1981 ANNUAL REPORT

NATIONAL WESTERN LIFE INSURANCE COMPANY

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EXECUTIVE OFFICES

National Western Life Insurance Company
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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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Post Office Box 2127
Austin, Texas 78768

SUBSIDIARIES

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

The Westcap Corporation
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, 1981 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 the operating results of National Western Life Insurance Company for the calendar year 1981. Management is pleased to report that the excellent 1981 operating results reaffirms the underlying financial strength of the Company and the ability of its operating team to resume the growth patterns experienced in previous years.

Consolidated Net Earnings for 1981 amounted to $4,667,250 compared to a net loss of $(11,149,111) the previous year. Earnings From Operations were $4,784,381 compared to $3,033,569 in 1980. Net per share Earnings were $1.37 compared to a loss of $(3.27) in the previous year.

Statutory Net Gain From Operations during the year was a healthy $3,990,008, and the Company's statutory Paid-in and Unassigned Surplus grew to $29,525,395.

Since our last report to you, the Company has been admitted to do business in the State of Maryland. Maryland has traditionally only admitted companies meeting very stringent financial and operating standards. This is another indication of the Company's reputation and strength in the life insurance industry. Admission to Maryland rounds out a very important marketing area for the Company on the Atlantic Coast. The Company is now admitted in 42 states and the District of Columbia.

While we continued to enjoy good marketing results, economic conditions in the country as well as changing marketing conditions within the life insurance industry resulted in a reduction of our historic annual volume growth during 1981. However, we are engaged in an aggressive marketing plan for 1982, and anticipate marketing results for the year will be good.

The Company has always been innovative in its marketing activities and will continue to be. Despite the pessimism being expressed by a few splinter groups within the industry, National Western Life will continue to aggressively market its traditional line of policies simultaneously with the marketing of its newer annuities-plus-term insurance, and universal life policies.

With one of the finest marketing organizations in the industry, armed with outstanding products and supported by an exceptionally capable home office staff, we look with confidence to the future. We gratefully acknowledge your continuing support and the loyalty and dedication of our marketing organization, employees, Officers, and Directors.

Robert L. Moody

Robert L. Moody
Chairman of the Board
and Chief Executive Officer

Harry L. Edwards

Harry L. Edwards
President and
Chief Operating Officer

Consolidated Balance Sheets

ASSETS	December 31 1981	December 31 1980
Investments (notes 2, 3, 4, 5, 9, 10, 13 and 14):		
Bonds, at amortized cost, partially pledged (note 5) (market value $76,613,239 in 1981; $83,492,976 in 1980)	$115,577,409	115,882,188
Preferred stocks, at market value (cost $4,737,467 in 1981; $4,202,937 in 1980)	2,650,063	2,313,529
Common stocks, at market value (cost $403,617 in 1981; $403,617 in 1980)	368,502	378,160
Investment in subsidiary, at equity (note 3)	3,727,154	2,666,695
Mortgage loans on real esate, net of unearned discount of $887,516 in 1981 and $931,022 in 1980 and allowance for uncollectible loans of $200,000 in 1981 and 1980	54,424,111	57,154,487
Note receivable from affiliate	500,000	500,000
Real estate held for investment, at cost	1,915,010	2,053,401
Real estate acquired by foreclosure, substantially at cost	146,097	100,084
Contracts of sale on real estate acquired by foreclosure, at cost	860,606	903,516
Policy loans	51,594,936	44,904,357
Collateral loans	593,077	880,000
Life interest in Libbie Shearn Moody Trust (note 4)	8,900,437	9,145,888
Other loans and investments, at cost	569,572	916,764
Invested cash	501,182	257,474
Total investments	242,328,156	238,056,543
Cash	1,479,351	2,218,171
Accounts receivable, net of allowance for doubtful accounts of $227,000 in 1981 and $237,000 in 1980	822,554	1,471,857
Accrued investment income	2,935,671	3,333,651
Deferred policy acquisition costs	49,286,187	48,815,856
Property and equipment at cost less accumulated depreciation of $1,116,815 in 1981 and $842,825 in 1980	2,937,589	3,114,528
Other assets	1,625,249	1,730,477
Excess of cost over net assets of subsidiaries acquired	655,576	750,142
	$302,070,333	299,491,225

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31 1981	December 31 1980
Future policy benefits:		
Life insurance	$229,486,971	219,312,239
Accident and health insurance	2,615,471	2,362,091
Policy and contract claims	2,478,410	1,531,809
Other policyholders' funds:		
Supplementary contracts without life contingencies	318,967	407,962
Policyholders' dividends, coupons and endowment accumulations	15,831,235	16,322,846
Premium deposit funds	501,158	512,450
Other	140,631	117,413
Short-term borrowings from banks (note 5)	—	15,250,000
Deferred Federal income taxes payable (note 6)	21,347,000	19,617,000
Other liabilities	6,226,364	5,395,973
Total liabilities	278,946,207	280,829,783
Stockholders' equity (notes 4, 6, 7, 12 and 14):		
Common stock:		
Class A of $1 par value. Authorized 7,500,000 shares; issued 3,213,231 shares in 1981 and 3,211,120 shares in 1980	3,213,231	3,211,120
Class B of $1 par value. Authorized and issued 200,000 shares	200,000	200,000
Additional paid-in capital	23,500,216	23,499,239
Net unrealized losses on investments in equity securities	(2,122,519)	(1,914,865)
Retained earnings:		
Appropriated - Mandatory Securities Valuation Reserve	17,254	—
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	(1,684,056)	(6,334,052)
Total stockholders' equity	23,124,126	18,661,442
	$302,070,333	299,491,225

Commitments and contingencies
(notes 11, 12, 14, 15 and 16)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations

	Years Ended December 31		
	1981	1980	1979
Premiums and other revenue:			
Premiums (notes 11, 12 and 17):			
Life	$39,542,418	38,876,134	34,082,911
Annuities	5,027,765	5,163,499	5,052,697
Accident and health	2,804,134	2,873,251	2,966,041
	47,374,317	46,912,884	42,101,649
Investment income (net of expenses of $3,577,633 in 1981, $12,942,012 in 1980 and $14,682,481 in 1979) (note 9)	16,741,471	12,824,117	15,963,618
Other income	1,490,063	652,171	71,056
Total premiums and other revenue	65,605,851	60,389,172	58,136,323
Benefits and expenses:			
Life	21,956,722	19,938,318	17,168,142
Accident and health	1,737,743	1,682,664	1,555,114
Other	6,388,279	4,973,663	2,747,557
Increase in liabilities for future policy benefits:			
Life	10,174,732	13,119,508	14,596,997
Accident and health	253,380	205,090	204,594
Dividends to policyholders (note 12)	366,721	353,313	295,113
Amoritization of deferred policy acquisition costs	10,945,639	7,159,250	6,414,934
Other operating expenses:			
Commissions	1,017,815	1,640,054	1,249,458
Salaries	2,825,723	2,804,819	2,885,869
Taxes, licenses and insurance fees	898,335	1,177,317	935,392
Other expenses	2,526,381	3,031,607	2,987,828
Total benefits and expenses	59,091,470	56,085,603	51,040,998
Loss on write-down of investment in subsidiary (note 3)	—	—	6,750,000
Earnings before provision for Federal income taxes and net realized losses on investments	6,514,381	4,303,569	345,325
Provision for deferred Federal income taxes (note 6)	1,730,000	1,270,000	2,040,000
Earnings (Loss) before net realized losses on investments	4,784,381	3,033,569	(1,694,675)
Net realized losses on investments (notes 2 and 10)	(117,131)	(14,182,680)	(21,330,506)
Net earnings (loss)	$ 4,667,250	(11,149,111)	(23,025,181)
Earnings (Loss) per share of common stock (note 8):			
Earnings (Loss) before net realized losses on investments	$ 1.40	.89	(.50)
Net realized losses on investments	(.03)	(4.16)	(6.25)
Net earnings (loss)	$ 1.37	(3.27)	(6.75)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

	Years Ended December 31		
	1981	1980	1979
Common stock (note 4):			
Balance at beginning of year	$ 3,411,120	3,411,218	3,411,390
Par value of 2,111 shares issued in 1981 and 98 and 172 shares of Class A common stock cancelled in 1980 and 1979, respectively, relating to the merger of a former subsidiary and certain dissenters' rights relating thereto	2,111	(98)	(172)
Balance at end of year	3,413,231	3,411,120	3,411,218
Additional paid-in capital (note 7):			
Balance at beginning of year	23,499,239	23,499,239	23,499,239
Value in excess of par on 217 shares	977	—	—
Balance at end of year	23,500,216	23,499,239	23,499,239
Net unrealized losses on investments in equity securities:			
Balance at beginning of year	(1,914,865)	(1,860,624)	(1,530,084)
Increase in unrealized losses on investments in equity securities during the year	(207,654)	(54,241)	(330,540)
Balance at end of year	(2,122,519)	(1,914,865)	(1,860,624)
Retained earnings (notes 4, 6, 7 and 12):			
Appropriated retained earnings:			
Balance at beginning of year	—	3,224,792	2,810,118
Allocation from (to) unappropriated retained earnings	17,254	(3,224,792)	414,674
Balance at end of year	17,254	—	3,224,792
Unappropriated retained earnings:			
Balance at beginning of year	(6,334,052)	1,590,267	25,030,122
Net earnings (loss)	4,667,250	(11,149,111)	(23,025,181)
Transfer (to) from appropriated retained earnings	(17,254)	3,224,792	(414,674)
Balance at end of year	(1,684,056)	(6,334,052)	1,590,267
Total stockholders' equity	$ 23,124,126	18,661,442	29,864,892

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position

	Years Ended December 31		
	1981	1980	1979
Funds provided:			
From operations:			
Net earnings (loss)	$ 4,667,250	(11,149,111)	(23,025,181)
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
Provision for deferred Federal income taxes	1,730,000	1,270,000	2,040,000
Amortization of deferred policy acquisition costs	10,945,639	7,159,250	6,414,934
Increase in liability for future policy benefits	10,428,112	13,324,598	14,801,591
Increase (Decrease) in policy claim liabilities	946,601	(668,095)	(28,143)
Amortization of bond discount	(811,080)	(1,060,298)	(866,871)
Amortization of life interest in Libbie Shearn Moody Trust	245,451	243,113	240,798
Depreciation	290,676	258,134	342,666
Other	455,736	1,085,558	(1,041,648)
Funds provided from operations	28,898,385	10,463,149	25,785,687
Cost of investments sold and loans repaid:			
Bonds and notes	5,298,667	12,904,899	8,403,114
GNMA and FHLMC certificates	—	128,986,873	94,475,754
Stocks	388,027	3,411,910	5,257,026
Mortgage loans	3,099,487	3,197,960	3,932,182
Real estate held for investment	522,081	1,151,170	1,208,506
Collateral loans	286,923	634,696	—
Total	9,595,185	150,287,508	113,276,582
Book value of property and equipment sold	—	—	970,608
Decrease (Increase) in cash	495,112	(458,847)	978,379
Increase (Decrease) in short-term borrowings	(15,250,000)	(6,500,000)	19,750,000
Increase in funds purchased under repurchase agreements	—	—	86,315,000
Other, net	1,241,464	97,384	—
Total funds provided	$ 24,980,146	153,889,194	247,076,256
Funds used:			
Increase in policy loans	$ 6,690,579	7,564,427	4,434,143
Cost of investments purchased or loans disbursed:			
Bonds and notes	4,365,633	5,506,668	2,551,368
GNMA and FHLMC certificates under repurchase agreements	—	—	205,816,827
Stocks	933,455	25,400	1,151,551
Mortgage loans	288,868	6,306,292	8,371,047
Real estate held for investment	375,228	403,952	2,516,755
Collateral loans and other	813,362	83,272	1,585,582
Total	13,467,125	19,890,011	226,427,273
Investment in subsidiary	—	—	8,963,832
Additions to deferred policy acquisition costs	11,415,970	11,598,331	10,450,799
Cost of property and equipment	97,051	97,852	418,534
Decrease in funds purchased under repurchase agreements	—	122,303,000	—
Other, net	—	—	815,818
Total funds used	$ 24,980,146	153,889,194	247,076,256

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., for 1980 and prior, and Commercial Adjusters, Inc. in 1981. The liquidation of Galvez Offshore, Inc. in December, 1981 is reflected in the consolidated financial statements. The Company has a controlling interest in the Westcap Corporation (formerly 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. The following are major differences between generally accepted accounting principles and accounting principles prescribed by insurance regulatory authorities:

1. 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 costs deferred as acquisition costs related to the business in force at date of purchase are based upon estimates as to the cost the Company would incur 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 costs are being amortized over the premium paying period of the related policies in proportion to the ratio of the premium 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.

   A summary of information relative to deferred acquisition costs and premiums follows:

	1981	1980	1979
Costs deferred:			
Agents' commissions	$ 9,706,847	9,811,003	8,574,466
Other	1,709,123	1,787,328	1,876,333
	$ 11,415,970	11,598,331	10,450,799
Amounts amortized	$ 10,945,639	7,159,250	6,414,934
First year and single premiums	$ 10,398,152	12,041,368	10,161,440
Renewal premiums	$ 36,976,165	34,871,516	31,940,209

2. 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 that policies were issued or, in the case of liabilities for future policy benefits of purchased subsidiaries or blocks of business, at the dates of purchase.

   Deferred acquisition costs and future policy benefit factors have been calculated directly for a substantial number of major plans of insurance using 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. The liability for future policy benefits of accident and health business has been calculated primarily on an unearned premium basis using the pro-rata method.

3. 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).

4. Investments in subsidiaries are recorded at admitted asset value for statutory purposes, whereas the financial statements of the wholly-owned subsidiary have been consolidated with those of the Company under generally accepted accounting principles. The Company has an investment in a non-insurance subsidiary which is recorded on the equity basis in the accompanying consolidated financial statements (see note 3).
5. Certain assets which are non-admitted and charged to retained earnings for statutory purposes have been included as assets in the accompanying consolidated financial statements.
6. Investments in GNMA and FHLMC certificates under repurchase agreements have been written down to market value in 1979 under generally accepted accounting principles. These securities are carried at amortized cost under statutory accounting principles (see note 2).
7. Realized investment gains or losses from the sale or write-down of investments, less the related Federal income tax effect, if any, have been included in net earnings rather than being credited or charged directly to statutory retained earnings (see notes 9 and 10).
8. The Mandatory Securities Valuation Reserve, a contingency reserve required by insurance regulatory authorities, has been reclassified as an appropriation of retained earnings rather than being recorded as a liability.
9. Allowances for doubtful receivables have been established by a charge to earnings where receivables have been deemed doubtful of collection, and the cost basis of investments which were deemed to have a permanent impairment in value have been reduced or written off by a charge to earnings as a realized loss. Under statutory accounting, the write-down of such receivables and investments generally would have been charged to unassigned surplus as non-admitted assets or unrealized losses.
10. The recorded value of the life interest in the Libbie Shearn Moody Trust (the Trust) is reported at its initial valuation, net of 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. In the Company's annual statements to insurance departments, the life interest is reflected at an amount based on existing insurance in force on the life of Robert L. Moody net of the cash surrender value of the life insurance policies on Mr. Moody's life (see note 4). The statutory amount is not being amortized in the statutory financial statements.
11. Certain reinsurance transactions effected in 1980, which caused direct credits to surplus for statutory reporting purposes, have been treated differently under generally accepted accounting principles. The net effect of these transactions is reflected in the risk and expense charges to other operating expenses in the accompanying consolidated statement of operations for the year ended December 31, 1981 (see note 11).

Reconciliations of net gain from operations and stockholders' equity (determined pursuant to statutory accounting requirements), as included in the annual statements filed with the Colorado Insurance Commission for the years ended December 31, 1981, 1980 and 1979 to the respective amounts as reported in the accompanying consolidated financial statements are as follows:

	Net Earnings (Loss)		
	1981	1980	1979
Per annual statement to Insurance Department	$ 3,990,008	28,321,128	5,367,085
Statutory net earnings (loss) of subsidiaries	19,574	(451,163)	201,018
Consolidated statutory net gain from operations	4,009,582	27,869,965	5,568,103
Adjustments:			
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	470,331	4,439,081	4,035,865
Adjustment of future policy benefits	3,377,696	(2,304,156)	(1,996,351)

Adjustment for portfolio reinsurance (note 11)	(2,000,000)	(26,477,850)	—
Amortization of investment in Trust	(245,451)	(243,113)	(240,798)
Deferred Federal income taxes	(1,730,000)	(1,270,000)	(2,040,000)
Other net realized losses on investments	(117,131)	(14,182,680)	(1,172,965)
Other, net	902,223	1,019,642	(271,494)
Amounts per consolidated financial statements	$ 4,667,250	(11,149,111)	(23,025,181)

	Stockholders' Equity		
	1981	**1980**	**1979**
Per annual statement to Insurance Department	$ 32,938,627	28,410,509	32,969,864
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	(2,887,062)	(2,711,643)	(2,544,519)
Excess of cost over net assets of subsidiaries acquired	655,576	750,142	845,405
Deferral of policy acquisition costs, net of amortization	49,286,187	48,815,856	44,376,775
Adjustment of future policy benefits	(9,639,675)	(9,017,371)	(6,713,215)
Adjustment for portfolio reinsurance (note 11)	(24,477,850)	(26,477,850)	—
Deferred Federal income taxes	(21,347,000)	(19,617,000)	(18,347,000)
Adjustment to report preferred stocks at market value	(2,080,895)	(1,716,469)	(1,962,796)
Adjustments of investments in bonds to reflect permanent impairments in value	(471,538)	(288,713)	(155,147)
Transfer of Mandatory Securities Valuation Reserve to appropriated retained earnings	17,254	—	3,224,792
Allowance for uncollectible mortgage loans	(200,000)	(200,000)	(200,000)
Reinstatement of non-admitted assets	1,659,361	3,175,777	2,471,714
Other, net	(328,859)	(2,461,796)	(3,943,440)
Amounts per consolidated financial statements	$ 23,124,126	18,661,442	29,864,892

(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. 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, 1981, gross unrealized investment gains and losses on marketable equity securities were $342,971 and $2,465,490, 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.

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) 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.

(D) Depreciation of Fixed Assets — Depreciation is based on the estimated useful lives of the assets, which range from 3 to 40 years, and is calculated on the straight-line basis. Depreciation of fixed assets charged against earnings amounted to approximately $291,000, $258,000 and $343,000 for the years ended December 31, 1981, 1980 and 1979, respectively.

(E) Amortization of Goodwill — The excess of cost over 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 1981, 1980 and 1979 amounted to approximately $95,000.

Maintenance, repairs and minor replacements which do not materially extend the useful life of the respective asset are charged to operations. Betterments are capitalized and depreciated over the estimated remaining useful life of the asset. At retirement or other disposition of fixed assets, the accounts are relieved of the cost and accumulated depreciation and gains or losses are reflected in operations.

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

At December 31, 1979, the Company had investments in GNMA and FHLMC certificates under repurchase agreements aggregating $130,575,959 with weighted average yield of 9.4%. At December 31, 1980, all of these investments had been sold.

These securities had been financed under repurchase agreements through margin deposit agreements with brokerage firms and such securities were pledged as collateral for the short-term borrowings. Borrowings under this arrangement had been repaid at December 31, 1980.

The maximum amount outstanding under these agreements at any month-end during 1980 was $120,040,000. The average amount outstanding during 1980 was approximately $40,148,000, and the weighted average interest rate for 1980 was approximately 18.2%.

During 1979, the Company increased its investment in these types of securities significantly. As a result of general economic and money market conditions, the Company had sustained significant declines in the market value of these securities while incurring significant margin deposits during 1979 and the first quarter of 1980. At that time, based on the general economic conditions and the uncertainty of future market conditions, the Company decided to dispose of all of its investments in these securities. Accordingly, the investment in these securities was written down to market value as of December 31, 1979 and realized losses on investments of $20,157,541 were recorded in the accompanying consolidated statement of operations for the year ended December 31, 1979. The remaining $15,083,277 of realized loss incurred on sale of these investments is recognized in the accompanying consolidated statement of operations for the year ended December 31, 1980.

(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 $883,832 in advances and accrued interest was converted to subordinated debt. During 1980 this subordinated debt plus accrued interest was converted to 235,873 shares of preferred stock. 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 at December 31, 1979. The accompanying consolidated statements of operations for the years ended December 31, 1981 and 1980 include $1,060,459 and $393,203, respectively, of equity earnings of the subsidiary. As of December 31, 1981, the Company owned approximately 43% of the common stock and approximately 93% of the voting, convertible 8% noncumulative preferred stock of the subsidiary. The total equity ownership of the Company is approximately 92%. Effective December 1, 1980, the subsidiary changed its name to The Westcap Corporation.

Summary balance sheets, revenue and net income as of September 30, 1981 and 1980 and for the years then ended follows:

	1981	1980
Assets:		
Cash	$ 170,398	1,444,886
Receivables	4,167,177	1,849,971
Trading inventory	7,903,374	3,406,944
Other assets	431,452	462,577
	$ 12,672,401	7,164,378
Liabilities:		
Notes payable	$ 4,556,847	319,992
Payables to customers and brokers	4,045,772	1,990,071
Other liabilities	863,250	1,825,255
	9,465,869	4,135,318
Stockholders' equity	3,206,532	3,029,060
	$ 12,672,401	7,164,378
Revenues	$ 7,397,427	8,787,249
Net gain	$ 177,472	641,750

(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,	
	1981	1980
Original valuation of life interest, at February 26, 1960	$ 13,793,149	13,793,149
Less accumulated amortization	4,892,712	4,647,261
Net asset value of life interest in Trust	$ 8,900,437	9,145,888

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 189,258 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 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 $5.50 per share at December 31, 1981.

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

	Years ended December 31,		
	1981	1980	1979
Income distributions received	$946,000	854,000	713,000
Add (deduct):			
Amortization of initial valuation	(245,000)	(243,000)	(241,000)
Reinsurance premiums charged to operations	(73,000)	(68,000)	(63,000)
Increase in cash surrender value of company-owned life insurance policies	70,000	76,000	75,000
Net income from life interest in the Trust	$698,000	619,000	484,000

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 $53,000 in 1981, $57,000 in 1980 and $61,000 in 1979, and liabilities for future policy benefits related to these policies in the amounts of $1,072,000, $1,019,000 and $962,000 at December 31, 1981, 1980 and 1979, 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 1,178,760 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; then the Class B stockholders shall receive the par value of their shares; and the remaining net assets of the Company shall be divided between the shareholders of both Class A and Class B common stock, based on the number of shares held.

(5) SHORT-TERM BORROWINGS FROM BANKS

Short-term borrowings from banks were $15,250,000 at December 31, 1980 at a defined prime rate (approximately 22% at December 31, 1980). The borrowings were secured by various securities with a book value of $42,089,705 (market value of $29,602,527) at December 31, 1980.

The maximum amount outstanding at any month end during 1981 and 1980 was $14,000,000 and $32,250,000 respectively. The average amount outstanding during 1981 and 1980 was approximately $7,650,000 and $23,512,500 respectively. The weighted average interest rate for 1981 and 1980 was approximately 18.7% and 15.9% 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, 1981, the Company had accumulated approximately $1,010,000 in its tax "policyholders' surplus account". This account was not increased for the years ended December 31, 1981, 1980 and 1979. 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 non-taxable 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, 1981 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:

	1981	1980	1979
Policy acquisition costs expensed for tax purposes and deferred for financial accounting purposes	$ 211,000	1,464,000	724,000
Excess of the increase in the liability for future policy benefits for tax purposes over the increase for financial accounting purposes	638,000	(12,585,000)	1,791,000
Effect of special life insurance company deductions	(717,000)	(474,000)	(436,000)
Investment tax credit recapture	—	—	84,000
Effect of net level election	(1,933,000)	12,569,000	1,744,000
Use of tax operating loss deduction	2,691,000	—	—
Other	840,000	296,000	(1,867,000)
	$ 1,730,000	1,270,000	2,040,000

Total Federal income tax expense amounted to $1,730,000, $1,270,000 and $2,040,000 for the years ended December 31, 1981, 1980 and 1979, 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	1981	1980	1979
Computed expected income taxes at the statutory rate	$2,500,000	1,939,000	159,000
Add (deduct):			
Capital losses not tax affected due to existence of capital loss carryforward	—	—	2,691,000
Special life insurance company deductions allowed for tax purposes	(670,000)	(395,000)	(416,000)
Dividends received deduction	(119,000)	(238,000)	(414,000)
Amortization of life interest in Libbie Shearn Moody Trust which is not tax deductible	113,000	112,000	111,000
Investment tax credit recapture	—	—	84,000
Other	(94,000)	(148,000)	(175,000)
Total provision for Federal income taxes	$1,730,000	1,270,000	2,040,000

At December 31, 1981, the Company had a tax operating loss deduction of approximately $2,400,000 which the Company has elected to carry forward. The Company also has unused tax credits of approximately $200,000.

If not utilized to offset future taxable income, these tax loss carryforwards and tax credits will expire in 1995. 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, 1981, the Company had additional loss carryforwards of approximately $38,639,000 which the Company has treated on its Federal income tax return as expiring in 1994 and 1995.

(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 $17,340,000, $12,815,000 and $17,373,000 at December 31, 1981, 1980 and 1979, 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 12, and the contingencies described in note 14. Also, as long as the portfolio reinsurance agreement described in note 11 remains in effect, the Company has agreed not to declare or pay any dividends without the prior approval of the reinsurer. 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. The weighted average shares outstanding were 3,411,538, 3,411,188 and 3,411,338 for the years ended December 31, 1981, 1980 and 1979, respectively.

(9) NET INVESTMENT INCOME AND CONCENTRATION OF INVESTMENTS

The major components of net investment income are as follows:

	1981	1980	1979
Investment income:			
Interest on bonds	$ 9,685,747	10,006,832	10,234,991
Interest on GNMA and FHLMC Certificates under repurchase agreements	—	5,880,826	10,082,291
Interest on mortgage loans	5,555,837	5,449,421	5,101,086
Interest on policy loans	2,577,111	2,182,479	1,805,298
Interest on notes receivable from affiliates	40,000	40,000	40,000
Income from life interest in Libbie Shearn Moody Trust (see note 4)	946,392	854,096	712,959
Other investment income	1,514,017	1,352,475	2,669,474
Total investment income	20,319,104	25,766,129	30,646,099
Interest expense on funds purchased with securities under repurchase agreements	—	7,311,791	10,854,289
Interest expense on other short-term borrowings	1,802,541	3,726,185	1,511,293
Other investment expenses	1,775,092	1,904,036	2,316,899
Net investment income	$16,741,471	12,824,117	15,963,618

Investments of the following amounts were non-income producing for the twelve months prior to December 31, 1981 and 1980:

Type of Investment	1981	1980
Bonds	$ 276,062	75,896
Preferred stock	105,326	—
Real estate	636,890	895,502

Listed below is a summary of investments other than real estate in any one person amounting to 10% or more of total stockholders' equity at December 31, 1981 and 1980. In the case of real estate, no investments in excess of 10% were acquired within the previous five years.

	1981	1980
Life interest in Libbie Shearn Moody Trust	$8,900,437	9,145,888

(10) ANALYSIS OF INVESTMENT GAINS AND LOSSES

The table below presents an analysis of realized investment gains and losses and the increase or decrease in unrealized losses on bonds, GNMA and FHLMC certificates under repurchase agreements and investments in marketable equity securities during the years ended December 31, 1981 and 1980, and 1979, respectively:

	Net Realized Investment (Gains) Losses, Net of Tax	Increase (Decrease) in Unrealized Losses on Investments	Total
Year ended December 31, 1981			
Bonds	$ 148,964	6,574,958	6,723,922
Stocks	(20,041)	207,654	187,613
Other	(11,792)	—	(11,792)
Total	$ 117,131	6,782,612	6,899,743
Year ended December 31, 1980			
Bonds	$ 526,449	11,496,676	12,023,125
GNMA and FHLMC Certificates under repurchase agreements	13,149,333	—	13,149,333
Stocks	500,831	54,241	555,072
Other	6,067	—	6,067
Total	$14,182,680	11,550,917	25,733,597
Year ended December 31, 1979			
Bonds	$ (14,968)	9,956,798	9,941,830
GNMA and FHLMC Certificates under repurchase agreements	21,804,558	(2,370,451)	19,434,107
Stocks	(178,519)	330,540	152,021
Other	(280,565)	—	(280,565)
Total	$21,330,506	7,916,887	29,247,393

(11) 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 $259,000,000 and $240,000,000 is ceded on a yearly renewable term basis, $2,600,000 and $3,900,000 is ceded on a modified coinsurance basis and $38,000,000 and $46,000,000 is ceded on a coinsurance basis at December 31, 1981 and 1980, respectively. Accident and health is ceded on a coinsurance basis. In accordance with the reinsurance contracts, credits in the amounts of approximately $2,200,000 and $2,500,000 were taken against the liability for future policy benefits at December 31, 1981 and 1980, 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.

On May 22, 1980, the Company entered into a portfolio reinsurance agreement for the purpose of preventing statutory insolvency. The agreement consisted of both coinsurance and modified coinsurance and was effective April 1, 1980. The coinsurance portion of the agreement increased statutory unassigned surplus by approximately $27,941,000. Under the terms of the agreement, in the event of a default, the reinsurer would assume by bulk reinsurance all of the policies reinsured under the agreement. To secure the reinsurers in the event of default and the necessity to bulk reinsure such policies, the Company has transferred to and deposited with a bank, as custodian, approximately $75,000,000 of its assets. To replace the ceded statutory premium and insurance in force the Company, later in 1980, entered into an assumption modified coinsurance agreement, also effective April 1, 1980. Under the provisions of these agreements, risk and expense charges of approximately $1.35 and $1.13 million were paid during the years ended December 31, 1981 and 1980, respectively. These amounts were charged to other expense (note 1).

(12) 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, 1981 are entitled to dividends equal to an aggregate maximum of approximately 6% 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, 1981 are entitled to receive dividends equivalent to less than 1% 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, 1981, no retained earnings were so allocated.

Participating business constitutes approximately 19% and 20% of the Company's life insurance in force, 27% and 24% of the policies in force and 17% and 19% of the premium income for the years ended December 31, 1981 and 1980, respectively.

(13) DEPOSITS WITH REGULATORY AUTHORITIES

At December 31, 1981 and 1980, the following assets were on deposit with state and other regulatory authorities as required by law:

	1981	1980
Bonds, at amortized cost	$38,576,272	46,818,874
Mortgage loans on real estate	5,133,246	5,548,797
Certificates of deposit	116,182	116,182

(14) 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 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. Plaintiffs are seeking damages in an unspecified amount. Agreement has been reached between the parties, subject to acceptance by the Court. The amount of settlement is not known as it will be based primarily on the number of shares of common stock to be issued. In the opinion of management and legal counsel, the ultimate settlement should approximate $400,000. Accordingly, a provision for this amount has been made in the accompanying consolidated financial statements.

The Company and certain of its past and present directors are involved in a lawsuit seeking certain claims including claims which may be covered under the above class action suit. The lawsuit is primarily in the nature of a derivative stockholder claim against the defendant directors and seeks alleged damages in excess of $50,000,000. The complaint alleges that the directors were negligent and grossly negligent in discharging their duties to the Company. The directors will be indemnified under the Company's By-laws for costs and expenses in this lawsuit unless it is determined that they were liable for gross negligence or willful misconduct in performance of their duties. No provision has been made in the accompanying financial statements for damages, if any, that may result from the lawsuit.

The Company is a plaintiff in a civil action against four former officers and directors of Hibbard, O'Connor & Weeks, Inc., the parent corporation of Hibbard & O'Connor Government Securities, Inc., and their independent accounting firm. The complaint alleges violation of certain federal and state securities laws in connection with the Company's purchase of government guaranteed securities. The Company is seeking actual damages of $35,000,000 and punitive damages of $20,000,000. No provision has been made in the accompanying consolidated financial statements for recovery of damages, if any, that may result from this action.

The Company is a defendant in a lawsuit filed by a former general agent. The lawsuit alleges that the Company had breached the agency contract between the general agent and the Company. The plaintiff is seeking actual damages of $5,000,000 and punitive damages of $15,000,000. Management and legal counsel believe that there is no liability beyond normal vested earned commissions due the agent under his contract. Accordingly, no provision has been made in the accompanying consolidated financial statements for damages, if any, that may result from this lawsuit.

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 $3,325,115 at December 31, 1981.

(15) 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, 1981, the unfunded past service cost of the pension plan was $151,000. The actuarially computed value of vested benefits of the pension plan did not exceed the net assets of the plan at December 31, 1981. The assumed interest rate used by the plan was 4.5%. Pension expenses for the years ended December 31, 1981, 1980 and 1979 amounted to $209,000, $174,000 and $157,000, respectively.

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 1979 was $68,000. During 1980, the Company elected to make certain changes in its agents' contracts and replace certain previously furnished fringe benefits with an increased commission structure. Accordingly, the profit-sharing and incentive plan for agents was terminated and no contributions for 1981 or 1980 were made.

(16) COMMITMENTS

At December 31, 1981, the Company was committed to purchase an airplane scheduled for delivery in late 1984. The cost will be $3,695,000 plus an adjustment equal to the percentage increase from January 1979 to January 1983 in the Wholesale Price Index for Industrial Commodities (1967 = 100) as published by the Bureau of Labor Statistics, U.S. Department of Labor.

(17) FOREIGN SALES

Total premium income related to life insurance written in foreign countries, primarily Central and South America, was approximately $16,000,000, $15,000,000 and $12,000,000 for the years ended December 31, 1981, 1980 and 1979, respectively.

(18) QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

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 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. These certificates were written-down to market in 1980 and the effects are included in the appropriate quarterly results of operations. All other necessary adjustments were reflected in the appropriate quarter. Quarterly results of operations for the years ended December 31, 1981, 1980 and 1979 are summarized as follows:

	1981			
(000 omitted)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total premiums and other revenue	$ 15,832	15,985	16,311	17,478
Total benefits and expenses	14,511	14,760	14,475	15,346
Earnings (Loss) before Federal income taxes, net realized gains on investments and extraordinary tax credit	1,321	1,225	1,836	2,132
Federal income taxes	412	323	541	454
Earnings (Loss) before net realized gains (losses) on investments and extraordinary tax credit	909	902	1,295	1,678
Net realized gains (losses) on investments, net of tax	55	8	45	(225)
Earnings (Loss) before extraordinary tax credit	964	910	1,340	1,453
Extraordinary tax credit	23	4	19	(46)
Net earnings	$ 987	914	1,359	1,407
Per Share Results:				
Earnings (Loss) before net realized gains (losses) on investments and extraordinary tax credit	$ .27	.26	.38	.49
Net realized gains (losses) on investments, net of tax	.02	—	.01	(.06)
Earnings (Loss) before extraordinary tax credit	.29	.26	.39	.43
Extraordinary tax credit	—	—	—	—
Net earnings	$ .29	.26	.39	.43
Weighted Average Shares Outstanding	3,411,120	3,411,167	3,411,219	3,411,538

(000 omitted)	1980 First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total premiums and other revenue	$ 13,666	13,973	15,967	16,783
Total benefits and expenses	13,483	14,160	13,898	14,544
Earnings (Loss) before Federal income taxes and net realized gains (losses) on investments	183	(187)	2,069	2,239
Federal income taxes	40	(40)	430	840
Earnings (Loss) before net realized gains (losses) on investments	143	(147)	1,639	1,399
Net realized gains (losses) on investments, net of tax	(16,711)	2,800	(49)	(223)
Net earnings (loss)	$ (16,568)	2,653	1,590	1,176
Per Share Results:				
Earnings (Loss) before net realized gains (losses) on investments	$ .04	(.04)	.48	.41
Net realized gains (losses) on investments net of tax	(4.90)	.82	(.01)	(.07)
Net earnings (loss)	$ (4.86)	.78	.47	.34
Weighted Average Shares Outstanding	3,411,218	3,411,218	3,411,208	3,411,188

(000 omitted)	1979 First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total premiums and other revenue	$ 14,876	14,208	14,331	14,721
Total benefits and expenses	12,764	13,179	11,650	13,448
Loss on write-down of investment in subsidiary	—	—	6,640	110
Earnings (Loss) before Federal income taxes, net realized gains (losses) on investments and extraordinary tax credit	2,112	1,029	(3,959)	1,163
Federal income taxes	612	240	848	340
Earnings (Loss) before net realized gains (losses) on investments and extraordinary tax credit	1,500	789	(4,807)	823
Net realized gains (losses) on investments	3	(111)	194	(21,416)
Earnings (Loss) before extraordinary tax credit	1,503	678	(4,613)	(20,593)
Extraordinary tax credit	1	(1)	37	(37)
Net earnings (loss)	$ 1,504	677	(4,576)	(20,630)
Per Share Results:				
Earnings (Loss) before net realized gains (losses) on investments and extraordinary tax credit	$ .44	.23	(1.41)	.24
Net realized gains (losses) on investments	—	(.03)	.06	(6.28)
Earnings (Loss) before extraordinary tax credit	.44	.20	(1.35)	(6.04)
Extraordinary tax credit	—	—	.01	(.01)
Net earnings (loss)	$ .44	.20	(1.34)	(6.05)
Weighted Average Shares Outstanding	3,411,390	3,411,390	3,411,375	3,411,388

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors and Stockholders
National Western Life Insurance Company
Austin, Texas

We have examined the consolidated balance sheets of National Western Life Insurance Company and subsidiaries as of December 31, 1981 and 1980, and the related 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.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of National Western Life Insurance Company and subsidiaries as of December 31, 1981 and 1980, and the consolidated results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the period and on a basis consistent with that of the preceding year.

March 22, 1982
Austin, Texas

Touche Ross & Co.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors and Stockholders
National Western Life Insurance Company

We have examined the consolidated statements of operations, stockholders' equity and changes in financial position of National Western Life Insurance Company and subsidiaries for the year ended December 31, 1979. 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 consolidated results of operations and the changes in the financial position of National Western Life Insurance Company and subsidiaries for the year ended December 31, 1979, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Austin, Texas
March 19, 1980 except as to
Notes 2 and 11, which are
as of July 1, 1980.

Peat, Marwick, Mitchell & Co.

Summary of Operations

	Year Ended December 31				
	1981	1980	1979	1978	1977
Premium Income	$47,374,317	46,912,884	42,101,649	38,539,168	35,721,430
Investment Income	16,741,471	12,824,117	15,963,618	16,216,206	13,723,926
Other Income	1,490,063	652,171	71,056	192,452	202,773
Total Income	65,605,851	60,389,172	58,136,323	54,947,826	49,648,129
Policyowner Benefits	40,877,577	40,272,556	36,567,517	33,421,012	31,189,919
Commissions and Other Expenses	18,213,893	15,813,047	14,473,481	12,457,763	12,005,475
Total Expenses	59,091,470	56,085,603	51,040,998	45,878,775	43,195,394
Loss on write-down of subsidiary	—	—	6,750,000	—	—
Earnings Before Taxes	6,514,381	4,303,569	345,325	9,069,051	6,452,735
Federal Income Taxes	1,730,000	1,270,000	2,040,000	2,652,000	1,773,000
Earnings (Loss) From Operations	4,784,381	3,033,569	(1,694,675)	6,417,051	4,679,735
Net Investment Gains (Losses)	(117,131)	(14,182,680)	(21,330,506)	1,079,652	(127,679)
Extraordinary Credit	—	—	—	462,000	—
Net Earnings (Loss)	4,667,250	(11,149,111)	(23,025,181)	7,958,703	4,552,056
Per Share:					
Earnings (Loss) From Operations	$ 1.40	.89	(.50)	1.88	1.37
Investment Gains (Losses)	(.03)	(4.16)	(6.25)	.32	(.04)
Extraordinary Credit	—	—	—	.13	—
Net Earnings (Loss)	$ 1.37	(3.27)	(6.75)	2.33	1.33

Management's Discussion and Analysis of Financial Condition and Results of Operations

Summary

The following table sets forth for the periods indicated (1) percentages which certain items reflected in the financial data bear to total revenues of the Company and (2) the percentage increase or decrease of such items as compared to the indicated prior period:

	Relationship to Total Revenues Year Ended December 31,			Period to Period Increase (Decrease) Years Ended	
	1979	1980	1981	1979-80	1980-81
Premiums	72.4%	77.7%	72.2%	11.4%	1.0%
Investment Income	27.5	21.2	25.5	(19.7)	30.5
Other Income	.1	1.1	2.3	817.8	128.5
Total Revenues	100.0	100.0	100.0	3.9	8.6
Policyowner benefits	62.9	66.7	62.3	10.1	1.5
Commissions and other expenses	24.9	26.2	27.8	9.3	15.2
Loss on write-down of subsidiary	11.6	—	—	(100.0)	—
Earnings (loss) before taxes	.6	7.1	9.9	1146.2	51.4
Provision for income taxes	3.5	2.1	2.6	(37.8)	36.2
Earnings (loss) from operations	(2.9)	5.0	7.3	279.0	57.7
Net investment losses	(36.7)	(23.5)	(0.2)	33.5	99.2
Net earnings (loss)	(39.6)	(18.5)	7.1	51.6	141.9

Management's Discussion and Analysis of Financial Condition and Results of Operations . . . continued

Results of Operations

Premium Income: The increase in premium income from 1979 to 1980 amounted to 11.4% and was the highest percentage increase that had been experienced for several years. Included in this increase was premium income of approximately $1.4 million attributable to two large groups. These cases did not renew in 1981. This, plus worsening economic conditions, resulted in a premium increase of 1% in 1981 over 1980.

Investment Income: The normal increases historically experienced in this area did not materialize from 1979 to 1980. The reason for the decrease was the negative interest spread experienced by the Company in its government securities investment program. Although this program was discontinued in 1980, its effect carried into 1981. The bank debt incurred to finance the program was completely repaid by the end of 1981 and this reduction in interest expense for 1981 caused net investment income to exceed that of any of the previous four years.

Other Income: Equity basis income from the Company's subsidiary, the Westcap Corporation, is included in both 1980 and 1981. The amounts included are approximately $1,060,000 and $393,000 for the years 1981 and 1980, respectively.

Policyowner Benefits: The increase in policyowner benefits from 1980 to 1981 was approximately 1.5% compared to an increase from 1979 to 1980 of over 10%. The primary reason for this drop is the reduction in the increase in life benefits, including death claims and surrenders.

Commissions and Other Expenses: The 9.3% increase from 1979 to 1980 was primarily attributable to the net expense relating to the portfolio reinsurance transaction effected in April, 1980. This reinsurance transaction provided the Company with approximately $28 million of statutory surplus relief in connection with losses sustained in the government securities investment program. The net effect of this transaction is presented in the accompanying consolidated statements of operations under other operating expenses. The amount for nine months in 1980 was $1,131,000 and for the year 1981 the amount was $1,350,960. From 1980 to 1981, the increase in commissions and other expenses was in excess of 15%. A primary reason for this is related to the two groups issued in 1980 that lapsed in 1981. When the policies were issued, most of the acquisition costs were deferred, to be recognized over the premium paying periods. When the cases lapsed in 1981, all of the unamortized cost was recognized as expense.

Net Investment Gains (Losses): In 1979 and 1980, the Company incurred substantial losses in connection with its government securities investment program. The 1979 loss included a write-down on these investments of approximately $20,150,000. When these investments were sold in 1980, the remaining loss of approximately $15,050,000 was recognized. Net investment losses in 1981 were minimal resulting primarily from permanent write-downs of certain bond and stock holdings.

Liquidity and Capital Resources

Inflation and adverse economic conditions continue to cause increased demand for policy loans. These loans are made to policyholders at contractual rates of interest varying from 3½% to 9%, with approximately 60% of these loans being at a 5% interest rate. In 1980, policy loans increased by 20.3% over 1979. During 1981, demand eased somewhat with the increase amounting to 14.9%. Although current interest rates in the financial market place are down from the highs of 1980 and early 1981, policy loan demand will probably continue above normal until there are further decreases.

At December 31, 1980, the Company had outstanding short term loans from banks amounting to $15,250,000. During 1981 the Company used its current cash flow to repay the loans. At December 31, 1981, these loans had been fully repaid.

Under the portfolio reinsurance agreement effected in 1980, the Company is committed to quarterly payments to reinsurers which amounted to $1,350,960 in 1981 and which should approximate $1.3 million in 1982.

Management anticipates that the Company will be able to meet its reinsurance commitment and fund the heavy policy loan demand from current cash flow without having to use any of its unsecured lines of credit, which at December 31, 1981 stood at $5,000,000.

The Company has no present material commitments for capital expenditures in 1982 and does not anticipate incurring any such commitments through the balance of 1982.

Common Stock Prices

Quarter Ending		High Bid	Low Asked
3-31	1979	9	6-3/4
6-30	1979	9-5/8	8-1/2
9-30	1979	9-1/2	6-3/8
12-31	1979	6-1/8	4-1/8
3-31	1980	6	3-5/8
6-30	1980	4-1/4	3-3/4
9-30	1980	3-5/8	3-1/2
12-31	1980	5-1/2	3-3/4
3-31	1981	4-3/4	4-1/4
6-30	1981	5-1/2	4-1/2
9-30	1981	5-1/4	3-5/8
12-31	1981	5-1/2	3-3/4
3-31	1982	5-11/16	4-7/8

Statutory Balance Sheets

	(Unaudited) December 31	
	1981	**1980**
ASSETS		
Bonds	$117,019,744	117,723,915
Preferred stocks	7,704,669	6,730,792
Common stocks	556,382	2,222,528
Mortgage loans	58,132,216	60,851,183
Real estate	5,131,719	5,380,946
Policy loans	51,594,936	44,904,357
Collateral loans	593,077	880,000
Income interest in Libbie Shearn Moody Trust	11,787,499	11,857,531
Cash on hand and in banks	1,797,211	2,275,454
Premiums deferred and uncollected	11,139,369	11,152,924
Investment income due and accrued	2,931,113	3,233,119
Other assets	2,056,739	2,849,902
	$270,444,674	270,062,651

LIABILITIES, SURPLUS AND OTHER FUNDS		
Aggregate reserve for life policies	$206,476,478	194,852,512
Aggregate reserve for accident and health policies	1,828,519	1,601,433
Supplementary contracts without life contingencies	318,967	407,962
Life claims	1,884,812	1,044,809
Accident and health claims	593,598	487,000
Policyholders' dividend, coupon and endowment accumulations	15,566,486	16,037,936
Policyholders' dividend liability	398,000	412,000
Other liabilities to policyholders	1,748,228	2,087,825
Commissions, expenses and taxes due or accrued	843,486	1,129,805
Borrowed money	3,325,116	20,070,090
Other liabilities	4,450,103	3,483,208
Reserve for contingencies	55,000	37,562
Mandatory Securities Valuation Reserve	17,254	—
Total liabilities	237,506,047	241,652,142
Capital paid up	3,413,231	3,411,120
Paid-in and contributed surplus	12,185,627	12,184,650
Unassigned surplus	17,339,769	12,814,739
Total capital and surplus	32,938,627	28,410,509
	$270,444,674	270,062,651

Statutory Statements of Operations

	(Unaudited) Year Ended December 31	
	1981	1980
Life premiums	$ 59,129,548	56,615,863
Accident and health premiums	2,804,134	2,873,251
Considerations for supplementary contracts, dividend, coupon and endowment accumulations	1,724,107	1,893,031
Reserve adjustment on reinsurance ceded	667,692	80,847,480
Commission & expense allowances on reinsurance ceded	2,970,182	30,520,452
Reserves received — Modco reinsurance	24,074,649	119,213,749
Net investment income	17,106,089	13,155,025
Other income	293,634	274,259
Total income	108,770,035	305,393,110
Death claims	7,619,314	7,517,237
Accident and health claims	1,737,743	1,770,925
Surrender benefits	9,230,633	8,582,124
Coupons and endowments to policyholders	1,985,521	2,074,348
Payments on supplementary contracts, dividend, coupon and endowment accumulations	2,922,653	2,966,706
Other policy benefits	3,145,630	2,499,861
Increase (decrease) in life reserves	11,623,966	(14,040,979)
Increase in accident and health reserves	227,086	67,459
Decrease in other reserves	(582,557)	(409,325)
Reserves transferred & adjustments on reinsurance	43,978,350	241,700,068
Commissions and expenses on reinsurance assumed	4,443,900	3,538,503
Commissions	10,724,662	11,451,057
General expenses and taxes	7,859,378	8,633,276
Increase (Decrease) in loading	(488,973)	299,409
Total benefits and expenses	104,427,306	276,650,669
Net gain before dividends and Federal income taxes	4,342,729	28,742,441
Dividends to policyholders	352,721	421,313
Net gain before Federal income taxes	3,990,008	28,321,128
Federal income taxes	—	—
Net gain from operations	$ 3,990,008	28,321,128

Statutory Statements of Capital and Surplus

	(Unaudited) Year Ended December 31	
	1981	1980
Balance at beginning of year	$ 28,410,509	32,969,864
Additions (deductions):		
Net gain from operations	3,990,008	28,321,128
Net capital losses	(9,301)	(36,461,762)
Net gain from non-admitted assets	485,386	134,773
(Increase) Decrease in Mandatory Securities Valuation Reserve	(17,254)	3,224,793
Other surplus changes	79,279	221,713
Balance at end of year	$32,938,627	28,410,509

Directors

Robert L. Moody
Chairman of the Board, Chief Executive Officer, National Western Life Insurance Company
Investments, Galveston, Texas
NWL Director—1964 to present

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

Arthur O. Dummer
Senior Vice President, Beneficial Life Insurance Company
Salt Lake City, Utah
NWL Director—1980 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

Gerald A. Levy
Vice President, North American Reassurance Company
New York, New York
NWL Director—1980 to present

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

Charles D. Milos
Vice President, Seal Fleet, Inc.
Galveston, Texas
NWL Director—1981 to present

Ross R. Moody
Executive Trainee, Sealcraft Operators, Inc.; Student, Texas A & M University
College Station, Texas
NWL Director—1981 to present

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

Officers

Robert L. Moody
Chairman of the Board and Chief Executive Officer

Harry L. Edwards
President and Chief Operating Officer

Robert R. Johnson, FLMI, CLU
Executive Vice President
Administration
Assistant Secretary

Richard Andrews
Vice President
Employee Benefits

Charles P. Baley, FLMI
Vice President
Data Processing

Richard L. Boswell, FSA, MAAA
Vice President
Actuary

Robert L. Busby, III, CPA, FLMI, CLU
Vice President
Controller

Dr. Jose M. Galano
Vice President
International Operations

John R. Howard, CPA
Vice President—Finance
Treasurer
Assistant Secretary

Weldon K. Huffman
Vice President
Systems Management
Assistant Secretary

James A. Kincl
Vice President
Market Development

Bob Laughlin
Vice President
Special Markets

Edward R. Nadalin
Vice President
Marketing

Harold L. Ponder
Vice President
Risk Selection

James V. Robinson
Vice President
Secretary

Larry A. West, CLU
Vice President
Sales Director

Larry D. White, FLMI
Vice President
Policyowners' Service

David G. Caldwell
Assistant Vice President
Legal Department

Robert J. Dicks, FLMI
Assistant Vice President
Underwriting

Richard M. Edwards
Assistant Vice President
International Operations

James R. Naiser
Assistant Vice President
Data Processing

Lee E. Posey, FLMI
Assistant Vice President
Administrative Services

Agnes Connolly
Assistant Secretary

Robert L. Moody, Jr.
Assistant Secretary

Mary L. Smith
Assistant Secretary

Frances V. Soderstrom
Assistant Secretary
Assistant Treasurer

Hans W. Weber
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