74

OUR FIRST BILLION YEAR

ANNUAL REPORT

NATIONAL WESTERN LIFE INSURANCE COMPANY

Chairman of the Board and Chief Executive Officer, Robert L. Moody, left, and President, Harry L. Edwards, right

The accompanying statements, depicting the strong financial condition of your Company and the results obtained during 1974, are presented for the first time this year on the basis of Generally Accepted Accounting Principles (GAAP). GAAP accounting differs from statutory accounting, required by the various state insurance departments, to the extent that it presents the financial condition of a life insurance company on an accounting basis similar to that used by other businesses and industries. In converting to GAAP accounting, Management took a conservative position in the required assumptions. Statutory statements are also a part of this report.

We are pleased to report Earnings From Operations, before adjustments for realized gains and losses on investments, of $3,326,355 – 98¢ per share compared to 96¢ last year.

The Company's decision in 1974 to undertake a greatly accelerated marketing effort has produced good results. We are very proud of the more than one thousand capable, professional agents who, together with our outstanding Home Office staff, made possible the 1974 gains. Total premium income increased 8.7% to almost $21 million and ordinary insurance-in-force increased 12.3%. Total insurance-in-force increased 15.8% to $1.1 billion, a significant milestone achievement in the growth pattern of the Company. Expected increases in first year expenses incurred in producing new business plus an increase in policy benefits paid, created a decline in the statutory Net Gain From Operations from 1973. However, we do not anticipate as many one-time new business expenses in 1975.

In another area of growth, your Board of Directors and the Indiana Insurance Department approved a cash tender offer to the shareholders of Hamilton National Life Insurance Company, Indianapolis, Indiana, for 100% of the issued and outstanding shares of that company. This acquisition was completed in early 1975 with the purchase of almost 93% of the shares of Hamilton National Life for a total cost of approximately $3,600,000. Hamilton National Life is a fine life insurance company that has had good conservative management. It will make a fine addition to National Western Life when it is ultimately merged. However, it is now operating as a separate subsidiary.

Early this year, your Board of Directors approved the purchase of a site in a growing area of Austin for construction of a Home Office Building. A contract is being negotiated and construction should be started about June 1, 1975, with completion and occupancy prior to June 1, 1976. The Company has occupied its present leased building for many years, but has completely outgrown the space. Preliminary estimates of the cost for an adequate but modest building, including site cost, is $2,000,000.

We foresee nothing at this time that will interfere with the continuing growth of the Company. Unless the general economy of the nation deteriorates substantially, 1975 promises to be another good year. We acknowledge with gratitude the continuing contribution to the Company's well-being by our outstanding agents, employees, Officers and Directors; and your continued support.

Robert L. Moody

Harry L. Edwards

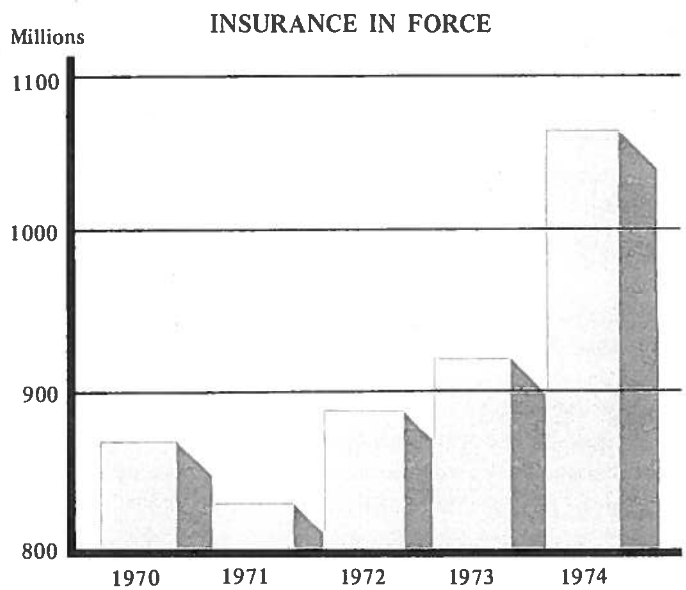
1974 was one of the best years in National Western Life's 18-year history. The month of June, our traditional President's Month, set a sales record that will be difficult to break, but November was the most significant month. It marked the celebration of attaining one of the Life Insurance Industry's most coveted milestones – $1 billion of life insurance in force. By year's end, total life insurance in force had risen to $1.1 billion. 1974 sales totaled $158.2 million, a 30.8% increase over 1973 sales. Ordinary premium income rose to $21 million as compared with $19 million in 1973.

Left to right: Frank M. Jones, Jr., Vice President, Ordinary Agencies; George W. Moore, Jr., Vice President, Marketing; Richard L. Boswell, Vice President, Actuary.

National Western Life has established itself as an Industry leader. We are proud to have been one of the first companies to implement Split-Life (a combination of annuity and low-cost term ideally suited for business insurance and charitable giving) and Plan "79" (an executive fringe benefit that provides key employees with larger amounts of insurance than would ordinarily be obtainable, providing considerable tax advantages at the same time). The introduction of the Pension and Profit-Sharing portfolio and Individual Retirement Annuity in November, shortly after the Employee Retirement Income Security Act of 1974 was signed, proved to be most timely.

Bearing in mind that the insurance-buying public's needs change with the times, the New Products Committee – which includes representatives from the Marketing, Actuarial, Data Processing, Risk Selection and Policyowner Services Departments – is constantly reviewing new ideas and products to fit those needs. New Products are designed with particular markets in mind.

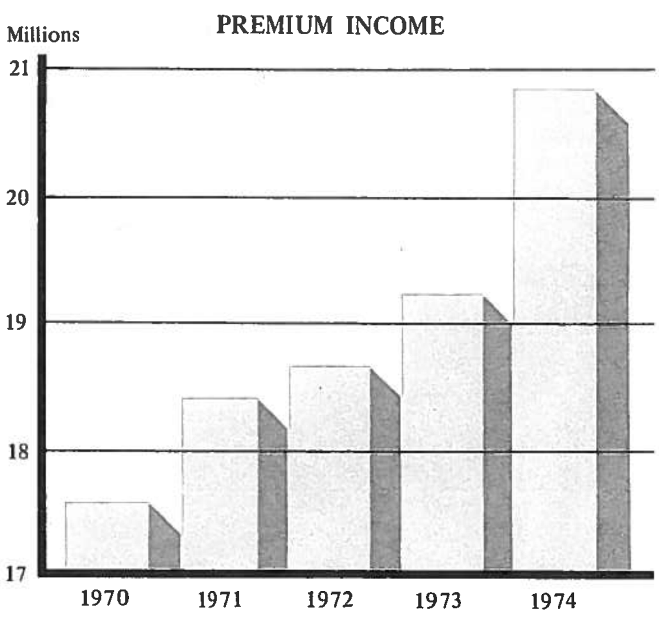
Left to right: Richard M. Flahive, Director of Brokerage Development; Wayne Matthews, Director of Public and Employee Relations; Bob Laughlin, Assistant Vice President, Director of Special Markets; Charles P. Coleman, Director of Pension-Administration.



Penetration of defined markets and concentration on selling to the needs of those markets through well-planned and efficiently-administered programs have also resulted in increasing the Company's overall persistency to 89%.

While the major thrust of the Marketing Department has been in the area of new sales through new products to new markets, it has not neglected its duties in the area of service to existing agency operations and emphasis on service to existing policyowners. A computerized proposal service for Plan "79" and Pension and Profit-Sharing plans was introduced during the year and is being used extensively to illustrate various policy benefits and optional purchase methods. Many other publications, brochures, manuals and sales aids were developed to assist field representatives in presenting the products. Some of these well-designed materials have won national awards.

The high quality of National Western's products and the Company's growing reputation for flexibility, efficient administration of its programs and competent service have attracted many top-producing agencies and individuals in the 32 states in which the Company is licensed. The number of active agents increased from 570 at year-end 1973 to over 1,050 at the end of 1974. In order to facilitate the influx of new field representatives and provide them with more personalized service in the advanced marketing programs, National Western Life has appointed four Regional Agency Directors to head offices in Atlanta (Southeast Region), Chicago (Northern Midwest Region), Dallas (Southwest Region) and Los Angeles (Western Region). Future plans include establishment of an additional Regional Office in Denver. The Regional Agency Directors are qualified life insurance specialists and are capable of dealing with all aspects of life insurance sales. Their main area of responsibility lies in recruiting and training superior life insurance agents; and, as extensions of the Home Office, they also service existing field operations and policyowners.



With the attainment of the $1 billion status, the implementation of the Regional Director program, the development of many fine products and the continuation of top quality service, 1974 was a gratifying year. The fact that many of the new products and programs that made it so were developed during the latter part of the year gives every indication that 1974 was the beginning of a new and exciting era for the Marketing Department.

Left to right: Robert R. Busby III, Vice President, Controller; Bob Abbott, Agency Secretary; Weldon K. Huffman, Vice President, Systems Management.

Data Processing is an integral part of every operating department, providing management with information used by the Marketing Department in evaluating markets and production, the Risk Selection Department in processing new business transactions and in printing policies, the Actuarial and Accounting Departments in operating the Company on a daily basis, and the Policyowner Service Department in servicing over 140,000 policies in force.

At National Western Life, the need for individual approach to human needs is injected as much as possible in policyowner service. Fortunately for the life insurance consumer, complex computers serve well in handling the tremendous amount of detail inherent in the industry. This has helped decrease the cost of life insurance.

The Life Insurance Industry has enjoyed substantial growth in recent years. This growth has brought new and complex coverages, high benefit levels, much public atten-

Left to right: Don Reeder, Assistant Vice President, Underwriting; Harold L. Ponder, Vice President, Risk Selection.

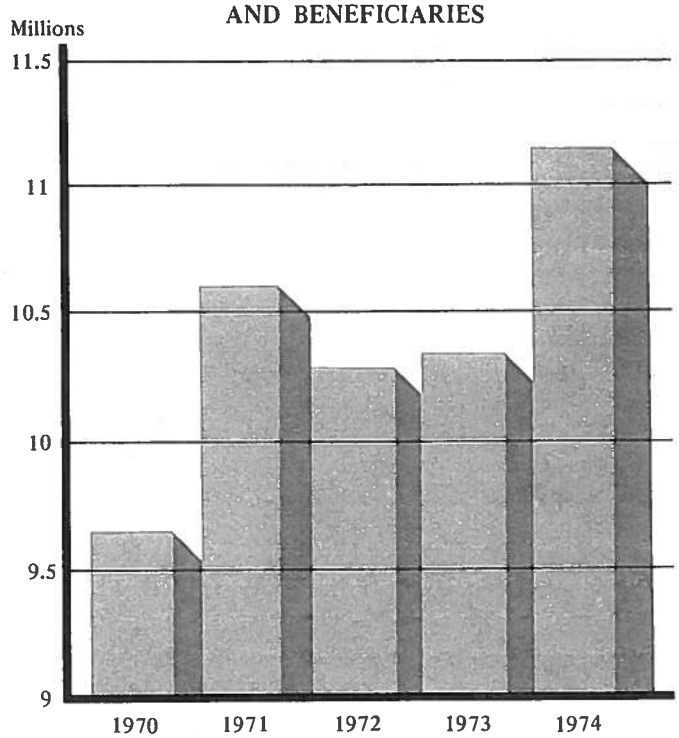
tion, and more sophisticated policyowners. The inherent attitude of every department in the Company is to provide quick, intelligent service to applicants and policyowners. This attitude is very evident in the Risk Selection Department, where individual personal attention is given to underwriting over 100 applications a day and where policies are issued for quick delivery to the policyowners.

Left to right: Robert Carothers, Assistant Vice President, Premium Collection; Robert R. Johnson, Vice President, Policyowner Services; Carol Jackson, Director of Personnel.

The Policyowner Services Department is the largest department in the Home Office. Life insurance is a service-oriented business, and the need to provide service to policyowners and to take the complexity out of a seemingly complex business requires a staff broadly trained in the increasing technical aspects of servicing the needs of policyowners and sales representatives. Policyowner Services Department handles premium collections, policy contract changes, policy loans, living benefits, and nonforfeiture provisions; beneficiary and name changes; assignments; payment of dividends, payment of death benefits and accident and sickness benefits; waiver of premium disability payments, and personal correspondence, providing the human touch in communications with policyowners.

Most life insurance contracts involve much more than just the payment of premiums to the Company during the lifetime of the insured and payment of policy proceeds to beneficiaries at the time of the insured's death. Today, living benefits exceed death benefits and a much closer relationship is required with the insured or owner while he is living rather than with the beneficiary at death. In 1974, benefit payments amounted to more than $11.1 million, of which more than $7.7 million were living benefits. Although emphasis is placed upon the relationship between the Company and the policyowner, National Western Life can assure policyowners the same human concern and excellent service will continue to the beneficiary.

BENEFITS TO POLICYOWNERS AND BENEFICIARIES



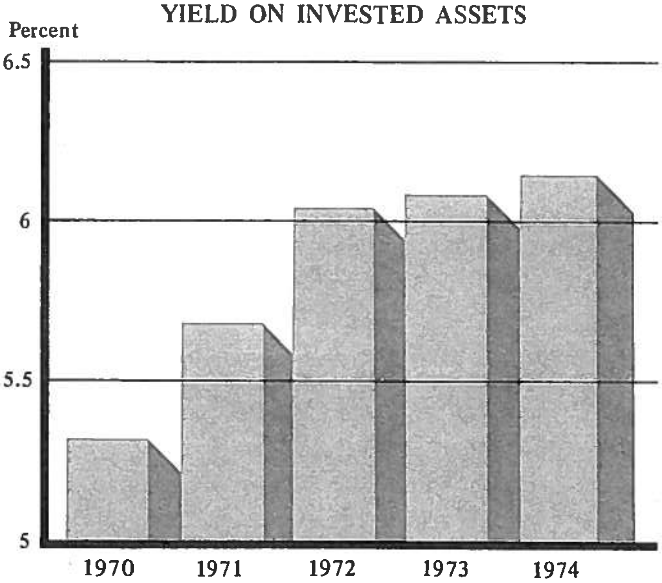
Left to right: Howard W. Davis, Vice President, Corporate Secretary; A. A. Alexander, Jr., Vice President, Mortgage Loan Department and Legal Counsel; Estrella Raybourn, Assistant Secretary.

Left to right: Ruby Cox, Assistant Controller; John R. Howard, Vice President, Finance and Treasurer; Frances V. Soderstrom, Assistant Secretary and Assistant Treasurer; Hans Weber, Assistant Treasurer.

Activities in the investment area during 1974 were directed primarily to take advantage of the high yields available in the bond market for long term investments. 1974 was also a year in which yields available on commercial paper and certificates of deposit made it advantageous to keep substantial funds available in short term investments for use in acquisitions to avoid the high interest rates on borrowed money during the year.

National Western Life's approach to its investment portfolio is to maintain a balance of high quality bonds and mortgages with a very limited emphasis on equity securities. This philosophy resulted in management's decision to liquidate some of its equities and lower yielding securities during the year to take advantage of the high yields recently available in the bond market. As a result of this decision, the Company has absorbed substantial capital losses in the past two years.

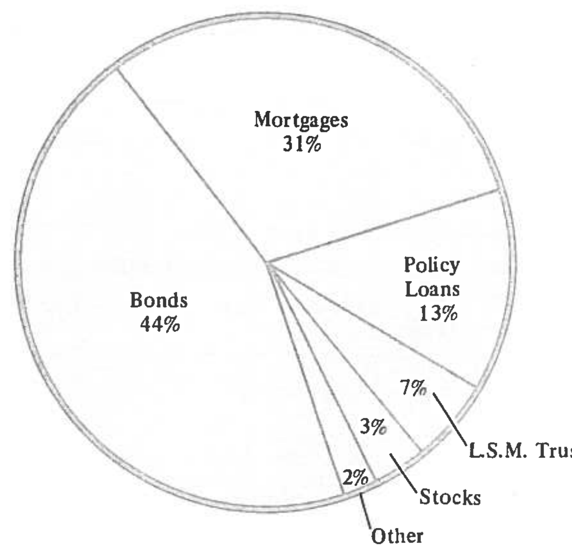
YIELD ON INVESTED ASSETS



During 1974, National Western Life's invested assets increased $11.4 million or 10.9% to $138,425,551. Of this increase, approximately $6 million was in the bond portfolio and $2.9 million was in mortgages, while the equity portion of the investment portfolio decreased during the year in line with management's policy. The Company did experience a substantial increase of 31% in policy loans which tends to reduce the overall investment yield, but this is a service which must be provided to policyowners, particularly during economic situations such as have existed in the past year.

Despite the economic uncertainty which was prevalent during 1974, the Company's invested income increased 14.2% to $8,436,577 and management expects this practice to facilitate further growth and investment earnings during 1975.

DISTRIBUTION OF INVESTED ASSETS



Public opinion surveys have been conducted over the past several years by the Institute of Life Insurance, and it has been found that the wide-spread belief that life insurance is a necessity has been strengthened. National Western is proud to be a part of the large Life Insurance Industry and a part of the tremendous contribution made by this industry: benefits to beneficiaries of policyowners who voluntarily purchase life insurance; the investments of large amounts of money in the nation's economy, used to build and operate homes, businesses and industry; and the many economic risks insured by insurance companies, making life insurance reliable not only to the economy but also to the individual policyowner.

ASSETS

	December 31 1974	December 31 1973
Investments:		
Bonds, principally at amortized cost (market value $49,033,248 in 1974; $47,325,206 in 1973)	**$ 60,435,000**	54,402,073
Preferred stocks, at market value (cost $3,281,605 in 1974; $3,564,095 in 1973)	**1,988,662**	2,916,496
Common stocks, at market value (cost $3,662,754 in 1974; $3,324,446 in 1973)	**2,207,709**	2,278,172
Mortgage loans, net of unearned discount of $199,440 in 1974; $142,211 in 1973 (note 3)	**42,870,737**	39,959,881
Policy loans	**17,273,906**	12,814,457
Life interest in Libbie Shearn Moody Trust (note 3)	**10,020,277**	10,249,824
Notes receivable from affiliates	**710,259**	752,740
Other investments	**2,919,001**	3,644,724
Total investments	**138,425,551**	127,018,367
Cash	**2,269,896**	1,884,971
Deferred policy acquisition costs	**23,632,661**	21,110,208
Receivables and other assets net of allowance for bad debts in the amount of $93,000 in 1974 and 1973	**2,915,273**	2,317,519
Excess of cost over net assets of subsidiary acquired (notes 1, 2 and 4)	**510,565**	–
	$167,753,946	152,331,065

LIABILITIES AND STOCKHOLDERS' EQUITY

	1974	1973
Future policy benefits (note 1):		
Life	**$111,278,642**	99,521,823
Accident and health	**483,342**	365,122
Policy and contract claims	**732,596**	627,150
Other policyholders' funds	**12,870,628**	11,821,696
Short-term notes payable to banks, unsecured	**400,000**	675,000
Debenture payable to affiliated company, interest rate 7%, principal payment of $45,000 due annually	**135,000**	180,000
Federal income taxes payable (note 2):		
Current	**119,339**	695,000
Deferred	**8,047,748**	7,445,730
Other liabilities	**1,647,599**	1,416,603
Allowance for contingencies (note 11)	**424,500**	395,000
Minority stockholders' equity	**1,543,769**	–
Total liabilities	**137,683,163**	123,143,124
Stockholders' equity (notes 1, 2, 3, 5, 6 and 10):		
Common stock:		
Class A of $1 par value per share. Authorized 7,500,000 shares; issued 3,137,568 shares in 1974 and 3,232,557 in 1973	**3,137,568**	3,232,557
Class B of $1 par value per share. Authorized and issued 200,000 shares	**200,000**	200,000
Additional paid-in capital	**21,892,151**	22,203,587
Net unrealized depreciation on investments in equity securities	**(2,747,988)**	(1,693,873)
Retained earnings:		
Appropriated – required by regulatory authorities	**398,803**	1,212,712
Unappropriated, since January 1, 1972	**7,190,249**	4,032,958
Total stockholders' equity	**30,070,783**	29,187,941
Commitments and contingencies (notes 9, 10, 11, 12 and 13)		
	$167,753,946	152,331,065

See accompanying notes to consolidated financial statements.

	Years Ended December 31	
	1974	1973
Income (notes 1, 8, 9 and 10):		
Insurance premiums and other considerations	$21,215,126	19,245,382
Net investment income	8,436,577	7,384,800
Other income	1,224,637	1,156,913
Total income	30,876,340	27,787,095
Benefits and expenses:		
Benefits to policyowners and beneficiaries	9,805,475	8,715,921
Increase in liabilities for future policy benefits	8,144,457	7,112,757
Insurance expenses, commissions and taxes	6,133,330	5,072,946
Amortization of deferred policy acquisition costs, net of assumed interest	1,849,227	2,192,867
Total benefits and expenses	25,932,489	23,094,491
Earnings before provision for Federal income taxes and net realized losses on investments	4,943,851	4,692,604
Provision for Federal income taxes (note 2):		
Current	824,085	868,105
Deferred	793,411	507,668
Total provision for Federal income taxes	1,617,496	1,375,773
Earnings before net realized losses on investments	3,326,355	3,316,831
Net realized losses on investments	(982,973)	(614,474)
Net earnings (note 1)	$ 2,343,382	2,702,357
Earnings per share of common stock (notes 1 and 7):		
Earnings before net realized losses on investments	$.98	.96
Net realized losses on investments	(.29)	(.18)
Net earnings	$.69	.78

See accompanying notes to consolidated financial statements.

	Years Ended December 31 1974	1973
Common stock (notes 3 and 6):		
Balance at beginning of year	$ 3,432,557	3,469,224
Par value of 94,989 shares cancelled in 1974 and 36,667 shares cancelled in 1973	(94,989)	(36,667)
Balance at end of year	3,337,568	3,432,557
Additional paid-in capital (note 5):		
Balance at beginning of year as would have been reported in 1974 and as previously reported in 1973 on a statutory basis	12,184,651	12,184,651
Adjustments to restate to the basis of generally accepted accounting principles including $3,891,663 reclassification of deficit from retained earnings in quasi-reorganization effective January 1, 1972	(5,186,203)	(5,086,265)
Reversal of statutory quasi-reorganization	15,205,139	15,205,139
Balance at beginning of year, as restated	22,203,587	22,303,525
Tax credit resulting from utilization of operating losses realized prior to quasi-reorganization	–	15,926
Cancellation of treasury stock	(311,436)	(115,864)
Balance at end of year	21,892,151	22,203,587
Net unrealized depreciation on investments in equity securities:		
Net unrealized depreciation at beginning of year, as would have been reported in 1974 and as previously reported in 1973 on a statutory basis	–	–
Adjustment to restate to the basis of generally accepted accounting principles – unrealized depreciation previously reported in unappropriated retained earnings	(1,693,873)	(549,027)
Balance at beginning of year, as restated	(1,693,873)	(549,027)
Increase in unrealized depreciation during the year	(1,054,115)	(1,144,846)
Balance at end of year	(2,747,988)	(1,693,873)
Retained earnings (notes 1, 2, 5 and 10):		
Appropriated retained earnings:		
Balance at beginning of year as would have been reported in 1974 and as previously reported in 1973 on a statutory basis	–	–
Adjustment to restate to the basis of generally accepted accounting principles	1,212,712	1,698,741
Balance at beginning of year, as restated	1,212,712	1,698,741
Allocation to unappropriated retained earnings	(813,909)	(486,029)
Balance at end of year	398,803	1,212,712
Unappropriated retained earnings:		
Balance at beginning of year as would have been reported in 1974 and as previously reported in 1973 on a statutory basis	5,176,696	2,876,858
Adjustments to restate to the basis of generally accepted accounting principles including elimination of $3,891,663 deficit in a quasi-reorganization effective January 1, 1972	14,061,401	13,172,853
Reversal of statutory quasi-reorganization	(15,205,139)	(15,205,139)
Balance at beginning of year, as restated	4,032,958	844,572
Net earnings	2,343,382	2,702,357
Transfer from appropriated retained earnings	813,909	486,029
Balance at end of year	7,190,249	4,032,958
Total stockholders' equity (note 1)	$30,070,783	29,187,941

See accompanying notes to consolidated financial statements.

	Years Ended December 31 1974	1973
Funds provided:		
From operations:		
Net earnings (note 1)	$ 2,343,382	2,702,357
Add (deduct) charges or credits not requiring or producing funds, respectively:		
Provision for deferred Federal income taxes	793,411	507,668
Amortization of deferred policy acquisition costs	1,849,227	2,192,867
Increase in liability for future policy benefits	8,144,457	6,759,217
Increase in other policy liabilities	493,896	391,961
Increase (decrease) in current Federal income taxes payable	(575,661)	409,000
Amortization of life interest in Libbie Shearn Moody Trust	229,547	227,361
Other	(312,180)	(152,226)
Funds provided from operations	12,966,079	13,038,205
Cost of investments sold or matured and principal payments received on loans:		
Bonds and notes	17,134,847	7,181,094
Stocks	705,545	844,483
Mortgage loans	2,266,087	2,942,259
Real estate	725,966	204,091
Invested cash	2,112,929	–
Other	–	606,189
Total	22,945,374	11,778,116
Other	125,406	69,469
Decrease in cash	–	1,169,743
Total funds provided	$36,036,859	26,055,533
Funds used:		
Increase in policy loans	$ 2,816,854	2,021,325
Cost of investments purchased or principal of loans disbursed:		
Bonds and notes	20,020,301	10,615,851
Stocks	759,915	1,394,829
Mortgage loans	5,964,205	8,671,985
Invested cash	–	291,550
Other	2,342	–
Total	$29,563,617	22,995,540
Cost of subsidiary acquired:		
Add (deduct):		
Net assets of subsidiary acquired at date of acquisition excluding cash in the amount of $91,802 (note 4)	2,724,236	–
Minority interests at date of acquisition	(1,577,284)	–
Excess of cost over underlying net assets of subsidiary acquired at date of acquisition	939,400	–
Total cost net of $91,802 of cash at date of acquisition	2,086,352	–
Additions to deferred policy acquisition costs	3,275,540	2,562,462
Payments on surplus debentures	320,000	345,000
Cost of common stock repurchased and retired	406,425	152,531
Increase in cash, including cash of $91,802 of subsidiary acquired at date of acquisition	384,925	–
Total funds used	$36,036,859	26,055,533

See accompanying notes to consolidated financial statements.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies of the Company and its subsidiaries.

(a) **Basis of Presentation** – The accompanying consolidated financial statements include the accounts of National Western Life Insurance Company, its wholly-owned subsidiaries, Western National Life Insurance Company and Commercial Adjusters, Inc., and its 58% owned subsidiary, Olympic Life Insurance Company. All significant intercompany transactions have been eliminated in consolidation.

During the year, the Company adopted the practice of preparing its financial statements, other than those issued pursuant to requirements of insurance regulatory authorities, in conformity with generally accepted accounting principles as set forth in the Audit Guide on Stock Life Insurance Companies issued by the American Institute of Certified Public Accountants in 1972. The Company has retroactively restated its financial statements to reflect this change.

Reconciliations, including the components of the change, of stockholders' equity and net gain from operations (determined pursuant to statutory accounting requirements), as included in the annual statements filed with the Colorado Insurance Commission for the years ended December 31, 1974 and 1973, and as they would have been reported by the Company in 1974 had it not been for the change, and as they were previously reported by the Company in 1973 in the Company's annual report to its stockholders, to the respective amounts included in the accompanying consolidated financial statements, follow:

	Stockholders' Equity	
	1974	1973
Per annual statement to Insurance Department and as would have been reported in 1974 and as previously reported in 1973	$21,235,452	20,793,904
Add (deduct):		
Statutory stockholders' equity of insurance subsidiaries and non-insurance subsidiary	4,108,611	841,018
Elimination in consolidation of subsidiaries	(4,108,611)	(841,018)
Consolidated statutory stockholders' equity	21,235,452	20,793,904
Add (deduct) major components of change to generally accepted accounting principles:		
Difference in initial valuation of investment in Trust, net of amortization	(2,345,658)	(2,198,824)
Excess cost of subsidiary	510,569	–
Change in minority stockholders' equity	(103,524)	–
Deferral of policy acquisition costs net of amortization	23,632,661	21,110,208
Adjustment of future policy benefit liabilities and deferred premiums	(5,046,955)	(4,178,155)
Deferred Federal income taxes	(8,047,748)	(7,445,730)
Adjustment to report preferred stocks at market value	(1,057,764)	(442,093)
Adjustments of investments in bonds to reflect permanent impairments in value	(35,000)	(35,000)
Adjustment for write-downs of investments in real estate	(159,222)	(169,222)
Transfer of Mandatory Securities Valuation Reserve to appropriated retained earnings	398,803	1,212,712
Reinstatement of non-admitted assets	1,621,899	525,026
Other	(532,730)	15,115
Amounts per accompanying consolidated financial statements	$30,070,783	29,187,941

	Net Earnings	
	1974	1973
Per annual statement to Insurance Department and as would have been reported in 1974 and as previously reported in 1973	$ 2,153,807	3,213,193
Add (deduct):		
Statutory net earnings of insurance subsidiaries and non-insurance subsidiary	1,023,013	1,726
Elimination in consolidation of subsidiaries	(429,665)	–
Consolidated statutory net gain from operations	2,747,155	3,214,919
Add (deduct) major components of change to generally accepted accounting principles:		
Deferral of policy acquisition costs net of amortization	1,442,537	369,595
Adjustment of future policy benefit liabilities and deferred premiums	(74,420)	590,247
Deferred Federal incomes taxes	(793,411)	(507,668)
Net realized losses on investments	(982,973)	(614,474)
Other	4,494	(350,262)
Amounts per accompanying consolidated financial statements	$ 2,343,382	2,702,357

The change to generally accepted accounting principles also had the following effect with respect to the following amounts as they would have been reported in 1974 and as previously reported in 1973:

	1974	1973
Assets, increase	$10,045,384	17,998,011
Premium income (decrease)	$ 1,431,591	(1,940,247)
Net earnings per share, including \$.29 decrease in 1974 and \$.18 decrease in 1973, relating to inclusion of realized investment losses in net earnings (decrease)	\$.03	(.08)

(b) **Valuation of Investment Securities** – Investments in bonds are recorded principally at amortized costs and investments in equity securities are recorded at market values. The differences between the costs of equity securities and their market values are credited or charged to stockholders' equity, net of deferred Federal income taxes, when applicable. When equity securities are sold, or in the period in which a permanent impairment in the investment in a specific equity security occurs, the unrealized appreciation or depreciation as previously recognized is charged or credited, net of deferred Federal income taxes, where applicable, to stockholders' equity and the differences between the securities' costs and the sales proceeds or fair value in the case of permanent impairment, are credited or charged to earnings as realized investment gains or losses.

The amortized cost of bonds is substantially in excess of their market value. It is generally the intent of management to hold bonds to maturity and the Company has the ability to do so. Therefore, management does not anticipate realizing any significant losses thereon and no provision has been made for possible losses on bonds, except when a permanent impairment in the investment in a specific bond occurs, at which time a realized loss is recorded.

(c) **Valuation Allowances for Estimated Losses on Loans and Real Estate** – Valuation allowances for estimated losses on specific loans and parcels of real estate are charged to earnings when any significant and permanent decline reduces the market value of the underlying security or real estate to less than the principal amount of the loan and the loan is in default as to payment or is in foreclosure proceedings or the real estate's cost, respectively.

(d) **Valuation of Life Interest in Libbie Shearn Moody Trust** – The recorded value of the life interest in the Libbie Shearn Moody Trust is reported at its initial valuation, net of certain debentures and accumulated amortization. The initial valuation was based on the assumption that the Trust would provide certain income to the Company at an assumed interest rate and is being amortized over 53 years, the life expectancy of Mr. Robert L. Moody at the date he contributed the life interest to the Company. (See note 3.)

(e) **Deferred Policy Acquisition Costs** – Commissions and certain expenses related to policy issuance and underwriting, all of which generally vary with and are primarily related to the production of new business, have been deferred. In the case of a purchased subsidiary, the cost deferred as acquisition cost related to the subsidiary's business in force at the date of purchase is based upon estimates as to what it would cost the Company itself to produce a similar block of business as of the purchase date, amortized to the date of acquisition based upon the age of the acquired business. These deferred acquisition costs are being amortized over the premium-paying period of the related policies in proportion to the ratio of the annual premium revenue earned to the total premium revenue anticipated, using the same assumptions as to interest, mortality and withdrawals as were used in calculating the liability for future policy benefits.

(f) **Liability for Future Policy Benefits** – The liability for future policy benefits has been calculated by the net level method using estimated assumptions as to future mortality, interest and withdrawals which were used or which were being experienced at the time that policies were issued or, in the case of liabilities for future policy benefits of a purchased subsidiary, at the date of purchase. A summary, by major lines of business, of assumptions used to calculate the liability for future policy benefits for life insurance policies follows:

BASIS OF ASSUMPTIONS

Line of Business	Years of Issue	Interest Rates	Mortality Tables	Withdrawals	Insurance in Force 1974	Insurance in Force 1973	Amount of Future Policy Benefits 1974	Amount of Future Policy Benefits 1973
Individual life business	1971 and after	6% first 5 years, graded to 4½% at end of 20 years	Modified 55-60 basic male rates, 15 year select	Linton B	$406,094,817	242,637,946	8,668,257	4,044,661
	1969-1970	5% first 10 years and 4½% thereafter	Same	Same	92,964,028	98,119,987	7,027,407	5,985,770
	1965-1968	4½%	Same	Same	144,540,793	146,358,262	20,445,229	18,113,040
	Pre-1965	4%	Same	Same	255,149,337	254,349,737	55,683,534	52,969,448
Individual annuities	1971 and after	6% first 5 years, graded to 4½% at end of 20 years	Modified 55-60 basic male rates, 15 year select	Linton B	–	–	1,907,415	996,552
	1969-1970	5% first 10 years and 4½% thereafter	Same	Same	–	–	100,168	92,488
	1965-1968	4½%	Same	Same	–	–	87,938	78,429
	Pre-1965	4%	Same	Same	–	–	21,893	19,853
Other	All	Various	Statutory basis	None	–	–	24,290	1,269,996
Reduced paid-up life and extended term insurance	All	2½% to 3½%	Statutory basis	None	64,730,839	62,888,685	17,312,511	15,951,586
					$963,479,814	804,354,617	111,278,642	99,521,823

Deferred acquisition costs and future policy benefit factors have been calculated directly for a substantial number of major plans of insurance, using estimated assumptions as to future mortality, interest and withdrawals. A small number of plans, called minor plans of insurance, were associated with major plans having like benefit and gross premium characteristics and the factors for these major plans were used to calculate the deferred acquisition costs and liability for future policy benefits for the minor plans.

(g) Amortization of Goodwill – The excess of cost over underlying net assets of subsidiary acquired is being amortized over 20 years from the date of acquisition. Amortization charged to operations in 1974 amounted to $50,776.

(h) Matching of Revenue and Expense – Premiums are recognized as revenues as they become due or, for short duration contracts, over the contract periods. Benefits and expenses are matched with premiums in arriving at profits by providing for policy benefits over the lives of the policies, and by amortizing acquisition costs over the premium-paying periods of the policies.

(i) Deferred Federal Income Taxes – Deferred Federal income taxes are provided for income and deductions which are recognized in the financial statements in a different period than for Federal income tax purposes.

(2) FEDERAL INCOME TAXES

The Company and its subsidiaries file separate income tax returns for Federal income tax purposes.

Deferred tax expense recorded in the statements of earnings results from timing differences in the recognition of revenue and expense for tax and financial statement purposes. The sources of these differences for the two years ended December 31, 1974 and 1973 and the tax effect of each were as follows:

Source of Difference	Tax Effect 1974	1973
Add (deduct):		
Adjustment to record deferred policy acquisition costs net of amortization, which costs are expensed as incurred for tax purposes and to record difference between liability for future policy benefits determined under statutory and generally accepted accounting principles	$ 671,191	435,585
Difference between tax and financial increase in liability for future policy benefits	825,073	374,581
Effect of special life insurance tax deductions on deferred taxes	(1,173,620)	(442,329)
Other	470,767	139,831
Total deferred taxes	$ 793,411	507,668

The reasons for the differences in the Company's and its subsidiaries' Federal income tax expense for the years ended December 31, 1974 and 1973, respectively, in relation to the amount calculated by multiplying the statutory Federal income tax rate of 48% times earnings and net realized investment losses are summarized below:

Description	Tax Effect 1974	1973
Computed expected income taxes at 48% rate	$1,901,212	1,957,502
Add (deduct):		
Effect of special life insurance company tax deductions	(690,452)	(698,652)
Eliminate tax effect of net realized investment losses due to the existence of a capital loss carryforward	445,956	294,948
Dividends received not taxable as a result of dividends received deduction	(165,148)	(166,350)
Amortization of life interest in Libbie Shearn Moody Trust not tax deductible	110,183	109,133
Other	15,745	(120,808)
Total provision for Federal income taxes	$1,617,496	1,375,773

Under the provisions of the Life Insurance Income Tax Act of 1959, a portion of the Company's and its other life insurance company subsidiaries' net earnings, which is added to policyholders' surplus for tax purposes, is not subject to Federal income taxes until it reaches certain maximum levels and/or it is distributed to stockholders, at which time it is taxed at ordinary corporate rates. Such untaxed earnings added to tax policyholders' surplus amounted to $453,970 in 1973. At December 31, 1974, such earnings not taxed in the Company's and its life insurance subsidiaries' Federal income tax returns amounted to approximately $1,400,000.

Should the entire amount of such untaxed earnings, calculated on a tax basis, become taxable, the tax thereon, computed at current rates, would amount to approximately $672,000 at December 31, 1974. Deferred Federal income taxes have not been provided on the untaxed earnings of the Company as it does not anticipate any transactions which would cause any part of these untaxed earnings to become taxable.

At December 31, 1974, the Company had approximately $4,062,000 of unused financial capital loss carryforwards which, if not utilized, will expire in the future, $453,000 in 1975, $200,000 in 1976, $1,573,000 in 1977, $924,000 in 1978 and $912,000 in 1979. Any tax benefit derived from capital loss carryforwards aggregating $653,000 which originated prior to the quasi-reorganization will be credited to additional paid-in capital. In addition, a life insurance subsidiary acquired in 1974 (see note 4) had unused financial net operating loss and capital loss carryovers amounting to $1,200,000 and $48,000, respectively at December 31, 1974, which losses expire through 1977 and 1978, respectively. Any tax benefits received ($378,059 in 1974) from the utilization of the subsidiary's loss carryovers, all of which were incurred prior to acquisition, will be credited directly to excess cost over net assets of subsidiary acquired rather than to earnings.

(3) TRANSACTIONS WITH CONTROLLING STOCKHOLDER AND AFFILIATES

(a) Life Interest in Libbie Shearn Moody Trust – The Company is the beneficial owner of a life 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.

The recorded amount of the Company's life interest in the Trust is summarized below:

	Libbie Shearn Moody Trust at December 31,	
	1974	1973
Original valuation of life interest, at February 26, 1960	$13,793,149	13,793,149
Less accumulated amortization	3,222,872	2,993,325
Net amortized value	10,570,277	10,799,824
Less 3% debenture payable to Mr. Moody	550,000	550,000
Net asset value of life interest in Trust	$10,020,277	10,249,824

Mr. Moody assigned his life interest in the Trust to the predecessor company in exchange for a debenture in the original amount of $550,000, with principal payable $150,000 each March 15, commencing in 1978 and interest payable at 3% each March 15, commencing in 1962.

Payments of the principal and interest on the debenture are payable solely from the income derived from the Trust. 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 stockholders' equity of the Company continues to exceed $100,000, excluding any asset value assigned to the Libbie Shearn Moody Trust. The debenture, according to its terms, shall not represent a claim against any of the Company's assets other than those mentioned above.

The Company has been provided or has provided itself with the following protection against the loss of asset value and income in the event of Mr. Robert L. Moody's untimely death and consequent termination of the life interest in the Trust:

(1) The Company is the beneficiary of life insurance on Mr. Moody's life in the amount of $12,774,595, all of which was issued by the Company and is reinsured through agreements with unaffiliated insurance companies.

(2) Approximately 238,000 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 so 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 $2.12 per share at December 31, 1974.

Income from the Trust and related expenses reflected in the accompanying consolidated statements of earnings are summarized as follows:

	Year Ended December 31,	
	1974	1973
Income distributions received	$564,774	541,622
Add (deduct):		
Interest paid on debentures payable	(16,500)	(16,500)
Amortization of initial valuation	(229,547)	(227,361)
Reinsurance premiums charged to operations	(38,689)	(34,128)
Increase in cash surrender value of company-owned life insurance policies	82,714	79,595
Net income from life interest in the Trust	$362,752	343,228

The accompanying statements also reflect an increase in the liability for future policy benefits related to Company-issued policies on Mr. Moody's life in the amount of $45,717 in 1974 and $71,389 in 1973, and liabilities for future policy benefits related to these policies in the amounts of $603,452 and $557,735 at December 31, 1974 and 1973, respectively.

(b) Common Stock – 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 38.534% 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; 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.

(c) **Other Transactions** – In 1973, the Company made a first lien mortgage loan of $923,714 (included in mortgage loans on real estate) 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 interest in the Libbie Shearn Moody Trust, (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 the Company's debenture payable to a company owned by Mr. Shearn Moody, which debenture was issued to that company in 1972 in a transaction whereby the Company reinsured all of that company's insurance in force, and (4) a guaranty against default by the Shearn Moody Holding Corporation.

(4) BUSINESS COMBINATION

In January 1974, the Company purchased 1,654,553 shares of the outstanding common stock (approximately 54% of the outstanding common stock) of Olympic Life Insurance Company (Olympic) for cash in the amount of $2,117,828. During the remainder of 1974, the Company made additional purchases of 114,600 shares of outstanding common stock for cash in the aggregate amount of $60,327. At December 31, 1974, the Company owns 58% of the outstanding common stock of Olympic.

The acquisition of the common stock of Olympic has been accounted for as a purchase and accordingly, the Company's share of the earnings of Olympic has been included in the consolidated financial statements since the dates of the respective purchases of Olympic's common stock. The excess of the purchase price over the fair value of the net assets of Olympic at the dates of purchase in the amount of $939,400 has been charged to the excess of cost over net assets of subsidiaries acquired (see note 1). The operations of Olympic prior to its acquisition were not material to the operations of the Company and its subsidiaries.

(5) STOCKHOLDERS' EQUITY

Effective January 1, 1972, the Company's Board of Directors approved a quasi-reorganization. Accordingly, as of that date, the Company reclassified a deficit, determined in accordance with generally accepted accounting principles, of $3,891,663 from retained earnings to additional paid-in capital. Thus, retained earnings is accumulated from January 1, 1972. Appropriated retained earnings relates to a reserve, the Mandatory Securities Valuation Reserve, which is required to be appropriated by statutory authorities.

Dividends to stockholders can be paid only from the Company's statutory unassigned surplus as determined by accounting principles prescribed by insurance regulatory authorities. Statutory unassigned surplus amounted to $5,713,233 and $5,176,697 at December 31, 1974 and 1973, respectively, and, accordingly, stockholders' equity in those amounts was available for dividends at those dates.

(6) STOCK OPTIONS ON CLASS A COMMON STOCK

During the years ended December 31, 1974 and 1973, "nonrestricted" stock options as to 5,000 shares granted in 1968 at an option price of $10.15 (aggregate amount of $50,750) and 45,000 shares granted in 1969 at an option price of $9.00 (aggregate amount $405,000), which options were outstanding at December 31, 1973, respectively, expired. No "nonrestricted" stock options were exercised during the three years ended December 31, 1974, and none were outstanding at December 31, 1974.

There are no options available for grant at December 31, 1974.

(7) EARNINGS PER SHARE

The weighted average number of shares used in computing earnings per share for the years ended December 31, 1974 and 1973 were 3,387,168 and 3,464,253, respectively. The rights of the respective classes of common stock to share in dividends of the Company are described in note 3.

Stock options on Class A Common stock have not been included in the computation of earnings per share, since the exercise prices were in excess of market prices and the effect of inclusion in the computation would be antidilutive.

(8) NET INVESTMENT INCOME

The major components of net investment income are shown in the following table:

Investment Income	1974	1973
Interest on bonds and notes	$4,061,578	3,420,644
Interest on mortgage loans	3,310,034	2,927,858
Interest on policy loans	722,562	594,870
Interest on notes receivable from affiliates	56,773	54,365
Income from life interest in Libbie Shearn Moody Trust (see note 3)	564,774	541,622
Other investment income	890,971	677,715
Total investment income	9,606,692	8,217,074
Investment expenses	1,170,115	832,274
Net investment income	$8,436,577	7,384,800

(9) REINSURANCE

The Company and its life insurance subsidiaries are parties to several reinsurance agreements. Life Insurance in force in the amounts of $115,973,219 and $61,441,032 is ceded on a yearly renewable term basis, in the amounts of $4,628,654 and $–0– is ceded on a modified coinsurance basis and in the amounts of $24,194,212 and $1,310,000 is ceded on a coinsurance basis at December 31, 1974 and 1973, respectively. Accident and health is ceded on a coinsurance basis. In accordance with the reinsurance contracts, credits in the amounts of $1,248,816 and $217,633 were taken against the liability for future policy benefits at December 31, 1974 and 1973, respectively. A contingent liability exists with respect to such reinsurance which could become a liability of the Company or its subsidiaries in the event such reinsurance companies are unable to meet their obligations under existing reinsurance agreements.

Reinsurance assumed accounted for 7% of life insurance in force and .7% and .8% of premium income for the years ended December 31, 1974 and 1973, respectively. The Company and its subsidiaries assume no accident and health business.

The Company's general policy is to reinsure that portion of any risk in excess of $100,000 on the life of any one individual.

(10) PARTICIPATING POLICIES

The Company, or its predecessors, has in the past issued participating policies which entitle the policyholders to participate in cash and, in certain instances, in stock dividends paid to stockholders. The participating preferences of these special policy plans are as follows:

(a) Certain participating policies require payment of dividends to policyholders of not less than a specified percentage of dividends paid to stockholders. Holders of such policies at December 31, 1974 are entitled to dividends equal to an aggregate maximum of approximately 12% of dividends paid to holders of the Company's common stock.

(b) Certain participating policies are entitled to receive policyholder dividends at least equivalent to stockholders' dividends paid on a designated number of shares of common stock of the Company. Holders of such policies at December 31, 1974 are entitled to receive dividends equivalent to less than 2% of dividends paid to holders of the Company's common stock.

Participating business constitutes approximately 27% and 32% of the Company's life insurance in force, 34% and 39% of the policies in force and 34% and 40% of the premium income for the years ended December 31, 1974 and 1973, respectively.

All other policyholders' dividends are apportioned for payment by the Company's Board of Directors at the beginning of certain periods of time on participating policies having anniversary dates during such designated periods. These policyholders' dividends are at various rates based upon factors such as the policy plan, loading factor of the plan, issue date of policies, etc.

Retained earnings are allocable to participating policies only when dividends thereon are specifically declared by the Company's Board of Directors except as noted above. At December 31, 1974, no retained earnings were so allocated.

(11) ALLOWANCE FOR CONTINGENCIES

As of December 31, 1974, the Company had established a contingency reserve aggregating $424,500 which, in management's opinion, is adequate to cover the estimated liability applicable to the litigation summarized below:

(a) The Internal Revenue Service has examined the tax return of Heart of America Life Insurance Company (acquired in January 1967) for the period ended April 30, 1967 and has issued a Revenue Agent's Report showing deficiencies of $773,000. The deficiency is currently under protest.

(b) Additionally, the Company is a defendant in several other lawsuits seeking damages against the Company aggregating $820,000. The amount included in the contingency reserve as the estimated liability applicable to these lawsuits was based upon the opinion of the Company's legal counsel.

(12) PENSION AND PROFIT-SHARING AND INCENTIVE PLANS

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. The Company's policy related to the pension plan is to fund pension costs accrued. The initial past service liability of the pension plan was approximately $300,000 and is being amortized over a thirty-year period. As of December 31, 1974, the unfunded past service cost of the pension plan was $289,636. The actuarially computed value of vested benefits of the pension plan did not exceed the net assets of the plan at December 31, 1974.

Pension expense for the years ended December 31, 1974 and 1973 amounted to $70,000 and $106,000, respectively.

Certain provisions of the pension plan may require some changes in order to comply with the Employee Retirement Income Security Act of 1974, but the effect of such changes on the Company's periodic provision for pension expense, prior service costs and vested benefits cannot be estimated pending completion of further studies, although it is not contemplated that the effect will be material.

The Company's contribution with respect to agents is discretionary and may vary up to 10% of the participating agents' first year commissions earned, not to exceed 15% of total eligible compensation. The contribution accrued for 1974 and 1973 was $75,000 and $60,000, respectively. Any benefits paid under the agents' plan are payable only from the assets of the plan which exist as of the date of distribution.

(13) COMMITMENTS

The Company has a lease agreement for its home office building which expires in April 1977, with annual rentals of $75,852. In addition, the Company has contracted for data processing services for a five year period ending December 3l, 1979. The Company pays a monthly fee based on the number of policies processed, plus a one-time charge for new business entries. The Company incurred approximately $430,000 and $380,000 of such fees in the years ended December 31, 1974 and 1973, respectively.

At December 31, 1974, the Company was committed to disburse funds in connection with the normal investment activities for first lien mortgage loans in the aggregate amount of $3,645,000 at current rates of interest.

(14) SUBSEQUENT EVENT

In January and February 1975, the Company purchased 92% of the outstanding stock (459,912 shares) of Hamilton National Life Insurance Company, an Indiana corporation for $3,582,999 cash.

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
AUSTIN NATIONAL BANK BUILDING
AUSTIN, TEXAS 78701

The Board of Directors
National Western Life Insurance Company:

We have examined the consolidated balance sheets of National Western Life Insurance Company and subsidiaries as of December 31, 1974 and 1973, and the related consolidated statements of earnings, stockholders' equity and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of National Western Life Insurance Company and subsidiaries at December 31, 1974 and 1973, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis, after giving effect to the retroactive restatement, with which we concur, to the basis of generally accepted accounting principles as described in note 1 to the consolidated financial statements.

Peat, Marwick, Mitchell & Co.

Austin, Texas
March 18, 1975

	(Unaudited) December 31 1974	1973
ASSETS		
Bonds	$ 56,941,620	54,769,242
Preferred stocks	3,025,551	3,358,589
Common stocks	4,697,290	2,759,078
Mortgage loans	42,332,343	39,942,122
Real estate	2,074,781	656,085
Policy loans	16,747,351	12,814,457
Income interest in Libbie Shearn Moody Trust	12,365,935	12,223,648
Other invested assets	1,538	7,464
Cash on hand and in banks	2,394,231	4,144,386
Premiums deferred and uncollected	4,300,087	3,903,072
Investment income due and accrued	1,550,194	1,452,610
Other assets	659,285	501,126
	$147,090,206	136,531,879
LIABILITIES, SURPLUS AND OTHER FUNDS		
Aggregate reserve for life policies	$109,569,035	98,975,270
Aggregate reserve for accident and health policies	483,342	365,122
Supplementary contracts without life contingencies	208,478	203,315
Life claims	550,175	460,498
Accident and health claims	180,958	166,652
Policyholders' dividend, coupon and endowment accumulations	11,154,606	10,640,797
Policyholders' dividend liability	315,321	314,896
Other liabilities to policyholders	915,678	928,090
Commissions, expenses and taxes due or accrued	570,910	557,024
Federal income taxes payable	112,500	695,000
Other liabilities	959,109	826,972
Reserve for contingencies	450,000	395,000
Mandatory securities valuation reserve	384,641	1,209,338
Total liabilities	125,854,753	115,737,974
Capital paid up	3,337,568	3,432,557
Paid-in and contributed surplus	12,184,650	12,184,650
Surplus debenture	135,000	180,000
Unassigned surplus	5,578,235	4,996,698
Total capital and surplus	21,235,452	20,793,904
	$147,090,205	$136,531,878

STATUTORY STATEMENTS OF OPERATIONS

	(Unaudited) Year Ended December 31	
	1974	1973
OPERATIONS		
Life premiums	$19,912,708	18,598,036
Accident and health premiums	1,048,992	693,216
Considerations for supplementary contracts, dividend, coupon and endowment accumulations	1,695,324	1,709,131
Net investment income	8,165,846	7,496,162
Reinsurance reserve assets received	2,097,527	–0–
Other income	197,668	185,248
Total Income	33,118,065	28,681,793
Death claims	3,491,682	2,973,059
Accident and health claims	416,180	447,053
Surrender benefits	2,716,103	2,678,220
Coupons and endowments to policyholders	1,421,472	1,456,857
Payments on supplementary contracts, dividend, coupon and endowment accumulations	1,624,685	1,482,952
Other policy benefits	269,514	223,855
Increase in life reserves	10,593,765	7,616,619
Increase (decrease) in accident and health reserves	118,220	(29,301)
Increase in other reserves	517,941	643,991
Commissions	3,353,762	2,593,779
General expenses and taxes	4,334,864	3,489,762
Increase (decrease) in loading	44,712	(137,382)
Total benefits and expenses	28,902,900	23,439,464
Net gain before dividends and Federal income taxes	4,215,165	5,242,329
Dividends to policyholders	1,244,956	1,176,957
Net gain before Federal income taxes	2,970,209	4,065,372
Federal income taxes	816,402	852,179
Net gain from operations	$ 2,153,807	3,213,193

STATUTORY STATEMENTS OF SURPLUS

	(Unaudited) Year Ended December 31	
	1974	1973
PAID–IN AND CONTRIBUTED SURPLUS		
Balance at beginning and end of year	$12,184,650	12,184,650
SURPLUS DEBENTURE		
Balance at beginning of year	$ 180,000	225,000
Payment on surplus debenture	(45,000)	(45,000)
Balance at end of year	$ 135,000	180,000
UNASSIGNED SURPLUS		
Balance at beginning of year	$ 4,996,698	2,651,858
Additions (deductions)		
Net gain from operations	2,153,807	3,213,193
Net capital losses	(1,590,975)	(1,151,093)
Net gain (loss) from non-admitted assets	(140,204)	270,695
Decrease in mandatory securities valuation reserve	824,697	457,825
Payment of Series A surplus debenture	(225,000)	(150,000)
Purchase and cancellation of treasury stocks	(311,436)	(115,864)
Other surplus charges	(129,352)	(179,916)
Balance at end of year	$ 5,578,235	4,996,698

DIRECTORS

Ted Robinson Allmond ....Attorney, Galveston, Texas
Howard W. Davis ....Vice President & Corporate Secretary
Kenneth M. Dunn .... Owner, D&D Leasing Company, Galveston, Texas
Harry L. Edwards* .... President
Robert L. Moody* .... Chairman of the Board
Shearn Moody, Jr................Investments, Galveston, Texas
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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Harry L. Edwards .... President
A. A. Alexander, Jr. ....Vice President, Mortgage Loans & Legal Counsel
Richard L. Boswell, FSA ....Vice President, Actuarial Services
Robert L. Busby, III, CPA, FLMI ....Vice President, Controller
Howard W. Davis ....Vice President & Corporate Secretary
John R. Howard, CPA ....Vice President, Treasurer & Assistant Secretary
Weldon K. Huffman .... Vice President, Systems Management & Assistant Secretary
Robert R. Johnson, FLMI, CLU................Vice President, Policyowner Services & Assistant Secretary
Frank M. Jones, Jr. .... Vice President & Director of Ordinary Agencies
George W. Moore .... Vice President, Marketing
Harold L. Ponder ....Vice President, Risk Selection
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Bob Laughlin ....Assistant Vice President & Director of Special Markets
Don Reeder .... Assistant Vice President, Underwriting
Estrella Raybourn ....Assistant Secretary
Frances V. Soderstrom ....Assistant Secretary & Assistant Treasurer
Hans Weber ....Assistant Treasurer

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Austin, Texas 78701

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