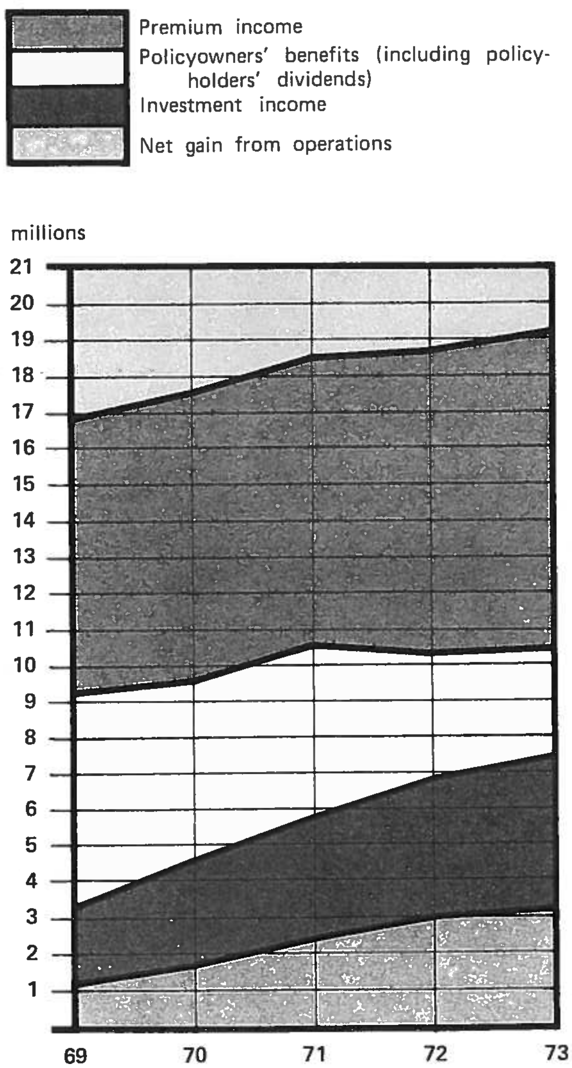
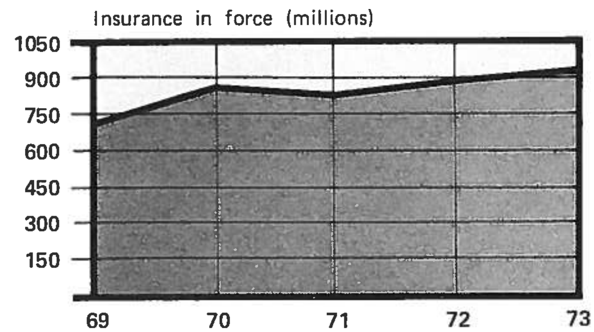
1973 ANNUAL REPORT

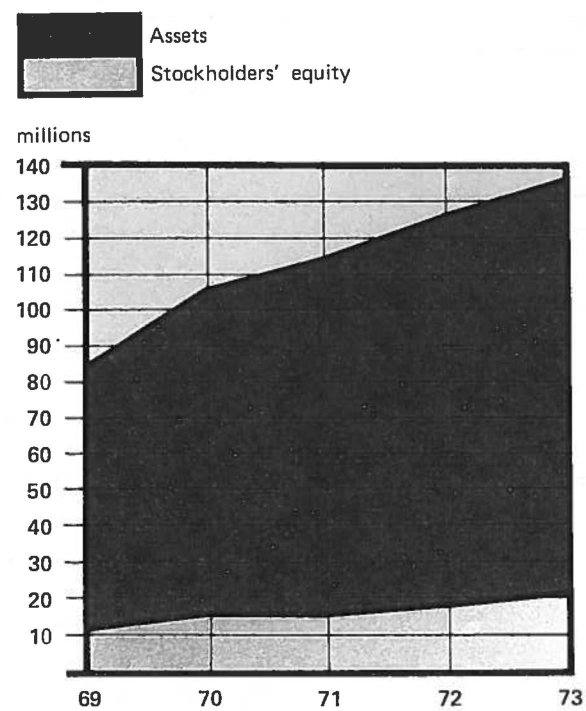
HIGHLIGHTS

	1973	1972
Net gain from operations	$ 3,213,193	3,073,389
Investment income	7,496,162	6,639,173
Premium income	19,291,252	18,744,232
Insurance in force	918,726,025	896,890,313
Assets	136,531,878	126,293,950
Policyowners' benefits	10,438,953	10,347,938
Stockholders' equity	20,793,904	18,530,733

FIVE YEAR GROWTH TRENDS







TO OUR SHAREHOLDERS

The accompanying statutory financial statements and comparative charts in this report illustrate the continuing significant progress being achieved by your Company. National Western Life is a strong, viable life insurance company and financial institution – capable of and eagerly seeking to provide financial security to an ever-increasing number of satisfied policyowners.

Nineteen Seventy-three was a year of continued growth in financial strength despite the unsettled economic conditions that prevailed generally throughout the country. We are happy to report that statutory earnings per share increased from $.89 to $.93 in the face of a greatly increased Federal Income Tax liability. Net Gain from Operations amounted to $3,213,193 after Federal Income Taxes, up $139,804 from 1972. Total assets increased in excess of $10 million to $136.5 million and total stockholders' equity increased in excess of $2.2 million to $20.8 million.

It was expected the financial information contained in this report would be supplemented by information prepared using Generally Accepted Accounting Practices (GAAP). Unfortunately, the task of assembling the historical material and testing the results has not been completed in sufficient depth. It is now anticipated the supplemental GAAP financial statements will be completed in mid 1974.

The Marketing Department continued to strengthen the quality and number of our sales representatives and to penetrate additional markets. Growth in insurance in-force trailed our initial projections, reaching a total in-force of $918.7 million. Additional manpower and resources have been put to work to materially improve in-force growth during 1974.

The Company entered into a purchase agreement late in 1973 to purchase 54% of the capital stock of Olympic Life Insurance Company. The purchase was consummated with the approval of the Texas Insurance Department in January of this year. Acquisition of the controlling interest in Olympic was made with the intention of accomplishing a statutory merger at an appropriate time in the future.

The Company is currently undergoing the triennial examination of its operations by the Colorado Insurance Department. Participating in the examination are the insurance departments of the States of Missouri, Oklahoma and California. We anticipate the examination will progress routinely and be completed by late summer or early fall.

Prevailing economic conditions during 1974 and ensuing years will most certainly have an effect on the continuing growth and progress of the Company. There is no need for pessimism. Your Company is enthusiastically and optimistically moving ahead.

Robert L. Moody
Chairman of the Board

Harry L. Edwards
President

STATUTORY STATEMENTS OF OPERATIONS

	Year Ended December 31	
	1973	1972
INCOME		
Premium income:		
Life	$18,598,036	18,077,601
Accident and Health	693,216	666,631
Consideration for supplementary contracts	17,836	5,579
Consideration for dividend, coupon and endowment accumulations	1,691,294	1,786,543
Net investment income	7,496,162	6,639,173
Other income	185,248	101,322
Total income	28,681,792	27,276,849
BENEFITS AND EXPENSES		
Benefits to policyowners and beneficiaries	9,261,996	9,126,213
Increase in policy reserves	8,231,492	7,512,589
Commissions	2,593,779	2,513,257
General insurance expenses	3,060,437	2,963,620
Taxes, licenses and fees	429,142	389,635
Increase (decrease) in loading on due and deferred premiums	(137,382)	126,421
Total benefits and expenses	23,439,464	22,631,735
Income before policyholders' dividends, Federal income taxes and extraordinary credit	5,242,328	4,645,114
Dividends to policyholders (note 7)	1,176,956	1,221,725
Income before Federal income taxes and extraordinary credit	4,065,372	3,423,389
Federal income taxes (note 6)	852,179	435,000
Income before extraordinary credit	3,213,193	2,988,389
Extraordinary credit – income tax benefit from utilization of net operating loss carryforwards	–	85,000
Net income (notes 1 and 11)	$ 3,213,193	3,073,389
NET INCOME PER SHARE OF COMMON STOCK		
Income before extraordinary credit	$ .93	.87
Extraordinary credit	–	.02
Net income per share	$ .93	.89

Note:

Net income per share of common stock is based on the weighted average of the Class A and Class B common shares outstanding during the year. The rights of the respective classes of common stock to share in the income of the Company are described in note 7. Stock options on Class A common stock have not been included in the computation of net income per share since the effect would be anti-dilutive.

See accompanying notes to statutory financial statements.

STATUTORY STATEMENTS OF STOCKHOLDERS' EQUITY

	Year Ended December 31	
	1973	1972
COMMON STOCK:		
Balance at beginning of year	$ 3,469,224	3,508,283
Par value of 36,667 shares cancelled (39,059 in 1972)	(36,667)	(39,059)
Balance at end of year	3,432,557	3,469,224
PAID–IN AND CONTRIBUTED SURPLUS:		
Balance at beginning of year	12,184,651	4,532,737
Reclassifications from unassigned surplus:		
Surplus attributable to life interest in Libbie Shearn Moody Trust	–	11,399,628
Surplus arising from mergers	–	7,709,805
Reclassification of deficit from unassigned surplus in quasi-reorganization	–	(11,457,519)
Balance at end of year	12,184,651	12,184,651
UNASSIGNED SURPLUS:		
Balance at beginning of year	2,876,858	8,254,643
Reclassifications to paid-in and contributed surplus:		
Surplus attributable to life interest in Libbie Shearn Moody Trust	–	(11,399,628)
Surplus arising from mergers	–	(7,709,805)
Charges to surplus prior to quasi-reorganization	–	(602,729)
Balance prior to quasi-reorganization	–	(11,457,519)
Elimination of deficit in quasi-reorganization	–	11,457,519
Balance after quasi-reorganization at January 1, 1972	–	–
Net income	3,213,193	3,073,389
Realized losses on sales of investments	(957,728)	(130,227)
Unrealized gains (losses) on investments	(193,365)	2,670,814
(Increase) decrease in non-admitted assets	270,695	(181,907)
(Increase) decrease in mandatory securities valuation reserve	457,824	(1,667,162)
Payments on surplus debentures	(195,000)	(831,849)
Increase in reserve for contingencies	(110,000)	(56,200)
Cancellation of treasury stock	(115,864)	–
Other	(69,917)	–
Balance at end of year	5,176,696	2,876,858
STOCKHOLDERS' EQUITY (notes 5, 7 and 11)	$20,793,904	18,530,733

See accompanying notes to statutory financial statements.

STATUTORY STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Year Ended December 31	
	1973	1972
FUNDS PROVIDED		
From operations:		
Net income	$ 3,213,193	3,073,389
Charges (credits) to income not requiring or producing funds:		
Increase in premiums deferred and uncollected	(183,234)	(90,606)
Increase in investment income due and accrued	(135,464)	(174,030)
Increase in other assets	(80,790)	(99,256)
Increase in policy reserves	7,587,317	6,930,401
Decrease in claim reserves	(121,952)	(1,977)
Increase in other policy liabilities	489,573	549,727
Other – net	282,968	300,535
Realized investment losses	(614,479)	(130,227)
Funds provided from operations	10,437,132	10,357,956
From investments sold or matured (see note below):		
Bonds	3,478,055	2,654,563
Stocks	2,259,476	1,386,295
Mortgage loan principal receipts	2,942,018	3,454,378
Real estate	167,273	61,124
Funds provided from investments	8,846,822	7,556,360
Liabilities assumed under reinsurance agreement in 1972 (note 4)	–	1,235,855
Other – net	273,100	(70,822)
	$19,557,054	19,079,349
FUNDS USED		
Increase in policy loans – net	$ 2,021,325	1,378,884
Cost of investments purchased (see note below):		
Bonds	6,595,865	7,044,464
Stocks	2,779,157	2,001,736
Mortgage loans	8,560,436	5,362,223
Real estate	4,432	191
Funds used for investments	19,961,215	15,787,498
Assets received from reinsurance transaction, excluding cash of $1,020,000 in 1972 (note 4)	–	161,136
Payments on surplus debentures (note 5)	195,000	831,849
Other surplus charges	69,917	436,200
Cost of treasury shares purchased	152,531	–
Increase (decrease) in cash, including cash of $1,020,000 received under reinsurance agreement in 1972	(821,609)	1,862,666
	$19,557,054	19,079,349

Note:

During the years ended December 31, 1973 and 1972, certain invested assets were exchanged for, or converted to, other assets. Real estate acquired by foreclosure and sold under new mortgage loans amounted to $41,250 and $734,062, respectively. Foreclosed mortgage loans transferred to real estate in 1972 was $190,573. These transactions have not been reflected in the above statement.

See accompanying notes to statutory financial statements.

(1) BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in conformity with statutory accounting practices prescribed or permitted by the Insurance Department of the State of Colorado. Significant statutory accounting policies which vary in some respects from generally accepted accounting principles followed by other business enterprises are set forth in the following paragraphs.

Premium income is earned on a pro rata basis over the premium-paying period of the policies, whereas the related acquisition and commission costs are charged to current operations as incurred. The related policy reserves are based on statutory mortality and interest requirements and without consideration of withdrawals which may differ from reserves based on reasonably conservative estimates of mortality, interest and withdrawals. Statutory reserves for business currently issued are based principally on the 1958 CSO–ALB mortality tables with interest at 3% and 3½%. Statutory reserves for business issued in prior years are based on the 1941 and 1958 CSO mortality tables with interest from 2¼% to 3½%. Approximately 23% and 77% of the reserves are calculated on a net level reserve basis and on a modified reserve basis, respectively. The effect of the use of a modified reserve basis partially offsets the effect of immediately expensing acquisition costs by providing a policy reserve increase in the first policy year which is less than the reserve increase in renewal years.

Deferred Federal income taxes are not provided for unrealized gains on investments, differences in reporting policy reserves, nor other timing differences between the statutory financial statements and the tax return. Additionally, the tax benefits resulting from the deduction of certain items for tax purposes which have been charged to unassigned surplus for financial statement purposes in current or prior periods, including periods prior to the quasi-reorganization, and for the utilization of net operating loss carryforwards which were incurred prior to the date of the quasi-reorganization (see note 7), are included as a reduction of Federal income taxes in the statutory statement of operations in the year in which such deductions or losses reduce taxes currently payable (see note 6).

The life interest in the Libbie Shearn Moody Trust is reflected at an amount based on existing insurance in force on the life of Mr. Robert L. Moody, net of a debenture payable and the cash surrender value of the life insurance policies on Mr. Moody's life, rather than an initial valuation based on income from the Trust, net of accumulated amortization (see notes 5 and 11).

Assets received and liabilities assumed in connection with the acquisition of other companies in purchase transactions or with the assumption of blocks of insurance policies in reinsurance transactions are recorded at their historical cost rather than at their present market or discounted values.

The provision for policy dividends payable in the following year is based upon dividends expected to be incurred on policies with anniversary dates in the first three months of the following year rather than on the earned portion of insurance premiums.

The excess of the purchase price over par value of treasury stock acquired and cancelled is charged to unassigned surplus rather than being allocated between paid-in and contributed surplus and unassigned surplus.

Realized and unrealized gains and losses on investments are credited or charged directly to unassigned surplus rather than any portion thereof being credited or charged to current operations.

Certain assets designated as "non-admitted assets" (principally receivables from agents and others) have been charged to surplus.

The contingency reserve, "mandatory securities valuation reserve," is not reported as appropriated surplus.

The aggregate effect of such differences on the statutory financial statements has not been determined.

The American Institute of Certified Public Accountants has published an industry guide which sets forth generally accepted accounting principles for stock life insurance companies. Management of the Company intends to present future financial statements both in conformity with statutory accounting practices and with generally accepted accounting principles as prescribed by the American Institute of Certified Public Accountants.

Other significant statutory accounting policies followed by the Company are as follows: (a) investment securities are carried in accordance with valuations established by the National Association of Insurance Commissioners (NAIC), i.e., bonds are stated principally at amortized cost, preferred stocks are carried principally at cost (market value $2,916,496 and $3,213,472 in 1973 and 1972, respectively) and common stocks are valued at market; (b) first mortgage loans on real estate are carried net of unearned discount of $142,211 ($150,117 in 1972), and (c) the Company's investments in the common stocks of its subsidiaries are carried at net underlying statutory book value or non-admitted and its investments in the corporate notes of affiliates are carried in accordance with valuations established by the NAIC (see note 2).

Certain amounts in 1972 have been reclassified so as to be consistent with the classification of these amounts in 1973.

(2) SUBSIDIARIES AND AFFILIATES

At December 31, 1973 and 1972, the Company owned 100% of the outstanding stock of (a) Western National Life Insurance Company, which had no insurance operations, and (b) Commercial Adjusters, Inc., a noninsurance premium financing company. Its investments in these subsidiaries are summarized as follows:

		Admitted Asset Value at December 31,	
	Cost	1973	1972
Western National Life Insurance Company – Common stock, at net underlying statutory book value	$550,000	558,178	525,551
Commercial Adjusters, Inc. – Common stock	1,000	–	–
	$551,000	558,178	525,551

The investment in Commercial Adjusters, Inc. (Commercial) has been non-admitted because of the substantial financial support provided by the Company. At December 31, 1973 and 1972, Commercial had assets of $1,037,292 and $1,383,421, respectively (primarily notes receivable from policyholders covering initial premiums on Company-issued policies) and net stockholders' equity of $141,420 and $139,693. Commercial had the following notes payable in 1973 and 1972: (a) $450,000 unsecured 6% note guaranteed by the Company and (b) $225,000 and $375,000, respectively, 5½% note payable to a bank secured by a Series A debenture receivable from the Company and the personal guarantee of Mr. Robert L. Moody (see notes 3 and 5). During 1973, Commercial retired unsecured notes in the amount of $106,598 held by the Company resulting in an unrealized gain, as these notes were previously non-admitted. As of December 31, 1973 and 1972, respectively, other significant liabilities of Commercial included payables to the Company of $88,895 and $131,898 (considered as non-admitted assets by the Company) and unearned income of $122,913 and $169,574.

Effective January 1, 1972, the Company liquidated a wholly-owned subsidiary, National Security Investment Company and its wholly-owned subsidiary, Financial Investors Corporation, both of which were inactive. The obligations of these subsidiaries were assumed by Commercial Adjusters, Inc. At January 1, 1972, the only significant asset of the subsidiaries was 39,059 shares of the Company's Class A common stock which was cancelled by the Company upon liquidation.

At December 31, 1973 and 1972, the Company held corporate notes (acquired in 1966 and 1968) issued by Oceanographic and Seismic Services, Inc., (Oceanographic) and its wholly-owned subsidiary, Corpus Company. Mr. Robert L. Moody is the controlling stockholder of Oceanographic. The notes are as follows:

	Outstanding Balance at December 31,		Admitted Asset Value at December 31,	
	1973	1972	1973	1972
Oceanographic, 6% due 1973	$ –	200,000	–	200,000
Oceanographic, 7% due 1986	500,000	500,000	500,000	500,000
Corpus Company, 7% due 1978	252,740	299,564	126,370	149,782
			$626,370	849,782

The Company owns certain stock of a life insurance company and a note of another company, both acquired in 1968 at the then approximate market value ($1,050,000), which were then deemed affiliates. In 1973 and 1972, the insurance stock was assigned no admitted value, resulting in an unrealized loss of $71,462 in 1972. The note was assigned no admitted asset value in 1972 and in 1973 it was written off. The accompanying financial statements reflect a realized loss in 1973 and a corresponding unrealized gain of $200,000 resulting from the elimination of the aforementioned note.

(3) TRANSACTIONS WITH CONTROLLING STOCKHOLDER AND AFFILIATES

During 1973 and 1972, certain transactions occurred between the Company and its controlling stockholder, Mr. Robert L. Moody (see note 7), or persons and companies affiliated with the controlling stockholder. These transactions are summarized as follows:

(a) In 1973, the Company made a first mortgage loan of $923,714 at 7%, to Mr. Shearn Moody, Jr., brother of Mr. Robert L. Moody, on the Shearn Moody Ranch in Galveston County, Texas. Payments on the loan are based on a forty year amortization with a twenty-five year term. This loan is additionally secured by (1) an assignment of the income from a portion of Mr. Shearn Moody, Jr.'s life estate interest in the Trust Estate of Libbie Shearn Moody, (2) an assignment of the benefits on $500,000 of life insurance on Mr. Shearn Moody, Jr.'s life, (3) an assignment of the payments on a debenture described in note 4 and (4) a guaranty against default by Shearn Moody Holding Corporation.

(b) In 1972, the Company entered into a reinsurance agreement to assume all of the insurance in force of Empire State Life Insurance Company (see note 4).

(c) Mr. Robert L. Moody's relationship to the life interest in Libbie Shearn Moody Trust and the payment during 1972 of a related surplus debenture are described in note 5.

(d) During 1972, the Company paid a $9,842 demand note issued on November 11, 1968 for the purchase of land from the Shearn Moody Trust.

(e) The Company and Mr. Robert L. Moody have guaranteed certain obligations of Commercial Adjusters, Inc. (see note 2).

(4) REINSURANCE

Effective December 31, 1972, the Company assumed all of the insurance in force of Empire State Life Insurance Company (Empire), which is wholly owned by Mr. Shearn Moody, Jr. Under the terms of the reinsurance agreement, the Company received cash of $1,020,000 and other assets of $161,136. In addition, the Company assumed policy liabilities of $1,235,855, including life policy reserves aggregating $1,135,516.

As consideration for the insurance in force, National Western issued to Empire a $225,000, five year, 7% surplus debenture with interest and principal of $45,000 payable annually. The payments are subject to prior approval of the Colorado Insurance Commissioner and shall be made only out of the Company's unassigned surplus in excess of $500,000, excluding any consideration of the value assigned the Company's life interest in the Libbie Shearn Moody Trust. The debenture shall not constitute a claim against the Company or any of its assets until such payment is so authorized by the Commissioner. As a result, the debenture is not included in the accompanying statutory financial statements as a liability. The excess of liabilities assumed over assets received (approximately $50,000) was deducted from the first payment on the debenture made in October 1973.

(5) LIFE INTEREST IN LIBBIE SHEARN MOODY TRUST

The Company is the beneficial owner of a life estate interest (1/8 share), previously owned by Mr. Robert L. Moody, in the Trust Estate of Libbie Shearn Moody. The life interest was assigned, in exchange for a debenture, by Mr. Robert L. Moody to a company which was subsequently merged into National Western Life Insurance Company.

As prescribed by the Colorado Insurance Department, the admitted asset value of the Trust is based on the total life insurance in force on Mr. Moody's life, net of the balance of certain debentures payable and the cash surrender values of the life policies on Mr. Moody. The Company's life interest in the Trust at December 31, 1973 and 1972 is summarized as follows:

	1973	1972
Total life insurance on Mr. Moody's life	$12,774,595	12,774,595
Less:		
1970 Series A debenture to Commercial Adjusters, Inc.	225,000	375,000
Cash value of Company-owned life insurance policies on Mr. Moody's life	325,947	246,352
Net asset value of Trust	$12,223,648	12,153,243

On March 31, 1970, the Company issued for no consideration a 7½%, Series A debenture to its wholly-owned noninsurance subsidiary, National Security Investment Company (NSIC). During 1972, NSIC was liquidated and the debenture was transferred to Commercial Adjusters, Inc. Semiannual payments of $75,000 plus interest are being made. This debenture is secured by the partial assignment of the Company's insurance policies on Mr. Moody's life. During the term of this debenture, the Company may not sell, assign, convey or reinsure its interest in Libbie Shearn Moody Trust, insurance benefits from policies on Mr. Moody's life, or its life, accident or health insurance policies without the prior consent and approval of the debenture holder.

Mr. Moody transferred his life interest in this Trust to the predecessor company in exchange for a debenture in the original amount of $550,000 (see note 11) with principal payable $150,000 each March 15, commencing in 1978 and interest payable at 3% each March 15, commencing in 1962. This debenture is subordinated to the outstanding Series A debenture (see above). In that Mr. Moody was the sole stockholder of the predecessor company and because the value of the asset greatly exceeded the consideration given, the excess represented paid-in and contributed surplus. Accordingly, the net asset value of the Trust was reclassified as such in conjunction with the quasi-reorganization in 1972.

Payments of principal and interest on the two aforementioned debentures are payable solely from the income derived from the Trust, with one exception related only to the debenture payable to Commercial Adjusters, Inc. If income from the Trust is not sufficient to repay a debenture installment, any unpaid amount shall be paid from earned renewal premiums received during the six months prior to the installment due date after a provision for policy claims, benefits, coupons, endowments, dividends and increases in policy reserves has been deducted and as long as the net surplus of the Company exceeds $100,000, excluding any asset value assigned to the Libbie Shearn Moody Trust. The two debentures, according to their terms, shall not represent a claim against any of the Company's assets other than those mentioned above and shall not be a general liability of the Company.

In 1972, the Company fully retired the unpaid balance of a debenture issued in 1961 by payment of $681,849, plus $40,902 interest to Mr. Moody.

The Company is the beneficiary of the life insurance on Mr. Moody's life, all of which was issued by the Company and is reinsured through agreements with unaffiliated insurance companies.

The Company has been provided with certain protection against the loss of asset value and income in the event of Mr. Robert L. Moody's untimely death and the consequent termination of life interest in the Trust. Approximately 245,000 shares of the Company's Class A common stock, owned by Mr. Robert L. Moody, are held in trust by a bank pursuant to a trust agreement dated December 29, 1964. The trust agreement provides for the release of 7,009 shares to Mr. Moody as of December 31 of each year for as long as Mr. Moody lives. This trust agreement also provides that any shares remaining in trust at Mr. Moody's death are to be assigned to and become the property of the Company, unless the shares are purchased for $45 per share by Mr. Moody's estate within one year of his death, with proceeds of such purchases to be paid to the Company. The Company's Class A common stock had an approximate market value of $3.25 per share at December 31, 1973.

Income from the Trust and related expenses included in the accompanying statutory statement of operations are summarized as follows:

	Year Ended December 31, 1973	1972
Income distributions received	$541,622	538,427
Add (deduct):		
Interest on debentures	(64,540)	(89,465)
Reinsurance premium charged to operations	(34,128)	(32,795)
Increase in cash surrender value of Company-owned life insurance	79,595	78,236
Net reflected in investment income	$522,549	494,403

The accompanying statements also reflect an increase in policy reserves related to Company-issued policies on Mr. Moody's life in the amount of $70,377 in 1973 and $85,039 in 1972.

In the Company's Annual Report (Form 10-K) filed with the Securities and Exchange Commission (SEC), the asset value of the life interest in the Libbie Shearn Moody Trust is reflected at an initial valuation, net of accumulated amortization and the debentures payable, as required by the SEC. The initial valuation was based on the assumption the Trust would provide a certain income to the Company at an assumed interest rate over the life expectancy of Mr. Moody. The initial valuation is being amortized over Mr. Moody's life expectancy from 1960 (53 years). Due to the differences in valuation, the net income and stockholders' equity presented in the accompanying statements differ from that reported in Form 10-K. The effects of such differences are presented in note 11.

(6) FEDERAL INCOME TAXES

The reasons for the Company's relatively low income tax provision, $852,179 and $350,000 and effective tax rates of 20.9% and 10.2% in 1973 and 1972, respectively, in relation to the amount calculated by multiplying the Federal income tax rate of 48% times income are summarized below:

Description	Tax Effect Year Ended December 31, 1973	1972
Computed "expected" income taxes at 48%	$1,951,378	1,643,226
Increase (decrease) in taxes at 48% rate resulting from:		
Benefit from 818(c) election	(358,000)	(584,013)
Special deductions for life insurance companies	(256,323)	–
Dividends received deduction	(167,270)	(157,906)
Dividends to policyholders in excess of limitation	–	481,112
Amortization of purchased business	(67,103)	(104,510)
Deductions of items charged to surplus prior to 1972 (note 1):		
Lawsuit settlements	(15,926)	(209,376)
Loss on liquidation of subsidiary	–	(594,164)
Other	(234,577)	(39,369)
	852,179	435,000
Benefit from operating loss carryforward	–	(85,000)
	$ 852,179	350,000

The untaxed portion of the excess, if any, of taxable gain from operations over taxable investment income, together with certain special deductions, is accumulated in a memorandum account entitled "policyholders' surplus account." At December 31, 1973 such accumulated amounts were approximately $1,200,000. Taxes in the amount of $576,000 would become payable if the amount in the account was distributed to stockholders of the Company.

The Company has elected for Federal income tax purposes to compute life policy reserves under Section 818(c) of the Internal Revenue Code, resulting in life policy reserves for Federal income tax purposes exceeding life policy reserves in the statutory financial statements by approximately $11,917,000 and $11,113,000 at December 31, 1973 and 1972, respectively. No provision has been made in the accompanying statements for Federal income taxes that have been deferred as a result of this election.

The Company's tax basis for its life interest in the Libbie Shearn Moody Trust (see note 5) is approximately $550,000. At December 31, 1973 and 1972, the book value of the life interest exceeded the tax basis by $12,224,595, and no provision has been made for deferred Federal income taxes applicable to this excess. In the event that this asset should be sold, the Company would realize a taxable gain, which would be taxed at normal corporate income tax rates, to the extent that the sales price of the life interest exceeds the tax basis.

At December 31, 1973, there were approximately $1,886,000 unused capital loss tax carryforwards which, if not utilized, will expire in the future ($7,000 in 1974, $453,000 in 1975, $200,000 in 1976, $302,000 in 1977, and $924,000 in 1978).

(7) STOCKHOLDERS' EQUITY

Mr. Robert L. Moody, Chairman of the Board of Directors and Chief Executive Officer, owns 99.037% of the total outstanding shares of the Company's Class B common stock and 37.401% of the Class A common stock.

Holders of the Company's Class A common stock elect one-third of the Board of Directors of the Company, and holders of the Company's Class B common stock elect the remainder of the Company's Board of Directors. Any cash or in-kind dividends paid on each share of Class B common stock shall be only one-half of the cash or in-kind dividends paid on each share of Class A common stock. In addition, upon liquidation of the Company, the Class A stockholders shall first receive the par value of their shares; the Class B stockholders shall then receive the par value of their shares; and the remaining net assets of the Company shall be divided ratably between the shareholders of both Class A and Class B common stock without preference to either.

At December 31, 1973, nonqualified options for 45,000 shares of Class A common stock were outstanding and exercisable at a price of $8.90 per share ($400,500 aggregate). During 1973, nonqualified options for 5,000 shares of Class A common stock expired.

Effective January 1, 1972, the Company's Board of Directors approved a quasi-reorganization. Accordingly, as of that date, the Company reclassified from unassigned surplus to paid-in and contributed surplus the amounts attributed to the life interest in the Libbie Shearn Moody Trust ($11,399,628) (see note 5) and surplus arising from certain mergers in prior years ($7,709,805). Concurrently, the Company charged $602,729 to unassigned surplus which resulted principally from adjustments to the reserve for contingencies and other assets. The resulting effect of the above reclassifications and surplus charge was the creation of a deficit in unassigned surplus of $11,457,519, which was then eliminated in the quasi-reorganization. Thus, unassigned surplus is accumulated from January 1, 1972.

Unassigned surplus is allocable to participating policies when dividends thereon are specifically declared by the Company's Board of Directors. At December 31, 1973, no unassigned surplus was so allocated.

(8) PENSION AND PROFIT–SHARING AND INCENTIVE PLANS

Prior to 1973, the Company had a contributory profit-sharing and pension plan covering a majority of eligible employees and agents. The Company's annual contribution was based on varying percentages of the participant's annual compensation and statutory earnings. The funded accrued contribution in 1972 was approximately $278,000.

Effective January 1, 1973, the Company adopted a noncontributory pension plan which covers substantially all permanent employees and a profit-sharing and incentive plan which covers full-time insurance agents who have career contracts with the Company. These plans replace the plan discussed in the preceding paragraph. The Company's effect a quasi-reorganization of the Company. Accordingly, as of that date, the Company reclassified from unassigned surplus to paid-in and contributed surplus the amounts attributed to the life interest in the Libbie Shearn Moody Trust ($11,399,628) (see note 6) and surplus arising from certain mergers in prior years ($7,709,805). Concurrently, the Company charged $602,729 to unassigned surplus which resulted principally from adjustments to the reserve for contingencies and other assets. The resulting effect of the above reclassifications and surplus charge was the creation of a deficit in unassigned surplus of $11,457,519, which was then eliminated in the quasi-reorganization. Thus, accumulated unassigned surplus as of December 31, 1972 is the balance of net income and other surplus charges and credits relating to 1972 only.

(3) INVESTMENTS IN SUBSIDIARIES AND AFFILIATES

At December 31, 1972, the Company owned 100% of the outstanding stock of (a) Western National Life Insurance Company, which had no insurance operations, and (b) Commercial Adjusters, Inc., a noninsurance premium financing company. Its investment is summarized as follows:

		Admitted Asset Value at December 31,	
	Cost	1972	1971
Western National Life Insurance Company – Common stock, at net underlying statutory book value	$550,000	525,551	502,582
Commercial Adjusters, Inc.:			
Notes – unsecured	106,598	–	–
Common stock	1,000	–	–
	$657,598	525,551	502,582

The investment in Commercial Adjusters, Inc. has been non-admitted because of the substantial financial support provided by the Company. At December 31, 1972, Commercial Adjusters, Inc. had the following notes payable: (a) a $450,000 unsecured 6% note guaranteed by the Company and (b) a $375,000, 5½% note payable to a bank secured by a Series A debenture of National Western payable to Commercial Adjusters, Inc., and the personal guarantee of Mr. Robert L. Moody (see note 6). At December 31, 1972, Commercial Adjusters, Inc. had assets of $1,383,421 and net stockholder's equity of $139,693.

Effective January 1, 1972, the Company liquidated a wholly-owned subsidiary, National Security Investment Company and its wholly-owned subsidiary, Financial Investors Corporation, both of which were inactive. The obligations of these subsidiaries were assumed by Commercial Adjusters, Inc. At January 1, 1972, the only significant asset of the subsidiaries was 39,059 shares of the Company's Class A common stock which was cancelled by the Company upon liquidation.

At December 31, 1972, the Company held corporate notes (acquired in 1966 and 1968) issued by Oceanographic and Seismic Services, Inc., (Oceanographic) and its wholly-owned subsidiary, Corpus Company. Mr. Robert L. Moody is the controlling stockholder of Oceanographic. The notes are as follows:

	Outstanding Balance at December 31,		Admitted Asset Value at December 31,	
	1972	1971	1972	1971
Oceanographic, 6% due 1973	$200,000	200,000	$200,000	100,000
Oceanographic, 7% due 1986	500,000	500,000	500,000	250,000
Corpus Company, 7% due 1978	299,564	339,754	149,782	169,887
			$849,782	519,877

The admitted asset values for 1972 and 1971 are in accordance with the valuations established by the National Association of Insurance Commissioners.

The Company owns certain stock of a life insurance company and a note of another company, both acquired in 1968, at the then approximate market value ($1,050,000), which were then deemed affiliates. A substantial portion of these assets were non-admitted prior to 1971 and as of December 31, 1972 these assets were assigned no admitted value resulting in an unrealized capital loss of $71,462 for the year ended December 31, 1972 and approximately a like amount in 1971.

(4) TRANSACTIONS WITH CONTROLLING STOCKHOLDER AND AFFILIATES

During 1972, certain transactions occurred between the

Company and its controlling stockholder, Mr. Robert L. Moody (see note 8), or persons and companies affiliated with the controlling stockholder. These transactions are summarized as follows:

(a) The Company is committed to lend approximately $1,000,000, at 7%, to Mr. Shearn Moody, Jr., brother of Mr. Robert L. Moody, on the Shearn Moody Ranch in Galveston County, Texas. This proposed first mortgage loan is subject to additional security to be obtained from Mr. Shearn Moody, Jr. and the final approval by the Colorado Insurance Commissioner.

(b) In 1972, the Company entered into a reinsurance agreement to assume all of the insurance in force of Empire State Life Insurance Company (see note 5).

(c) Mr. Robert L. Moody's relationship to the life interest in Libbie Shearn Moody Trust and the payment during 1972 of a related surplus debenture are described in note 6.

(d) During 1972, the Company paid a $9,842 demand note issued on November 11, 1968 for the purchase of land from the Shearn Moody Trust.

(e) The Company and Mr. Robert L. Moody have guaranteed certain obligations of Commercial Adjusters, Inc. (see note 3).

(5) REINSURANCE

Effective December 31, 1972, the Company assumed all of the insurance in force of Empire State Life Insurance Company (Empire), which is wholly owned by Mr. Shearn Moody, Jr. Under the terms of the reinsurance agreement, the Company received cash of $1,020,000 and other assets of $161,136. In addition, the Company assumed policy liabilities of $1,235,855, including life policy reserves aggregating $1,135,516.

As consideration for the insurance in force, National Western issued to Empire a $225,000, five year, 7% surplus debenture. Payments are to be made annually with the first payment due October 31, 1973. The payments are subject to prior approval of the Colorado Insurance Commissioner and shall be made only out of the Company's unassigned surplus in excess of $500,000, excluding any consideration of the value assigned the Company's life interest in the Libbie Shearn Moody Trust. The debenture shall not constitute a claim against the Company or any of its assets until such payment is so authorized by the Commissioner. As a result, the debenture is not included in the accompanying statutory financial statements as a liability. The excess of liabilities assumed over assets received (approximately $50,000) will be deducted from the first payment on the debenture.

(6) LIFE INTEREST IN LIBBIE SHEARN MOODY TRUST

The Company is the beneficial owner of a life estate interest (1/8 share), previously owned by Mr. Robert L. Moody, in the Trust Estate of Libbie Shearn Moody. The life interest was assigned, in exchange for a debenture, by Mr. Robert L. Moody to a company which was subsequently merged into National Western Life Insurance Company.

As prescribed by the Colorado Insurance Department, the admitted asset value of the Trust is based on the total life insurance in force on Mr. Moody's life, net of the balance of certain debentures payable and the cash surrender values of the life policies on Mr. Moody. The Company's life interest in the Trust at December 31, 1972 and 1971 is summarized as follows:

	1972	1971
Total life insurance on Mr. Moody's life	$12,774,595	12,774,595
Less:		
1961 debenture payable to Mr. Moody, 5% interest	–	681,849
1970 Series A debenture to Commercial Adjusters, Inc.	375,000	525,000
Cash value of Company-owned life insurance policies on Mr. Moody	246,352	168,118
Net asset value of Trust	$12,153,243	11,399,628

Mr. Moody assigned his life interest in this Trust to the

DIRECTORS

Ted Robinson Allmond ....Attorney, Galveston, Texas
Howard W. Davis ....Vice President & Corporate Secretary
Harry L. Edwards* .... President
Robert L. Moody* .... Chairman of the Board
Louis Pauls, Jr. ....Vice President,
Louis Pauls & Co., Galveston, Texas
Arthur J. Shadek ....Investments, Alpine, New Jersey
John Ben Shepperd* ....Counsel & Assistant to President,
El Paso Products Company,
Odessa, Texas

**Member of Executive Committee*

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& Chief Executive Officer
Harry L. Edwards .... President
A. A. Alexander, Jr. ....Vice President,
Mortgage Loans & Legal Counsel
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Robert L. Busby, III, CPA, FLMI .... Vice President
& Internal Auditor
Howard W. Davis ....Vice President & Corporate Secretary
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Treasurer & Assistant Secretary
Weldon K. Huffman .... Vice President, Systems Management
& Assistant Secretary
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& Director of Special Markets
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& Assistant Treasurer
Hans Weber ....Assistant Treasurer

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