National Western Life Insurance Company
1979 ANNUAL REPORT

Table of Contents

EXECUTIVE OFFICES

National Western Life Insurance Company
850 East Anderson Lane
Austin, Texas 78776

ACCOUNTANTS

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GENERAL COUNSEL

Will D. Davis
Heath, Davis & McCalla
Attorneys at Law
Austin, Texas

TRANSFER AGENTS/REGISTRARS

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4 New York Plaza
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Post Office Box 2127
Austin, Texas 78768

SUBSIDIARIES

Commercial Adjusters, Inc.
Austin, Texas
Principal activity: Premium Financing
Inactive

Galvez Offshore, Inc.
Austin, Texas
Principal activity: General Business Corporation
Inactive

Hibbard, O'Connor & Weeks, Inc.
Houston, Texas
Principal activity: U.S. Government and Municipal Securities Dealer

10-K Report Available

National Western Life Insurance Company's operations and financial position for the year ended December 31, 1979 have been presented in your Annual Report as well as in the Form 10-K report filed with the Securities and Exchange Commission. If you wish a copy of the 10-K report, one will be furnished upon request to the Treasurer, National Western Life Insurance Company, 850 East Anderson Lane, Austin, Texas 78776.

To Our Shareholders

The accompanying financial statements reflect operating results of the Company for the calendar year 1979. Gains were experienced in many categories of operations, but the steady decline in the market value of the Company's position in United States government guaranteed securities has resulted in the Company realizing substantial operating losses.

Due to the continuing deterioration in the government bond market during the first quarter of this year, the Board of Directors decided it was essential to stop the losses. As a result, the Company has sold its entire government securities position. The ultimate statutory realized loss on the sale will be approximately $35.4 million.

The Company has entered into a portfolio reinsurance arrangement with a group of reinsurers which provides surplus to the Company and assures its ability to maintain a viable marketing and operating posture and protects policyowners' interests. It also provides that two representatives of the reinsurers become members of the Board of Directors.

Despite the negative impact on earnings the government securities program will have on current overall investment results, other areas of operation are favorable and continue to grow. Sales are exceeding previous records, premium income is increasing, and total insurance-in-force is steadily growing.

Robert L. Moody
Chairman of the Board

Harry L. Edwards
President and
Chief Executive Officer

Consolidated Balance Sheets

ASSETS	December 31 1979	1978
Investments (notes 2, 3, 4, 5, 11, 13 and 15):		
Bonds, at amortized cost, partially pledged (note 5) (market value $99,872,065 in 1979; $113,741,233 in 1978)	$120,764,601	124,676,971
GNMA and FHLMC certificates under repurchase agreements at market value in 1979 and amortized cost in 1978 (note 2) (amortized cost $150,733,500 in 1979; market value $36,943,037 in 1978)	130,575,959	39,313,488
Preferred stocks, at market value (cost $6,823,267 in 1979; $6, 814,493 in 1978)	5,025,727	5,877,876
Common stocks, at market value (cost $1,009,138 in 1979; $4,835,649 in 1978)	946,054	4,242,182
Investment in subsidiary, at equity (note 3)	2,413,832	-
Mortgage loans on real estate, net of unearned discount of $929,113 in 1979 and $1,168,709 in 1978, and allowance for uncollectible loans of $200,000 in 1979 and 1978	53,990,656	49,312,896
Note receivable from affiliate	500,000	500,000
Real estate held for investment, at cost	2,539,501	1,787,185
Real estate acquired by foreclosure, substantially at cost	126,193	382,241
Contracts of sale on real estate acquired by foreclosure, at cost	1,118,130	308,318
Policy loans	37,339,930	32,905,787
Collateral loans	1,514,696	-
Life interest in Libbie Shearn Moody Trust (note 4)	9,389,001	9,629,799
Other loans and investments, at cost	1,247,013	1,161,127
Invested cash	276,182	1,366,917
Total investments	367,767,475	271,464,787
Cash	1,740,616	2,718,995
Accounts receivable, net of allowance for doubtful accounts of $270,000 in 1979 and $383,015 in 1978	1,231,989	945,657
Accrued investment income	4,787,827	3,566,012
Deferred policy acquisition costs	44,376,775	40,340,910
Property and equipment at cost less accumulated depreciation of $591,628 in 1979 and $529,301 in 1978	3,267,873	4,160,444
Other assets	1,452,111	1,352,321
Excess of cost over net assets of subsidiaries acquired	845,405	939,274
	$425,470,071	325,488,400

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31 1979	December 31 1978
Future policy benefits:		
Life insurance	$206,192,731	191,595,734
Accident and health insurance	2,157,001	1,952,407
Policy and contract claims	2,199,904	2,228,047
Other policyholders' funds:		
Supplementary contracts without life contingencies	441,310	543,710
Policyholders' dividend, coupon and endowment accumulations	16,715,126	16,412,844
Premium deposit funds	475,950	608,340
Other	125,387	611,019
Short-term borrowings from banks (note 5)	21,750,000	2,000,000
Funds purchased - with securities under repurchase agreements (note 2)	122,303,000	35,988,000
Deferred Federal income taxes payable (note 6)	18,347,000	16,307,000
Other liabilities	4,897,770	4,020,514
Total liabilities	395,605,179	272,267,615
Stockholders' equity (notes 4, 6, 7, 10 and 11):		
Common stock:		
Class A of $1 par value. Authorized 7,500,000 shares; issued 3,211,218 shares in 1979 and 3,211,390 shares in 1978	3,211,218	3,211,390
Class B of $1 par value. Authorized and issued 200,000 shares	200,000	200,000
Additional paid-in capital	23,499,239	23,499,239
Net unrealized losses on investments in equity securities	(1,860,624)	(1,530,084)
Retained earnings:		
Appropriated - Mandatory Securities Valuation Reserve	3,224,792	2,810,118
Unappropriated, since January 1, 1972 at which date a deficit of $3,891,663 was charged to additional paid-in capital in a quasi-reorganization	1,590,267	25,030,122
Total stockholders' equity	29,864,892	53,220,785
Commitments and contingencies (notes 9, 10, 11, 12 and 13)		
	$425,470,071	325,488,400

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations

	Years Ended December 31	
	1979	1978
Premiums and other revenue:		
Premiums (notes 9, 10 and 14):		
Life	$ 34,082,911	30,748,499
Annuities	5,052,697	4,934,084
Accident and health	2,966,041	2,856,585
	42,101,649	38,539,168
Investment income (net of expenses of $14,682,481 in 1979 and $3,459,944 in 1978)	15,963,618	16,216,206
Other income	71,056	192,452
Total premiums and other revenue	58,136,323	54,947,826
Benefits and expenses:		
Life	17,168,142	14,710,247
Accident and health	1,555,114	1,359,176
Other	2,747,557	2,565,010
Increase in liabilities for future policy benefits:		
Life	14,596,997	14,304,217
Accident and health	204,594	95,959
Dividends to policyholders (note 10)	295,113	386,403
Amortization of deferred policy acquisition costs	6,414,934	4,726,253
Other operating expenses:		
Commissions	1,249,458	1,233,015
Salaries	2,885,869	2,716,927
Taxes, licenses and insurance fees	935,392	878,579
Other expenses	2,987,828	2,902,989
Total benefits and expenses	51,040,998	45,878,775
Loss on write-down of investment in subsidiary (note 3)	6,750,000	-
Earnings before provision for Federal income taxes, net realized gains (losses) on investments and extraordinary credit	345,325	9,069,051
Provision for deferred Federal income taxes (note 6)	2,040,000	2,652,000
Earnings (Loss) before net realized gains (losses) on investments and extraordinary credit	(1,694,675)	6,417,051
Net realized gains (losses) on investments (note 2)	(21,330,506)	1,079,652
Earnings (Loss) before extraordinary credit	(23,025,181)	7,496,703
Extraordinary credit - tax benefit of capital loss carryforward	-	462,000
Net earnings (loss)	$(23,025,181)	7,958,703
Earnings (Loss) per share of common stock (note 8):		
Earnings (Loss) before net realized gains (losses) on investments and extraordinary credit	$ (.50)	1.88
Net realized gains (losses) on investments	(6.25)	.32
Earnings (Loss) before extraordinary credit	(6.75)	2.20
Extraordinary credit - tax benefit of capital loss carryforward	-	.13
Net earnings (loss)	$(6.75)	2.33

See accompanying notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

	Years Ended December 31	
	1979	1978
Common stock (notes 4 and 11):		
Balance at beginning of year	$ 3,411,390	3,412,300
Par value of 172 and 910 shares of Class A common stock cancelled in 1979 and 1978, respectively, relating to dissenters rights in former subsidiary's minority interest	(172)	(910)
Balance at end of year	3,411,218	3,411,390
Additional paid-in capital (note 7):		
Balance at beginning of year	23,499,239	23,511,184
Payments to minority interest dissenters in 1978	-	(11,945)
Balance at end of year	23,499,239	23,499,239
Net unrealized losses on investments in equity securities:		
Balance at beginning of year	(1,530,084)	(149,097)
Increase in unrealized losses on investments in equity securities during the year	(330,540)	(1,380,987)
Balance at end of year	(1,860,624)	(1,530,084)
Retained earnings (notes 4, 6, 7 and 10):		
Appropriated retained earnings:		
Balance at beginning of year	2,810,118	1,908,520
Allocation from unappropriated retained earnings	414,674	901,598
Balance at end of year	3,224,792	2,810,118
Unappropriated retained earnings:		
Balance at beginning of year	25,030,122	17,973,017
Net earnings (loss)	(23,025,181)	7,958,703
Transfer to appropriated retained earnings	(414,674)	(901,598)
Balance at end of year	1,590,267	25,030,122
Total stockholders' equity	$29,864,892	53,220,785

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position

	Years Ended December 31	
	1979	1978
Funds provided:		
From operations:		
Earnings (Loss) before extraordinary credit	$(23,025,181)	7,496,703
Charges (Credits) not affecting funds:		
Write-down of GNMA and FHLMC certificates	20,157,541	-
Loss on write-down of investment in subsidiary	6,750,000	-
Tax effect of capital loss carryforward	-	462,000
Provision for deferred Federal income taxes	2,040,000	2,652,000
Amortization of deferred policy acquisition costs	6,414,934	4,726,253
Increase in liability for future policy benefits	14,801,591	14,400,176
Increase (Decrease) in policy claim liabilities	(28,143)	331,276
Amortization of bond discount	(866,871)	(864,876)
Amortization of life interest in Libbie Shearn Moody Trust	240,798	238,505
Depreciation	342,666	348,327
Other	(1,041,648)	52,150
Funds provided from operations	25,785,687	29,842,514
Cost of investments sold or matured and principal payments received on loans:		
Bonds and notes	8,403,114	20,521,831
GNMA and FHLMC certificates	94,475,754	16,136,731
Stocks	5,257,026	2,099,754
Mortgage loans	3,932,182	3,850,617
Real estate held for investment	1,208,506	2,018,210
Total	113,276,582	44,627,143
Book value of property and equipment sold	970,608	-
Decrease in cash	978,379	1,068
Increase in other short-term borrowings	19,750,000	420,000
Increase in funds purchased - with GNMA and FHLMC certificates under repurchase agreements	86,315,000	26,918,000
Total funds provided	$247,076,256	101,808,725
Funds used:		
Increase in policy loans	$ 4,434,143	2,790,652
Cost of investments purchased or principal of loans disbursed:		
Bonds and notes	2,551,368	31,149,115
GNMA and FHLMC certificates under repurchase agreements	205,816,827	45,768,476
Stocks	1,151,551	3,285,525
Mortgage loans	8,371,047	7,950,897
Real estate held for investment	2,516,755	452,453
Collateral loans	1,514,696	-
Other	70,886	1,138,853
Total	226,427,273	92,535,971
Investment in subsidiary	8,963,832	-
Additions to deferred policy acquisition costs	10,450,799	7,695,940
Payments on debentures	-	550,000
Cost of property and equipment	418,534	812,588
Other, net	815,818	214,226
Total funds used	$247,076,256	101,808,725

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements include the accounts of National Western Life Insurance Company and its wholly-owned subsidiaries Galvez Offshore, Inc. and Commercial Adjusters, Inc., both of which are immaterial. The Company has a controlling interest in Hibbard, O'Connor, & Weeks, Inc. and subsidiaries. The investment in this subsidiary is recorded on the equity basis in the accompanying consolidated financial statements (see note 3). All significant intercompany transactions and accounts have been eliminated in consolidation.

(a) **Basis of Presentation** – The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles which vary in certain respects from reporting practices prescribed or permitted by insurance regulatory authorities.

Reconciliations of stockholders' equity and net earnings of the Company, as determined pursuant to statutory accounting practices, to the respective amounts included in the accompanying consolidated financial statements, follow:

	Stockholders' Equity	
	1979	1978
Per annual statement to Insurance Department	$32,969,864	33,202,028
Adjustments to generally accepted accounting principles:		
Write-down of GNMA and FHLMC certificates (note 2)	(20,157,541)	–
Difference in initial valuation of investment in Libbie Shearn Moody Trust, net of amortization	(2,544,519)	(2,378,664)
Excess of cost over net assets of subsidiaries acquired	845,405	939,274
Deferral of policy acquisition costs, net of amortization	44,376,775	40,340,910
Adjustment of future policy benefit liabilities and deferred premiums	(6,713,215)	(4,716,864)
Deferred Federal income taxes	(18,347,000)	(16,307,000)
Adjustment to report preferred stocks at market value	(1,962,796)	(1,068,788)
Adjustments of investments in bonds to reflect permanent impairments in value	(155,147)	(230,856)
Transfer of Mandatory Securities Valuation Reserve to appropriated retained earnings	3,224,792	2,810,118
Allowance for uncollectible mortgage loans	(200,000)	(200,000)
Reinstatement of non-admitted assets	2,471,714	3,067,700
Other	(3,943,440)	(2,237,073)
Amounts per accompanying consolidated financial statements	$29,864,892	53,220,785

If the $20,157,541 write-down of GNMA and FHLMC certificates disclosed above had been recorded for statutory accounting purposes, a deficit in statutory unassigned surplus of approximately $2,784,000 would have resulted at December 31, 1979 (see note 7).

	Net Earnings (Loss)	
	1979	1978
Per annual statement to Insurance Department	$ 5,367,085	6,258,000
Statutory net earnings of subsidiaries	201,018	207,757
Consolidated statutory net gain from operations	5,568,103	6,465,757
Add (Deduct):		
Write-down of GNMA and FHLMC certificates (note 2)	(20,157,541)	–
Loss on write-down of investment in subsidiary (note 3)	(6,750,000)	–
Deferral of policy acquisition costs	4,035,865	2,969,687
Adjustment of future policy benefit liabilities and deferred premiums	(1,996,351)	(697,590)
Amortization of investment in Trust	(240,798)	(238,505)
Deferred Federal income taxes	(2,040,000)	(2,652,000)
Other net realized gains (losses) on investments	(1,172,965)	1,079,652
Other	(271,494)	1,031,702
Amounts per accompanying consolidated financial statements	$(23,025,181)	7,958,703

(b) **Investments** – Investments in bonds are stated principally at amortized costs and investments in preferred and common stocks are stated at market values. Investments in securities held under repurchase agreements are stated at market value in 1979 and amortized cost in 1978. Investments in specific securities having a permanent loss in value have been written down to their estimated realizable value and losses thereon have been included in realized investment losses. Net unrealized investment gains and losses on marketable equity securities are accounted for as direct increases or decreases in stockholders' equity. At December 31, 1979, gross unrealized investment gains and losses on marketable equity securities were $606,520 and $2,467,144, respectively.

The amortized cost of bonds is substantially in excess of market value. The Company has the intent and ability to hold these investments to maturity or until cost is recoverable. Therefore, the Company does not anticipate realizing any significant losses thereon and no provision has been made for possible losses on these investments.

The Company's investment in GNMA and FHLMC certificates under repurchase agreements have been written down to market at December 31, 1979, as the Company does not intend to hold such investments to maturity nor does the Company have the ability to hold these investments to maturity or until cost is recoverable (see note 2).

Mortgage loans and other investments are stated at cost, less unamortized discounts and allowances for uncollectible loans. Discounts on mortgage loans are amortized using the "interest" method over the lives of the respective loans.

(c) **Valuation of Life Interest in Libbie Shearn Moody Trust** – The life interest in the Libbie Shearn Moody Trust is stated 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 4.)

(d) **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 purchased subsidiaries or blocks of business, the cost deferred as acquisition costs related to the business in force at the dates 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.

(e) **Future Policy Benefits** – The liability for future policy benefits has been calculated by the net level method using assumptions as to future mortality, interest and withdrawals which were used or which were being experienced at the time the policies were issued or, in the case of liabilities for future policy benefits of purchased subsidiaries or blocks of business, 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 is shown on page 9.

(f) **Amortization of Goodwill** – The excess of cost over underlying net assets of subsidiaries acquired is being amortized on a straight-line basis over the estimated remaining premium-paying periods of the life insurance in force at the dates of acquisition. Such periods range from 15 to 20 years. Amortization charged to operations in 1979 and 1978 amounted to approximately $95,000.

(g) **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.

(h) **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. Investment tax credits are being accounted for by the flow-through method (see note 6).

(i) **Reclassification of Certain 1978 Balances** – Certain reclassifications have been made in the 1978 balances to make them consistent with 1979.

(2) GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA) AND FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC) CERTIFICATES UNDER REPURCHASE AGREEMENTS

At December 31, 1979 and 1978, the Company had investments in GNMA and FHLMC certificates under repurchase agreements aggregating $130,575,959 and $39,313,488 respectively, with weighted average yields of 9.4% and 8.1%, respectively.

These securities are financed under repurchase agreements through margin deposit agreements with brokerage firms and such securities are pledged as collateral for the short-term borrowings. Such borrowings are classified as funds purchased under repurchase agreements in the accompanying consolidated balance sheets. Borrowings under this arrangement aggregated $122,303,000 and $35,988,000 at December 31, 1979 and 1978, respectively.

These borrowings bear interest at approximately 14-15% at December 31, 1979. The maximum amount outstanding under these agreements at any month-end during 1979 and 1978 was $122,303,000 and $35,988,000, respectively. The average amount outstanding during 1979 and 1978 was approximately $103,064,000 and $22,300,000, respectively, and the weighted average interest rate for 1979 and 1978 was approximately 10.5% and 7.8%, respectively.

During 1979, the Company increased its investment in this type of securities significantly as compared to 1978. As a result of the general economic and money market conditions, the Company has sustained significant declines in the market value of these securities while incurring significant margin deposits during 1979 and the first quarter of 1980. Based on the general economic conditions and the uncertainty of future market conditions, management of the Company decided to dispose of all of its investments in these securities. Accordingly, the investment in these securities has been written-down to market value as of Decem-

BASIS OF ASSUMPTIONS

Line of Business	Years of Issue	Interest Rates	Mortality Tables	Withdrawals	Insurance in Force 1979	Insurance in Force 1978	Amount of Future Policy Benefits 1979	Amount of Future Policy Benefits 1978
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	$1,339,525,025	1,058,467,170	$ 37,765,634	27,825,355
	Various– principally business in force acquired through purchase transactions	6% prior to purchase date and 5 years thereafter graded to 4½% at end of 20 years from purchase date	Same	Same	212,079,018	230,744,229	32,473,826	31,487,464
	1969-1970	5% first 10 years and 4½% thereafter	Same	Same	74,290,171	79,633,597	10,073,798	9,491,109
	1965-1968	4½%	Same	Same	116,317,590	124,600,146	24,137,310	23,693,593
	Pre-1965	4%	Same	Same	211,799,063	226,471,410	57,013,241	58,103,479
	Various	Various	Statutory	None	24,816,251	20,246,395	1,546,333	1,563,227
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	$ -	-	$ 7,944,479	6,884,319
	Various– principally business in force acquired through purchase transactions	6% prior to purchase date and 5 years thereafter graded to 4½% at end of 20 years from purchase date	Same	Same	-	-	642,515	737,142
	1969-1970	5% first 10 years and 4½% thereafter	Same	Same	-	-	107,636	115,628
	1965-1968	4½%	Same	Same	-	-	66,727	74,935
	Pre-1965	4%	Same	Same	-	-	741	17,801
	Various	Various	Statutory	None	-	-	7,073,884	5,139,848
Other	All	Various	Statutory basis	None	-	-	1,976,355	1,799,071
Reduced paid-up life and extended term insurance	All	2½% to 3½%	Statutory basis	None	85,719,306	83,871,697	25,370,252	24,662,763
					$2,064,546,424	1,824,034,644	$206,192,731	191,595,734

ber 31, 1979 and realized losses on investments of $20,157,541 have been recorded in the accompanying consolidated statement of operations for the year ended December 31, 1979. No market value losses on these investments were recorded in 1978 as at that time the Company intended and had the ability to hold such investments to maturity or until cost was recoverable.

The Company disposed of all these securities subsequent to December 31, 1979 (see note 15).

(3) INVESTMENT IN SUBSIDIARY, AT EQUITY

In 1979 the Company made advances to a brokerage firm (Hibbard, O'Connor and Weeks, Inc. and Subsidiaries) aggregating approximately $8,964,000. These advances were made to the brokerage firm in an effort to protect the Company from substantial losses on their securities held under repurchase agreements as a result of the brokerage firm's inability to honor certain investment commitments from its own operations. The Company was the principal customer of the brokerage firm. In September 1979, advances of $8,080,000 were converted to an equity position and the Company became the controlling stockholder of the brokerage firm. The remaining $884,000 in advances, was converted to subordinated debt. The investment in this subsidiary is reflected at equity in the accompanying consolidated balance sheets. The accompanying consolidated statement of operations reflects a loss on write-down of investment in subsidiary of $6,750,000 to the subsidiary's equity at September 30, 1979. The subsidiary's fiscal year ends September 30; no earnings (losses) of the subsidiary have been recorded by the Company since the date of acquisition because the amounts are not material to the Company's results of operations. As of December 31, 1979, the Company owned approximately 43% of the common stock and approximately 92% of the voting, convertible 8% noncumulative preferred stock of Hibbard, O'Connor and Weeks, Inc. The total equity interest of the Company in Hibbard, O'Connor and Weeks, Inc. is approximately 92%.

A summary balance sheet, revenue and net loss of Hibbard, O'Connor and Weeks, Inc. and subsidiaries as of September 30, 1979 and for the year then ended follows:

Assets:	
Cash	$ 1,334,061
Receivables	10,597,188
Trading inventory	3,208,796
Other assets	4,182,752
	$19,322,797
Liabilities:	
Notes payable	$ 7,330,520
Payables to customers and brokers	4,740,620
Allowance for unrealized losses on forward contracts	3,993,238
Other liabilities	930,769
	16,995,147
Liabilities subordinated to the claim of general creditors (due to National Western Life Insurance Company)	883,832
Stockholders' equity	1,443,818
	$19,322,797
Revenues	$ 1,098,087
Net Loss	$(9,347,472)

A reconciliation of the Company's equity in Hibbard, O'Connor and Weeks, Inc. and subsidiaries at December 31, 1979 to stockholders' equity reflected above follows:

Stockholders' equity as reflected above	$ 1,443,818
Equity ownership percentage	1,330,000
Subordinated debt	883,832
Additional advance	200,000
Per accompanying consolidated financial statements	$ 2,413,832

(4) 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, Chairman of the Board of Directors of the Company, in the trust estate of Libbie Shearn Moody. The life interest was assigned, in exchange for a debenture, by Mr. 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,	
	1979	1978
Original valuation of life interest, at February 26, 1960	$13,793,149	13,793,149
Less accumulated amortization	4,404,148	4,163,350
Net asset value of life interest in Trust	$ 9,389,001	9,629,799

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. The entire balance of this debenture was prepaid during 1978.

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. 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 $12,775,000 all of which was issued by the Company and is reinsured through agreements with unaffiliated insurance companies.

2. Approximately 203,277 shares of the Company's Class A common stock, owned by Mr. 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 $5.13 per share at December 31, 1979. Income from the Trust and related expenses reflected in the accompanying consolidated statements of operations are summarized as follows:

	Years ended December 31,	
	1979	1978
Income distributions received	$ 713,000	669,000
Add (deduct):		
Interest paid on debentures payable	-	(19,000)
Amortization of initial valuation	(241,000)	(238,000)
Reinsurance premiums charged to operations	(63,000)	(59,000)
Increase in cash surrender value of company-owned life insurance policies	75,000	77,000
Net income from life interest in the Trust	$ 484,000	430,000

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 $61,000 in 1979 and $65,000 in 1978, and liabilities for future policy benefits related to these policies in the amounts of $962,000 and $901,000 at December 31, 1979 and 1978, respectively.

(b) Common Stock – Mr. Robert L. Moody, Chairman of the Board of Directors owns 198,074 of the total outstanding shares of the Company's Class B common stock and 1,188,760 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.

(5) SHORT-TERM BORROWINGS FROM BANKS

Short-term borrowings from banks were $21,750,000 and $2,000,000 at December 31, 1979 and 1978, respectively. These borrowings bear interest at a defined prime rate (approximately 15% at December 31, 1979) and are secured by various securities with a book value of $35,083,454 (market value of $28,133,480) at December 31, 1979.

The maximum amount outstanding at any month end during 1979 and 1978 was $21,750,000 and $2,000,000, respectively. The average amount outstanding during 1979 and 1978 was approximately $12,366,000 and $291,000, respectively. The weighted average interest rate for 1979 and 1978 was approximately 12.2% and 8.7%, respectively.

(6) FEDERAL INCOME TAXES

Under the provisions of the Life Insurance Company Income Tax Act of 1959, life insurance companies are taxed on the lesser of taxable investment income or gain from operations (as defined by the Act), plus one-half of any excess of gains from operations over taxable investment income. One-half of the excess (if any) of the gain from operations over taxable investment income, which is not currently subject to taxation, plus special deductions allowed in computing the gain from operations, is set aside in a special memorandum tax account designated "policyholders' surplus account ". The accumulated amount of income subject to current taxation, less the tax thereon, is set aside in another special memorandum tax account designated "shareholders' surplus account".

At December 31, 1979, the Company had accumulated approximately $1,010,000 in its tax "policyholders' surplus account". This account was not increased for years ended December 31, 1979 and 1978. Federal income taxes will become payable on the "policyholders' surplus account" at the then current tax rate (a) when and to the extent that policyholders' surplus exceeds a specified maximum; (b) when and if distributions to stockholders, other than stock dividends and other limited exceptions, are made in excess of the "shareholders' surplus account"; or (c) when a company ceases to be a life insurance company as defined by the Internal Revenue Code and such termination is not due to another life insurance company acquiring its assets in a nontaxable transaction. Deferred Federal income taxes have not been provided on these untaxed earnings of the Company since the Company does not anticipate any other transactions that would cause any part of this amount to become taxable. However, should the remaining balances at December 31, 1979 become taxable, the Federal income tax computed at present rates would be approximately $464,000.

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

Deferred Federal income taxes result from timing differences in the recognition of certain items for tax and financial statement purposes. The sources of these differences and the approximate tax effect of each were as follows:

	1979	1978
Policy acquisition costs expensed for tax purposes and deferred for financial accounting purposes	$ 724,000	1,298,000
Excess of the increase in the liability for future policy benefits for tax purposes over the increase for financial accounting purposes	1,791,000	2,109,000
Effect of special life insurance company deductions	(436,000)	(1,092,000)
Investment tax credit recapture	84,000	-
Other	(123,000)	337,000
	$2,040,000	2,652,000

Total Federal income tax expense amounted to $2,040,000 and $2,652,000 for the years ended December 31, 1979 and 1978, respectively. These amounts vary from amounts computed by applying the statutory income tax rate to earnings before Federal income taxes and realized investment gains and losses. The reasons for the differences, and the tax effects thereof, are as follows:

Description	1979	1978
Computed expected income taxes at the statutory rate	$ 159,000	4,353,000
Add (Deduct):		
Capital losses not tax effected due to existence of capital loss carryforward	2,691,000	-
Special life insurance company deductions allowed for tax purposes	(416,000)	(1,026,000)
Dividends received deduction	(414,000)	(344,000)
Amortization of life interest in Libbie Shearn Moody Trust which is not tax deductible	111,000	114,000
Investment tax credit recapture	84,000	-
Other	(175,000)	(445,000)
Total provision for Federal income taxes	$2,040,000	2,652,000

At December 31, 1979, the Company had a tax operating loss deduction of approximately $2,500,000 which the Company has elected to carry forward. The Company also has unused investment tax credits of $160,000. If not utilized to offset future taxable income, these tax loss carryforwards and tax credits will expire in 1983, 1984 and 1985. For financial statement purposes, the loss carryforward and tax credits have been recognized by reducing net deferred tax credits. To the extent the tax loss carryforward and tax credits are utilized to offset income for tax purposes, net deferred tax credits will be restored at the then current rates.

At December 31, 1979, the Company had a tax capital loss carryforward of approximately $6,970,000. If not utilized to offset future capital gains, $180,000 of this capital loss carryforward will expire in 1980 and the remainder will expire in 1987. Additional capital losses of approximately $20,200,000 due to the write-down of GNMA and FHLMC certificates and certain other invested assets are available for financial statement purposes.

(7) 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 the Mandatory Securities Valuation Reserve, which is required to be appropriated by statutory authorities.

In January 1978, Great Plains Life Insurance Corporation, the remaining life insurance subsidiary of the Company, was merged into the Company.

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 approximately $17,373,000 and $17,605,000 at December 31, 1979 and 1978, respectively, and stockholders' equity in that amount was available for dividends, subject to the tax effects of distributions from "policyholders' surplus account" described in note 6, to possible claims by participating policyholders as described in note 10, the contingencies described in note 11 and subsequent recognition of investment losses described in notes 2 and 15. The rights of the respective classes of common stock to share in dividends of the Company are described in note 4.

(8) EARNINGS (LOSS) PER SHARE

Earnings (Loss) per share of common stock are based on the weighted average number of such shares outstanding during each year after giving effect to treasury stock acquired. The weighted average shares outstanding were 3,411,338 and 3,411,615 for the years ended December 31, 1979 and 1978, respectively.

(9) REINSURANCE

The Company is party to several reinsurance agreements. The Company's general policy is to reinsure that portion of any risk in excess of $150,000 on the life of any one individual. Life insurance in force in the amounts of $220,000,000 and $188,700,000 is ceded on a yearly renewable term basis, $4,100,000 and $4,500,000 is ceded on a modified coinsurance basis and $59,000,000 and $61,000,000 is ceded on a coinsurance basis at December 31, 1979 and 1978, respectively. Accident and health is ceded on a coinsurance basis. In accordance with the reinsurance contracts, credits in the amounts of approximately $2,000,000 and $1,950,000 were taken against the liability for future policy benefits at December 31, 1979 and 1978, respectively. A contingent liability exists with respect to such reinsurance which could become a liability of the Company in the event such reinsurance companies are unable to meet their obligations under existing reinsurance agreements. The Company assumes an insignificant amount of reinsurance.

(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, 1979 are entitled to dividends equal to an aggregate maximum of approximately 7% 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, 1979 are entitled to receive dividends equivalent to less than 2% of dividends paid to holders of the Company's common stock.

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., and the provision for the policyholders' dividend liability is included in the future policy benefit liabilities.

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, 1979, no retained earnings were so allocated.

Participating business constitutes approximately 24% and 36% of the Company's life insurance in force, 30% and 32% of the policies in force and 23% and 25% of the premium income for the years ended December 31, 1979 and 1978, respectively.

(11) CONTINGENCIES

The Company is a defendant in a lawsuit involving a disability claim. The plaintiff seeks disability benefits under the policy, general damages of $250,000 and punitive damages of $2,500,000. In the opinion of management and legal counsel, the defenses asserted by the Company are meritorious and the Company should prevail. Accordingly, no provision has been made in the accompanying consolidated financial statements for any damages which may result from this suit.

The Company is a defendant in a potential class action suit alleging that the Company was in violation of certain securities laws for failure to disclose certain financial information related to the Company's investment in the subsidiary described in note 3. No monetary damages have been specified in the suit and no decision has been made by the Court regarding whether the litigation may be maintained as a class action suit. No provision has been made in the accompanying consolidated financial statements for damages, if any, that may result from this suit.

In connection with another lawsuit, the Company has entered into an Agreement of Compromise and Settlement whereby the Company may be required to issue additional shares of its Class A common stock to the former minority shareholders of Olympic Life Insurance Company (a former subsidiary since merged into the Company) if, within five years from 1976, Olympic receives monetary damages as a result of litigation which has been filed against the former management of Olympic. In the opinion of management of the Company, it is improbable that additional shares will be issued as a result of the agreement.

The Company is a defendant in several other lawsuits, substantially all of which are in the normal course of the insurance business. In the opinion of management of the Company, the liability, if any, which may arise from these lawsuits would not be material.

As a result of an examination of the Federal income tax returns of the Company for the years 1971, 1972, 1973, 1974 and 1975, the Internal Revenue Service has assessed the Company for tax deficiencies aggregating approximately $1,300,000, plus interest. The Company has filed a protest with the Internal Revenue Service contesting the material proposed deficiencies, and in the opinion of management of the Company, additional taxes, if any, which may arise from the assessment will not be material to the financial position and results of operations determined in accordance with generally accepted accounting principles. However, if the assessment for any material additional taxes is sustained, it will result primarily from timing differences which have already been provided for in the deferred Federal income tax liability included in the accompanying consolidated balance sheets. Also the tax effect of disallowed deductions which arose as a result of the quasi-reorganization will be charged to paid-in capital. For statutory accounting purposes any assessments for additional taxes and interest related thereto would be charged directly to statutory stockholders' equity. Such charges could materially affect the amount of statutory surplus available to pay dividends to stockholders.

The Company sold investment property during 1977 which was subject to a first mortgage lien. The mortgage loan payments were assumed by the purchaser under a "wrap around agreement". However, the Company remains contingently liable for the loan payments. The mortgage loan balance amounted to $3,366,000 at December 31, 1979.

At December 31, 1979, the Company's subsidiary, Hibbard and O'Connor Government Securities, Inc. (HOGS) was indebted to a bank for $2,000,000. This loan is secured by a portfolio of FHA and VA mortgage loans with principal balances of approximately $2,000,000 at December 31, 1979. The Company has issued a takeout commitment to the bank whereby it would purchase the portfolio of mortgages if HOGS were to default on its loan repayment.

(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, 1979, the unfunded past service cost of the pension plan was $239,000. The actuarially computed value of vested benefits of the pension plan did not exceed the net assets of the plan at December 31, 1979. Pension expense for the years ended December 31, 1979 and 1978 amounted to $157,000 and $112,000, respectively.

The Company's contribution with respect to agents is discretionary and may vary up to 10% of the participating agent's first year commissions earned, not to exceed 15% of total eligible compensation. The contribution accrued for 1979 and 1978 was $68,000 and $58,000, 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

At December 31, 1979, the Company was committed to disburse funds in connection with the normal investment activities for first lien mortgage loans in the aggregate amount of $5,615,000 at rates of interest approximately 3% below current rates. The Company is also committed to purchase an airplane scheduled for delivery in 1983. The total cost including periodic advance payments beginning in 1981 will be $3,695,000. The Company had no committments to purchase GNMA or FHLMC certificates at December 31, 1979.

(14) FOREIGN SALES

Total premium income related to life insurance written in foreign countries, primarily Latin America, was approximately $12,000,000 and $8,500,000 for the years ended December 31, 1979 and 1978, respectively.

(15) SUBSEQUENT EVENTS

As discussed in note 2, the Company wrote down its investment in GNMA and FHLMC certificates under repurchase agreements to market value at December 31, 1979 in anticipation of their sale. In 1980, the Company has disposed of all these certificates and has realized additional losses on disposition of these certificates of approximately $13,489,000 as summarized below:

Amortized cost at December 31, 1979 of certificates sold	$150,234,000
Amortization subsequent to December 31, 1979	(965,000)
	149,269,000
Proceeds from sale of certificates	115,706,000
	33,563,000
Less market decline realized in 1979	20,074,000
1980 loss on disposal	13,489,000

Approximately, $8,700,000 of the 1980 losses on disposal of certificates results from sales made for delivery in July, 1980.

On May 22, 1980 the Company signed several reinsurance agreements, to be effective March 31, 1980, to provide the necessary surplus relief to prevent regulatory insolvency. The agreements were subsequently approved by the Colorado Insurance Commissioner. The reinsurance agreements cover approximately $867,000,000 of insurance in force and will provide approximately $28,000,000 of statutory surplus relief by reducing the Company's statutory liability for future policy benefits. The effects, if any, of these agreements on the financial position of the Company under generally accepted accounting principles has not been determined. The agreements require the Company to place approximately $77,000,000 of assets in a trust. The agreements also require the Company to place two outside directors named by the reinsuring companies on the Company's board of directors by December 31, 1980.

(16) INTERIM FINANCIAL INFORMATION

In the fourth quarter of 1979, the Company recorded a significant write-down on its investment in GNMA and FHLMC certificates under repurchase agreements of $20,157,541 based on its decision to dispose of all such certificates in 1980, as described in note 2. Had these investments been written-down to market value during each quarter of 1979, the effect of the write-down described above on quarterly results of operations would have been an increase (decrease) of $(4,800,000), $900,000, $(6,700,000) and $(9,558,000), respectively. See page 16 for the unaudited quarterly data for the years ended December 31, 1979 and 1977 which are incorporated herein by reference.

ACCOUNTANTS' REPORT

The Board of Directors and Stockholders
National Western Life Insurance Company:

We have examined the consolidated balance sheets of National Western Life Insurance Company and subsidiaries as of December 31, 1979 and 1978 and the related consolidated statements of operations, stockholders' equity and changes in financial position for the years then ended. Our examinations were 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.

Our opinion dated March 19, 1980 on the 1979 and 1978 financial statements included in the Company's Form 10-K filed with the Securities and Exchange Commission was qualified subject to the ability of the Company to continue as a going concern. The qualification was considered necessary in view of substantial investment losses during the year ended December 31, 1979 and early 1980 which could have forced the Company into regulatory insolvency. However, because the Company has negotiated a reinsurance agreement and disposed of all its investment in GNMA and FHLMC certificates under repurchase agreements, as described in notes 2 and 15, sufficient surplus relief has been obtained to prevent regulatory insolvency and our qualification is no longer considered necessary. Accordingly, our present opinion on the 1979 and 1978 financial statements is different from that expressed in our previous report included in the Company's Form 10-K.

In our opinion, the aforementioned consolidated financial statements present fairly the consolidated financial position of National Western Life Insurance Company and subsidiaries at December 31, 1979 and 1978 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.

Austin, Texas
March 19, 1980 except as to notes 2 and 15,
which are as of July 1, 1980.

Peat, Marwick, Mitchell & Co.

Quarterly Data (Unaudited)

(000 Omitted)	First Quarter 1979	First Quarter 1978	Second Quarter 1979	Second Quarter 1978	Third Quarter 1979	Third Quarter 1978	Fourth Quarter 1979	Fourth Quarter 1978
Total premiums and other revenue	$ 14,876	14,255	14,208	12,994	*14,331	13,437	14,721	14,570
Total benefits and expenses	12,764	11,712	13,179	10,738	*11,650	11,073	13,448	12,665
Loss on write-down of subsidiary	-		-		6,640		110	
Earnings (Loss) before Federal income taxes, net realized gains (losses) on investments and extraordinary tax credit	2,112	2,543	1,029	2,256	(3,959)	2,364	1,163	1,905
Federal income taxes	612	750	240	671	848	681	340	549
Earnings (Loss) before net realized gains (losses) on investments and extraordinary tax credit	1,500	1,793	789	1,585	(4,807)	1,683	823	1,356
Net realized gains (losses) on investments, net of tax	3	355	(111)	147	194	154	(21,416)	423
Earnings (Loss) before extraordinary tax credit	1,503	2,148	678	1,732	(4,613)	1,837	(20,593)	1,779
Extraordinary tax credit	1	152	(1)	48	37	80	(37)	182
Net earnings (loss)	1,504	2,300	677	1,780	(4,576)	1,917	(20,630)	1,961
Per Share Results:								
Earnings (Loss) before net realized gains (losses) on investments and extraordinary tax credit	.44	.53	.23	.46	(1.41)	.49	.24	.40
Net realized gains (losses) on investments, net of tax	-	.10	(.03)	.04	.06	.05	(6.28)	.13
Earnings (Loss) before extraordinary tax credit	.44	.63	.20	.50	(1.35)	.54	(6.04)	.53
Extraordinary tax credit	-	.05	-	.01	.01	.02	(.01)	.05
Net earnings (loss)	.44	.68	.20	.51	(1.34)	.56	(6.05)	.58
Weighted Average Shares Outstanding	3,411,390	3,411,991	3,411,390	3,411,795	3,411,375	3,411,703	3,411,388	3,411,615
Common Stock Prices								
High bid	9	8-3/8	9-5/8	9-1/8	9-1/2	9-11/16	6-1/8	8-7/8
Low asked	6-3/4	5-9/16	8-1/2	8-3/16	6-3/8	8	4-1/8	6-5/8

*$607,000 was reclassified from revenue to benefits to be consistent with year end reporting.

Statutory Balance Sheets

	(Unaudited) December 31 1979	1978
ASSETS		
Bonds	$276,003,939	167,881,456
Preferred stocks	5,909,184	4,309,824
Common stocks	3,299,209	6,870,113
Mortgage loans	54,396,732	49,740,162
Real estate	6,223,807	4,998,902
Policy loans	37,339,930	32,905,787
Collateral loans	1,220,076	-
Income interest in Libbie Shearn Moody Trust	11,933,520	12,008,463
Cash on hand and in banks	1,859,904	2,888,505
Premiums deferred and uncollected	9,659,407	8,202,141
Investment income due and accrued	4,729,925	3,517,531
Other assets	3,886,308	2,441,187
	$416,461,941	295,764,071
LIABILITIES, SURPLUS AND OTHER FUNDS		
Aggregate reserve for life policies	$208,893,491	194,753,702
Aggregate reserve for accident and health policies	1,533,974	1,389,781
Supplementary contracts without life contingencies	441,310	543,710
Life claims	1,703,154	2,023,547
Accident and health claims	496,750	429,500
Policyholders' dividend, coupon and endowment accumulations	16,411,370	16,412,844
Policyholders' dividend liability	344,000	283,000
Other liabilities to policyholders	2,347,038	2,807,986
Commissions, expenses and taxes due or accrued	957,493	1,176,883
Borrowed money	144,053,000	37,988,000
Other liabilities	3,077,595	1,935,362
Reserve for contingencies	8,109	7,609
Mandatory Securities Valuation Reserve	3,224,793	2,810,119
Total liabilities	383,492,077	262,562,043
Capital paid up	3,411,218	3,411,390
Paid-in and contributed surplus	12,184,650	12,184,650
Unassigned surplus	17,373,996	17,605,988
Total capital and surplus	32,969,864	33,202,028
	$416,461,941	295,764,071

Statutory Statements of Operations

	(Unaudited) Year Ended December 31	
	1979	1978
Life premiums	$40,846,450	36,418,697
Accident and health premiums	2,966,041	2,856,585
Considerations for supplementary contracts, dividend, coupon and endowment accumulations	1,987,320	2,121,635
Net investment income	16,315,778	16,024,149
Other income	67,287	194,046
Total income	62,182,876	57,615,112
Death claims	6,876,312	6,126,668
Accident and health claims	1,625,785	1,524,518
Surrender benefits	7,677,768	6,334,179
Coupons and endowments to policyholders	2,254,896	2,500,734
Payments on supplementary contracts, dividend, coupon and endowment accumulations	2,726,351	2,508,497
Other policy benefits	2,064,918	1,801,994
Increase in life reserves	14,139,789	14,159,559
Increase in accident and health reserves	144,193	57,719
Increase in other reserves	(146,033)	277,452
Commissions	9,823,924	7,553,092
General expenses and taxes	8,995,981	7,924,321
Increase in loading	275,771	284,088
Total benefits and expenses	56,459,655	51,052,821
Net gain before dividends and Federal income taxes	5,723,221	6,562,291
Dividends to policyholders	356,113	297,403
Net gain before Federal income taxes	5,367,108	6,264,888
Federal income taxes	23	6,888
Net gain from operations	$ 5,367,085	6,258,000

Statutory Statements of Capital and Surplus

	(Unaudited) Year Ended December 31	
	1979	1978
Balance at beginning of year	$33,202,028	27,570,350
Additions (deductions):		
Net gain from operations	5,367,085	6,258,000
Net capital gains (losses)	(5,664,760)	278,743
Net gain (loss) from non-admitted assets	481,625	286,724
Increase in Mandatory Securities Valuation Reserve	(414,674)	(917,016)
Payment on surplus debentures	-	(550,000)
Excess of assets over cost acquired in merger	-	258,914
Other surplus changes	(1,440)	16,313
Balance at end of year	$32,969,864	33,202,028

Comments on Fourth Quarter Results

The operating results of the earlier quarters of 1979 have been released previously. The results of operations for the fourth quarter are as follows:

	1979	1978
Premium income	$11,273,544	10,323,599
Investment income	3,446,325	4,133,413
Other income	1,196	112,703
Total income	14,721,065	14,569,715
Policyowner benefits	9,524,582	9,841,343
Commissions and other expenses	3,922,936	2,823,711
Total benefits and expenses	13,447,518	12,665,054
Loss on write-down of subsidiary	110,000	-
Earnings before taxes	1,163,547	1,904,661
Federal income taxes	340,000	549,000
Earnings from operations	823,547	1,355,661
Net investment gains (losses)	(21,417,477)	423,425
Extraordinary credit	(37,000)	182,000
Net earnings (loss)	$(20,630,930)	1,961,086

Per share:

Earnings from operations	$ .24	.40
Investment gains (losses)	(6.28)	.13
Extraordinary credit	(.01)	.05
Net earnings (loss)	$(6.05)	.58

Earnings from operations for the fourth quarter of 1979 decreased $.16 per share to $.24. A major cause of the decrease was the increase in amortization of deferred policy acquisition costs. Additionally, a decrease in net investment income contributed to the earnings decrease. This decrease was attributed to the widening of the negative interest spread incurred in the Company's government securities investment program.

The substantial net loss incurred in the fourth quarter of 1979 resulted primarily from the write-down to market value the Company's portfolio of United States Government guaranteed securities issued by the Government National Mortgage Association and the Federal Home Loan Mortgage Corporation.

Summary of Operations

	Year Ended December 31				
	1979	1978	1977	1976	1975
Premium Income	$42,101,649	38,539,168	35,721,430	32,094,276	25,097,873
Investment Income	15,963,618	16,216,206	13,723,926	12,377,547	9,879,961
Other Income	71,056	192,452	202,773	373,564	136,488
Total Income	58,136,323	54,947,826	49,648,129	44,845,387	35,114,322
Policyowner Benefits	36,567,517	33,421,012	31,189,919	27,938,980	20,940,885
Commissions and Other Expenses	14,473,481	12,457,763	12,005,475	11,403,486	8,066,013
Total Expenses	51,040,998	45,878,775	43,195,394	39,342,466	29,006,898
Loss on write-down of subsidiary	6,750,000	-	-	-	-
Earnings Before Taxes	345,325	9,069,051	6,452,735	5,502,921	6,107,424
Federal Income Taxes	2,040,000	2,652,000	1,773,000	1,525,000	1,865,000
Earnings (Loss) From Operations	(1,694,675)	6,417,051	4,679,735	3,977,921	4,242,424
Net Investment Gains (Losses)	(21,330,506)	1,079,652	(127,679)	28,576	(508,492)
Extraordinary Credit	-	462,000	-	-	-
Net Earnings (Loss)	$(23,025,181)	7,958,703	4,552,056	4,006,497	3,733,932
Per Share:					
Earnings (Loss) From Operations	$(.50)	1.88	1.37	1.17	1.28
Investment Gains (Losses)	(6.25)	.32	(.04)	.01	(.15)
Extraordinary Credit	-	.13	-	-	-
Net Earnings (Loss)	$(6.75)	2.33	1.33	1.18	1.13

Management's Discussion and Analysis of the Summary of Operations

The 1979 loss from operations of $1,694,675 included a $6,750,000 write-down of the Company's investment in a subsidiary. Also, net investment income for 1979 decreased by approximately 1.6 percent from 1978, while policyowner benefits and commissions and other expenses increased by 9 percent and 16 percent, respectively.

The decrease in net investment income resulted from the negative interest spread realized in the Company's government securities investment program. The increase in policyowner benefits related primarily to life insurance benefits where death claims, matured endowments and surrenders continued to increase normally, as did life insurance in force. Commissions and other expenses increased primarily as a result of increased sales of new insurance and continued development of new insurance markets.

1979 shows a net realized investment loss of $21,330,506 compared to a net gain of $1,079,652 in 1978. The major portion of the 1979 loss arose when the Company wrote down to market its portfolio of United States Government guaranteed securities issued by the Government Mortgage Association and the Federal Home Loan Mortgage Corporation.

During 1978, operating earnings increased 37 percent. This substantial increase was mainly attributed to an 18 percent increase in investment income coupled with a continued leveling in policy benefits which increased only 3 percent compared to a 10 percent increase in 1977.

The increase in investment income resulted from the continued disposition of low-yielding real estate assets, higher yields available in the investment market and positive interest spread realized in the Company's government securities investment program during the latter half of 1978.

The continued increase in premium income as a result of new business written by the Company's agency force again contributed to the increase in operating earnings.

Significant investment gains resulting in the substantial increase in net earnings were the result of selected selling to utilize expiring tax capital loss carryforwards.

The 17 percent increase in operating earnings for 1977 over 1976 were the result of a combination of items including premium income, policyholder benefits and expenses which are discussed below.

The increase in premium income for 1977 was mainly attributable to an increased volume of new business in the ordinary life insurance and annuity lines.

The normal growth in investment funds plus the disposition of certain low and non-yielding assets resulted in the increase in investment income.

A leveling off to a 10 percent increase in policyholder benefits during 1977 was a major factor in the improvement in earnings from operations. This factor, plus the increase in premium income, accounted for the major portion of the increase in operating earnings.

Commissions and other expenses increased again in 1977 as the result of an increasing volume of new sales.

The decrease in operating earnings in 1976 as compared to 1975 was basically due to a 44 percent increase in policyholder benefits. This increase was mainly attributed to increases in death claims and accident and health claims. Significant increases in premium and investment income in 1976 helped to hold the decrease in earnings to 10 percent.

Directors

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Chairman of the Board, National Western Life Insurance Company
Investments, Galveston, Texas
NWL Director — 1964 to present

Harry L. Edwards
President and Chief Executive Officer, National Western Life Insurance Company
NWL Director — 1969 to present

Kenneth M. Dunn
President, Houston Industrial Services, Inc.
President, D & D Leasing Company, Inc.
Vice President, Dunn Equipment, Inc.
Vice President, Dunn Heat Exchangers, Inc.
President, Texas Matt & Rigging, Houston, Texas
NWL Director — 1975 to present

E. Douglas McLeod
Realtor-Builder, McLeod Properties
President, McLeod Builders, Inc., Galveston, Texas
NWL Director — 1979 to present

Louis Pauls, Jr.
Vice President, Louis Pauls & Company
Investments, Galveston, Texas
NWL Director — 1971 to present

John Ben Shepperd
Assistant to President and Attorney, El Paso Products Company and affiliated companies
Vice President and Director, Odessa Natural Gasoline Company, Odessa, Texas
NWL Director -- 1969 to present

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