity loans (also referred to as subprime securities). The Company does not have any holdings in collateralized bond obligations (“CBO”s), collateralized debt obligations (“CDO”s), or collateralized loan obligations (“CLO”s). Principal risks in holding asset-backed securities are structural, credit, and capital market risks. Structural risks include the securities' priority in the issuer's capital structure, the adequacy of and ability to realize proceeds from collateral and the potential for prepayments. Credit risks include corporate credit risks or consumer credit risks for financing such as subprime mortgages. Capital market risks include the general level of interest rates and the liquidity for these securities in the marketplace.

The Company holds one Alt-A security with a carrying value of \$4.0 million. The Alt-A sector is a sub-sector of the jumbo prime MBS sector. The average FICO for an Alt-A borrower is approximately 715 compared to a score of 730 for a jumbo prime borrower. The Company's exposure to the Alt-A and subprime sectors is limited to investments in the senior tranches of structured securities collateralized by Alt-A or subprime residential mortgage loans. The subprime sector is generally categorized under the asset-backed sector. This sector lends to borrowers who do not qualify for prime interest rates due to poor or insufficient credit history. Subprime borrowers generally have FICO scores of 660 or below. The slowing housing market, rising interest rates, and relaxed underwriting standards for loans originated after 2005 resulted in higher delinquency rates and losses beginning in 2007. These events caused illiquidity in the market and volatility in the market prices of subprime securities. With the government intervention initiatives in 2009, the housing market began to show signs of stabilizing. There was an improvement in the prices of subprime securities as the bond market also became more liquid. All of the loans classified as Alt-A or subprime in the Company's portfolio as of June 30, 2012 were underwritten prior to 2005 as noted in the table below.

Investment Origination Year	June 30, 2012		December 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)			
Subprime:				
1998	\$6,122	5,845	6,767	6,611
2002	510	601	492	740
2003	3,912	3,852	4,296	4,186
2004	21,464	23,857	21,123	19,931
Subtotal subprime	\$32,008	34,155	32,678	31,468
Alt A:				
2004	\$4,015	4,015	4,223	4,223

As of June 30, 2012, 5 of the subprime securities were rated AAA, 2 were rated AA, 2 were rated BBB, and 3 were rated CC.

Mortgage Loans and Real Estate

In general, the Company originates loans on high quality, income-producing properties such as shopping centers, freestanding retail stores, office buildings, industrial and sales or service facilities, selected apartment buildings, motels, and health care facilities. The location of these properties is typically in major metropolitan areas that offer a

potential for property value appreciation. Credit and default risk is minimized through strict underwriting guidelines and diversification of underlying property types and geographic locations. In addition to being secured by the property, mortgage loans with leases on the underlying property are often guaranteed by the lease payments and also by the borrower. This approach has proven to result in quality mortgage loans with few defaults. Mortgage loan interest income is recognized on an accrual basis with any premium or discount amortized over the life of the loan. Prepayment and late fees are recorded on the date of collection.

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The Company requires a minimum specified yield on mortgage loan investments. During the past several years, the low interest rate environment has resulted in fewer loan opportunities being available that meet the Company's required rate of return. Mortgage loans originated by the Company totaled \$37.3 million for the year December 31, 2011 and \$9.0 million for the six months ended June 30, 2012. Principal repayments on mortgage loans for the six months ended June 30, 2012 were \$38.2 million.

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 Condensed Consolidated Statements of Earnings. The loan is independently monitored and evaluated as to potential impairment or foreclosure. If delinquent payments are made and the loan is brought current, then the Company returns the loan to active status and accrues income accordingly. The Company has no loans past due 90 days which are accruing interest.

The Company held net investments in mortgage loans totaling \$132.6 million and \$157.5 million at June 30, 2012 and December 31, 2011, respectively. The diversification of the portfolio by geographic region and by property type was as follows:

	June 30, 2012		December 31, 2011		
	Amount	%	Amount	%	
	(In thousands)		(In thousands)		
Mortgage Loans by Geographic Region:					
West South Central	\$71,846	54.2	% \$84,903	53.9	%
New England	21,283	16.0	% 21,401	13.6	%
Mountain	2,649	2.0	% 15,922	10.1	%
Pacific	13,879	10.5	% 12,001	7.6	%
East North Central	9,894	7.5	% 10,018	6.4	%
East South Central	10,338	7.8	% 10,411	6.6	%
South Atlantic	575	0.4	% 609	0.4	%
Middle Atlantic	2,150	1.6	% 2,195	1.4	%
Totals	\$132,614	100.0	% \$157,460	100.0	%

	June 30, 2012		December 31, 2011		
	Amount	%	Amount	%	
	(In thousands)		(In thousands)		
Mortgage Loans by Property Type:					
Retail	\$89,587	67.6	% \$93,310	59.3	%
Hotel/Motel	4,171	3.1	% 25,679	16.3	%
Land/Lots	10,923	8.2	% 13,604	8.6	%
Apartments	12,556	9.5	% 11,103	7.1	%
Office	8,762	6.6	% 8,858	5.6	%
All other	6,615	5.0	% 4,906	3.1	%
Totals	\$132,614	100.0	% \$157,460	100.0	%

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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, limited partnerships, and other loans that invest primarily in income-producing retail properties. These investments have enhanced the Company's overall investment portfolio returns. The Company's real estate investments totaled approximately \$21.5 million and \$19.2 million at June 30, 2012 and December 31, 2011, respectively. The Company recognized operating income on these properties of approximately \$0.7 million for the first six months of 2012. 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.

Market Risk

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

Interest Rate Risk

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

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

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

	June 30, 2012	March 31, 2012	December 31, 2011		
	(In thousands except percentages)				
Debt securities - fair value	\$8,991,347	8,854,988	8,690,737		
Debt securities - amortized cost	\$8,263,248	8,194,717	8,058,057		
Fair value as a percentage of amortized cost	108.81	% 108.06	% 107.85		%
Unrealized gain balance	\$728,099	660,271	632,680		
Ten-year U.S. Treasury bond – (decrease) increase in yield for the period	(0.57)% 0.330	% (1.42)%

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	Unrealized Gains Balance			Quarter Change in Unrealized Balance	Change in Unrealized Balance
	At June 30, 2012	At March 31, 2012	At December 31, 2011		
Debt securities held to maturity	\$506,910	451,736	440,421	55,174	66,489
Debt securities available for sale	221,189	208,535	192,259	12,654	28,930
Totals	\$728,099	660,271	632,680	67,828	95,419

Changes in interest rates typically have a sizable effect on the fair values of the Company's debt securities. The market interest rate of the ten-year U.S. Treasury bond decreased approximately 24 basis points from year-end 2011 through the first six months of 2012 and the Company's unrealized gain position increased \$95.4 million on a portfolio with an amortized cost basis of approximately \$8.3 billion. However, since the majority of the Company's debt securities are classified as held to maturity, which are recorded at amortized cost, changes in fair values have relatively small effects on the Company's Condensed Consolidated Balance Sheet.

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

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

The Company performed detailed sensitivity analysis as of December 31, 2011, for its interest rate-sensitive assets and liabilities. The changes in market values of the Company's debt securities in the first six months of 2012 were reasonable given the expected range of results of this analysis.

Credit Risk

The Company is exposed to credit risk through counterparties and within its investment portfolio. Credit risk relates to the uncertainty associated with an obligor's continued ability to make timely payments of principal and interest in accordance with the contractual terms of an instrument or contract. As previously discussed, the Company manages credit risk through established investment credit policies and guidelines which address the quality of creditors and

counterparties, concentration limits, diversification practices and acceptable risk levels. These policies and guidelines are regularly reviewed and approved by senior management and the Company's Board of Directors.

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In connection with the Company's use of call options to hedge the equity return component of its fixed-indexed annuity and life products, the Company is exposed to the risk that a counterparty fails to perform under terms of the option contract. The Company purchases one-year option contracts from multiple counterparties and evaluates the creditworthiness of all counterparties prior to the purchase of the contracts. For consideration in contracting with a counterparty the rating required by the Company is a Standard & Poor's credit rating of "A" or higher and a Moody's rating of "A2" or higher. Accordingly, all options are purchased from nationally recognized financial institutions with a demonstrated performance for honoring their financial obligations and possessing substantial financial capacity. In addition, each counterparty is required to execute a credit support agreement obligating the counterparty to provide collateral to the Company when the fair value of the Company's exposure to the counterparty exceeds specified amounts. The amount of collateral to be provided is based upon a sliding scale tied to the credit rating of the counterparty (the higher the credit rating of the counterparty the higher the threshold of exposure before collateral is to be provided). At the highest credit rating level the maximum counterparty net exposure not subject to collateral support is \$20 million. This net exposure level declines as the counterparty credit rating declines and ultimately is \$0 at a rating of "BBB+". Counterparty credit ratings and credit exposure are monitored continuously by the Company's Investment department with adjustments to collateral levels managed as incurred under the credit support agreements.

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

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Liquidity requirements are met primarily by funds provided from operations. Premium deposits and annuity considerations, investment income, and investment maturities and prepayments are the primary sources of funds while investment purchases, policy benefits in the form of claims, and payments to policyholders and contract holders in connection with surrenders and withdrawals as well as operating expenses are the primary uses of funds. To ensure the Company will be able to pay future commitments, the funds received as premium payments and deposits are invested in high quality investments, primarily fixed income securities. Funds are invested with the intent that the income from investments, plus proceeds from maturities, will meet the ongoing cash flow needs of the Company. The approach of matching asset and liability durations and yields requires an appropriate mix of investments. Although the Company historically has not been put in the position of having to liquidate invested assets to provide cash flow, its investments consist primarily of marketable debt securities that could be readily converted to cash for liquidity needs. The Company may also borrow up to \$40 million on its bank line of credit for short-term cash needs. There were no borrowings outstanding under the line of credit at June 30, 2012.

A primary liquidity concern for life insurers is the risk of an extraordinary level of early policyholder withdrawals. The Company includes provisions within its annuity and universal life insurance policies, such as surrender and market value adjustments, that help limit and discourage early withdrawals.

The actual amounts paid by product line in connection with surrenders and withdrawals for the periods ended June 30, are noted in the table below.

Three Months Ended June 30,		Six Months Ended June 30,	
2012	2011	2012	2011
(In thousands)			

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Product Line:				
Traditional Life	\$1,478	691	2,845	2,145
Universal Life	11,698	9,666	24,046	19,036
Annuities	112,106	118,735	229,227	246,793
Total	\$125,282	129,092	256,118	267,974

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

In the past, cash flows from the Company's insurance operations have been sufficient to meet current needs. Cash flows from operating activities were \$141.8 million and \$90.5 million for the six months ended June 30, 2012 and 2011, respectively. The Company also has significant cash flows from both scheduled and unscheduled investment security maturities, redemptions, and prepayments. These cash flows totaled \$874.1 million and \$273.9 million for the six months ended June 30, 2012 and 2011, respectively. These cash flow items could be reduced if interest rates rise. Net cash flows from the Company's universal life and investment annuity deposit product operations totaled \$29.1 million and \$313.9 million during the six months ended June 30, 2012 and 2011, respectively.

Capital Resources

The Company relies on stockholders' equity for its capital resources as there is no long-term debt outstanding and the Company does not anticipate the need for any long-term debt in the near future. As of June 30, 2012, the Company had no commitments beyond its normal operating and investment activities.

OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

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

Insurance reserves are the means by which life insurance companies determine the liabilities that must be established to assure that future policy benefits are provided for and can be paid. These reserves are required by law and based upon standard actuarial methodologies to ensure fulfillment of commitments guaranteed to policyholders and their beneficiaries, even though the obligations may not be due for many years. Refer to Note (1) in the Notes to Condensed Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 for a discussion of reserving methods.

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

	Payment Due by Period				
	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
	(In thousands)				
Operating lease obligations	\$—	—	—	—	—
Life claims payable (1)	64,076	64,076	—	—	—
Other long-term reserve liabilities reflected on the balance sheet under GAAP (2)	9,982,094	1,024,260	1,902,577	1,679,763	5,375,494

Total	\$10,046,170	1,088,336	1,902,577	1,679,763	5,375,494
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(1) Life claims payable include benefit and claim liabilities for which the Company believes the amount and timing of the payment is essentially fixed and determinable. Such amounts generally relate to incurred and reported death and critical illness claims including an estimate of claims incurred but not reported.

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

CHANGES IN ACCOUNTING PRINCIPLES AND CRITICAL ACCOUNTING POLICIES

Changes in Accounting Principles

Refer to Note (1) of the Notes to Condensed Consolidated Financial Statements.

REGULATORY AND OTHER ISSUES

Statutory Accounting Practices

Regulations that affect the Company and the insurance industry are often the result of efforts by the National Association of Insurance Commissioners ("NAIC"). The NAIC routinely publishes new regulations as model acts or laws which states subsequently adopt as part of their insurance regulations. Currently, the Company is not aware of any NAIC regulatory matter material to its operations or reporting of financial results.

Risk-Based Capital Requirements

The NAIC established risk-based capital ("RBC") requirements to help state regulators monitor the financial strength and stability of life insurers by identifying those companies that may be inadequately capitalized. Under the NAIC's requirements, each insurer must maintain its total capital above a calculated threshold or take corrective measures to achieve the threshold. The threshold of adequate capital is based on a formula that takes into account the amount of risk each company faces on its products and investments. The RBC formula takes into consideration four major areas of risk which are: (i) asset risk which primarily focuses on the quality of investments; (ii) insurance risk which encompasses mortality and morbidity risk; (iii) interest rate risk which involves asset/liability matching issues; and (iv) other business risks. Statutory laws prohibit public dissemination of certain RBC information. However, the Company's current statutory capital and surplus is significantly in excess of the threshold RBC requirements.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Refer to Note 8(A) "Legal Proceedings" of the accompanying financial statements included in this Form 10-Q.

ITEM 1A. RISK FACTORS

There have been no changes relative to the risk factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

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ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Effective August 22, 2008, the Company adopted and implemented a limited stock buy-back program associated with the Company's 2008 Incentive Plan which provides Option Holders the additional alternative of selling shares acquired through the exercise of options directly back to the Company. This program succeeded a similar buy-back program implemented March 10, 2006 associated with the Company's 1995 Stock Option and Incentive Plan. 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 following table sets forth the Company's repurchase of its Class A common shares from Option Holders for the quarter ended June 30, 2012. There were no shares repurchased during the period.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May yet Be Purchased Under the Plans or Programs
April 1, 2012 through April 30, 2012	—	—	N/A	N/A
May 1, 2012 through May 31, 2012	—	—	N/A	N/A
June 1, 2012 through June 30, 2012	—	—	N/A	N/A
Total	—	—	N/A	N/A

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

ITEM 4. Removed and Reserved.

ITEM 6. EXHIBITS

(a) Exhibits

Exhibit 31(a) - Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 31(b) - Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32(a) - Certification 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.

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SIGNATURES

Pursuant to the requirements 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: August 8, 2012

/S/ Ross R. Moody
Ross R. Moody
President, Chief Operating Officer,
and Director
(Authorized Officer)

Date: August 8, 2012

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

Date: August 8, 2012

/S/ Thomas F. Kopetic
Thomas F. Kopetic
Vice President,
Controller and Assistant Treasurer
(Principal Accounting Officer)