1983 annual report

national western life insurance company

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

ACCOUNTANTS
Touche Ross & Co., American Bank Tower, Suite 1400, Austin, Texas 78701

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

TRANSFER AGENTS/REGISTRARS
Manufacturers Hanover Trust Company, Box 24935, Church Street Station, New York, New York 10249
First City National Bank, 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, 1983 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 Stockholders

As you examine the accompanying financial statements, you will note your Company enjoyed another successful year. Compared to the 1982 results: Per Share Earnings from insurance operations are up 22%; Assets are up 13%; Stockholder Equity is up 24%; total Premium Income is up a modest 2%, which is reflective of the competitive financial forces affecting many life insurance companies in increased surrenders and lapses of existing business, forcing total operating premium income down. Total Life Premium is down 2%, reflecting, again, competitive market forces that have forced operating premium down. On the other hand, the volume of New Business issued is up 26%; Investment Income is up 30% and total Policyowners' Benefits and Expenses are up only 7%.

The Company continues its marketing strategy to aggressively sell widely diversified products in widely diversified markets. While management recognizes the necessity of product innovations required to remain competitive in the evolving life insurance industry, marketing emphasis will continue in identifying special markets and providing the unique products and marketing methods to penetrate those markets.

The financial statements depict in detail audited results of the Company's operations for the calendar year 1983 as well as the operating results of the Company's brokerage subsidiary, The Westcap Corporation. The Company owns 100% of the outstanding shares of the Preferred Stock and 83% of the outstanding shares of the Common Stock of The Westcap Corporation. The Company has no other active subsidiaries. Statutory Statements of Operations are also included.

The business of life insurance is, and will continue to be, the Company's major business operation. However, management recognizes the general volatility of the brokerage business and the favorable or unfavorable impact this volatility can have on operating results when consolidated with the more stable, much larger, and more predictable insurance operation. Therefore, management intends to indicate in future financial reports the relative contribution to earnings of each of the operations. The first such comparative statement is included as a supplement hereto.[1]

Management continues to be pleased with the operational results obtained by The Westcap Corporation since National Western Life assumed the role of controlling stockholder in 1980. Since that time, Westcap has prospered under capable management and a successful sales organization. The longer term goal for the firm is to gradually achieve the status of a full-service regional brokerage house.

With your continued loyalty and support, the efforts of our marketing organizations and marketing associates, employees, and Officers and Directors, we are optimistic about business results in 1984 and the years to come.

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

Harry L. Edwards
President and
Chief Operating Officer

(1)

	Three Months Ended December 31		Year Ended December 31	
	1983	1982	1983	1982
Earnings from insurance operations	$1,227,913	$ 644,247	$4,822,557	$3,914,654
Earnings from Westcap operations	388,003	1,270,164	2,504,780	3,086,540
Total earnings from operations	1,615,916	1,914,411	7,327,337	7,001,194
Net realized losses on investments	(480,843)	(80,183)	(220,834)	(554,482)
Extraordinary charge	(125,000)	—	—	—
Net earnings	$1,010,073	$1,834,228	$7,106,503	$6,446,712
Per Share				
Earnings from insurance operations	$ .35	$ .18	$ 1.39	$ 1.14
Earnings from Westcap operations	.11	.37	.72	.90
Total earnings from operations	.46	.55	2.11	2.04
Net realized losses on investments	(.13)	(.02)	(.07)	(.16)
Extraordinary charge	(.04)	—	—	—
Net earnings	$ .29	$ .53	$ 2.04	$ 1.88

Consolidated Balance Sheets

ASSETS	December 31 1983	1982
Investments:		
Fixed maturities, primarily bonds at amortized cost (market value $160,527,901 in 1983; $133,150,881 in 1982)	$184,806,441	155,508,210
Preferred stocks, at market value (cost $5,359,179 in 1983; $4,022,865 in 1982)	3,938,463	2,548,779
Common stocks, at market value (cost $2,342,410 in 1983; $403,616 in 1982)	2,504,473	429,305
Investment in subsidiary, at equity (note 2)	8,315,865	5,625,278
Mortgage loans on real estate, net of unearned discount of $1,298,514 in 1983 and $1,457,098 in 1982, and allowance for uncollectible loans of $200,000 in 1983 and 1982	61,811,836	52,940,097
Note receivable from affiliate	500,000	500,000
Real estate held for investment, at cost	2,162,996	1,954,509
Real estate acquired by foreclosure, substantially at cost	236,586	102,364
Contracts of sale on real estate acquired by foreclosure, at cost	526,068	729,119
Policy loans	54,796,960	55,186,008
Collateral loans	1,313,077	353,076
Life interest in Libbie Shearn Moody Trust (note 3)	8,402,433	8,652,627
Other loans and investments, at cost	227,887	75,478
Invested cash	1,298,579	606,182
Total investments	330,841,664	285,211,032
Cash	913,630	2,203,859
Accounts receivable, net of allowance for doubtful accounts of $1,072,000 in 1983 and $276,000 in 1982	2,323,523	1,105,500
Accrued investment income	5,171,144	4,255,394
Deferred policy acquisition costs	46,228,083	46,977,815
Property and equipment at cost less accumulated depreciation of $1,801,085 in 1983 and $1,425,956 in 1982	2,608,346	2,888,293
Other assets	2,247,024	2,121,057
Excess of cost over net assets of subsidiaries acquired	466,444	561,010
	$390,799,858	345,323,960

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31 1983	1982
Future policy benefits:		
Life insurance	$297,263,673	265,562,668
Accident and health insurance	348,513	286,341
Policy and contract claims	2,141,731	2,761,116
Other policyholders' funds:		
Supplementary contracts without life contingencies	457,511	460,631
Policyholders' dividends, coupons and endowment accumulations	14,503,463	15,274,487
Premium deposit funds	3,949,418	591,215
Other	184,119	179,081
Deferred Federal income taxes payable (note 4)	26,135,000	23,235,000
Other liabilities	7,644,222	6,097,461
Total liabilities	352,627,650	314,448,000
Stockholders' equity (notes 3, 4, 5, 10 and 12):		
Common stock:		
Class A of $1 par value, authorized 7,500,000 shares; issued 3,277,950 in 1983 and 3,277,950 in 1982	3,277,950	3,277,950
Class B of $1 par value, authorized and issued 200,000 shares	200,000	200,000
Additional paid-in capital	24,066,498	24,066,498
Net unrealized losses on investments in equity securities (note 8)	(1,258,653)	(1,448,398)
Retained earnings:		
Appropriated—Mandatory Securities Valuation Reserve	6,152,511	1,892,149
Unappropriated	5,733,902	2,887,761
Total stockholders' equity	38,172,208	30,875,960
	$390,799,858	345,323,960

Commitments and contingencies (notes 9, 10, 12, 13 and 14)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations

	Years Ended December 31		
	1983	1982	1981
Premiums and other revenue:			
Premiums (notes 9, 10 and 14):			
Life	$ 38,658,087	39,463,930	39,542,418
Annuities	40,812,012	36,218,819	5,027,765
Accident and health	57,412	2,571,892	2,804,134
	79,527,511	78,254,641	47,374,317
Investment income (net of expenses of $1,728,527 in 1983, $2,248,524 in 1982, and $3,577,633 in 1981 (note 7)	27,205,917	20,920,342	16,741,471
Other income	3,701,474	3,344,130	1,490,063
Total premiums and other revenue	110,434,902	102,519,113	65,605,851
Benefits and expenses:			
Life	30,215,403	25,164,805	21,956,722
Accident and health	(183,652)	2,191,165	1,737,743
Other	12,989,249	6,634,230	6,388,279
Increase (decrease) in liabilities for future policy benefits:			
Life	31,701,005	36,075,697	10,174,732
Accident and health	62,172	(2,329,130)	253,380
Dividends to policyholders (note 10)	395,965	389,553	366,721
Amortization of deferred policy acquisition costs	15,307,256	15,648,763	10,945,639
Other operating expenses:			
Commissions	1,155,757	1,334,185	1,017,815
Salaries	3,299,420	3,147,025	2,825,723
Taxes, licenses and insurance fees	1,215,108	1,129,229	898,335
Other expenses	4,049,882	4,244,397	2,526,381
Total benefits and expenses	100,207,565	93,629,919	59,091,470
Earnings before provision for Federal income taxes, net realized losses on investments	10,227,337	8,889,194	6,514,381
Provision for deferred Federal income taxes (note 4)	2,900,000	1,888,000	1,730,000
Earnings before net realized losses on investments	7,327,337	7,001,194	4,784,381
Net realized losses on investments (note 8)	(220,834)	(554,482)	(117,131)
Net earnings	$ 7,106,503	6,446,712	4,667,250
Earnings per share of common stock (note 6):			
Earnings before net realized losses on investments	$2.11	2.04	1.40
Net realized losses on investments	(.07)	(.16)	(.03)
Net earnings	$2.04	1.88	1.37

See accompanying notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

	Years Ended December 31		
	1983	1982	1981
Common stock (note 3):			
Balance at beginning of year	$ 3,477,950	3,413,231	3,411,120
Par value of 64,719 and 2,111 shares issued in 1982 and 1981, respectively	—	64,719	2,111
Balance at end of year	3,477,950	3,477,950	3,413,231
Additional paid-in capital (note 5):			
Balance at beginning of year	24,066,498	23,500,216	23,499,239
Value in excess of par on 64,719 and 217 shares of 1982 and 1981, respectively	—	566,282	977
	24,066,498	24,066,498	23,500,216
Net unrealized losses on investments in equity securities:			
Balance at beginning of year	(1,448,398)	(2,122,519)	(1,914,865)
Decrease (Increase) in unrealized losses on investments in equity securities during the year	189,745	674,121	(207,654)
Balance at end of year	(1,258,653)	(1,448,398)	(2,122,519)
Retained earnings (notes 3, 4, 5 and 10):			
Appropriated retained earnings:			
Balance at beginning of year	1,892,149	17,254	—
Allocation from unappropriated retained earnings	4,260,362	1,874,895	17,254
Balance at end of year	6,152,511	1,892,149	17,254
Unappropriated retained earnings:			
Balance at beginning of year	2,887,761	(1,684,056)	(6,334,052)
Net earnings	7,106,503	6,446,712	4,667,250
Transfer to appropriated retained earnings	(4,260,362)	(1,874,895)	(17,254)
Balance at end of year	5,733,902	2,887,761	(1,684,056)
Total stockholders' equity	$38,172,208	30,875,960	23,124,126

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position

	Years Ended December 31		
	1983	1982	1981
Funds provided:			
From operations:			
Net earnings	$ 7,106,503	6,446,712	4,667,250
Charges (credits) not affecting funds:			
Provision for deferred Federal income taxes	2,900,000	1,888,000	1,730,000
Amortization of deferred policy acquisition costs	15,307,256	15,648,763	10,945,639
Increase in liability for future policy benefits	31,763,177	33,746,567	10,428,112
Increase (decrease) in policy claim liabilities	(619,385)	282,706	946,601
Amortization of bond discount	(2,056,464)	(737,467)	(811,080)
Amortization of life interest in Libbie Shearn Moody Trust	250,194	247,810	245,451
Depreciation	366,977	366,790	290,676
Other	305,656	(1,180,306)	455,736
Funds provided from operations	55,323,914	56,709,575	28,898,385
Cost of investments sold and loans repaid:			
Bonds and notes	46,923,059	67,686,938	5,298,667
Stocks	101,985	1,537,602	388,027
Mortgage loans	5,491,731	4,326,336	3,099,487
Real estate held for investment	215,266	144,957	522,081
Collateral loans	240,000	240,001	286,923
	52,972,041	73,935,834	9,595,185
Decrease (increase) in cash	597,832	(829,508)	495,112
Decrease in short-term borrowings	—	—	(15,250,000)
Other, net	—	—	1,241,464
Total funds provided	$108,893,787	129,815,901	24,980,146
Funds used:			
Increase (decrease) in policy loans	$ (389,048)	3,591,072	6,690,579
Cost of investments purchased or loans disbursed:			
Bonds and notes	75,144,261	106,880,272	4,365,633
Stocks	3,812,103	359,340	933,455
Mortgage loans	14,200,984	2,754,067	288,868
Real estate held for investment	346,772	856	375,228
Collateral loans and other	4,042,996	1,404,030	813,362
	97,158,068	114,989,637	13,467,125
Additions to deferred policy acquisition costs	14,557,524	13,340,391	11,415,970
Cost of property and equipment	95,182	259,845	97,051
Other, net	(2,916,987)	1,226,028	—
Total funds used	$108,893,787	129,815,901	24,980,146

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years Ended December 31, 1983, 1982, and 1981

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements include the accounts of National Western Life Insurance Company and its wholly-owned subsidiary. 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 2). 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 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:

	1983	1982	1981
Costs deferred:			
Agents' Commissions	$12,077,419	11,030,892	9,706,846
Other	2,480,105	2,309,499	1,709,124
	$14,557,524	13,340,391	11,415,970
Amounts amortized	$15,307,256	15,648,763	10,945,639
First year and single premiums	$40,858,292	40,801,775	10,398,152
Renewal premiums	$38,669,219	37,452,866	36,976,165

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 4).

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 2).

5. 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 7 and 8).

6. 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.

7. 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 3). The statutory amount is not being amortized in the statutory financial statements.

8. 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. (See note 9).

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, 1983, 1982 and 1981, to the respective amounts as reported in the accompanying consolidated financial statements are as follows:

	Net Earnings		
	1983	1982	1981
Per annual statement to insurance department	$ 5,900,155	5,801,831	3,990,008
Statutory net earnings of subsidiaries	1,612	18,792	19,574
Consolidated statutory net gain from operations	5,901,767	5,820,623	4,009,582
Adjustments:			
Add (deduct):			
Deferral of policy acquisition costs	(749,732)	(2,308,372)	470,331
Adjustment of future policy benefits	719,618	1,391,168	(557,060)
Adjustment for portfolio reinsurance (note 9)	2,000,000	2,000,000	2,000,000
Amortization of investment in Trust	(250,194)	(247,810)	(245,451)
Deferred Federal income taxes	(2,900,000)	(1,888,000)	(1,730,000)
Other net realized losses on investments	(220,834)	(554,482)	(117,131)
Other, net	2,605,878	2,233,585	836,979
Amounts per consolidated financial statements	$ 7,106,503	$ 6,446,712	$ 4,667,250

	Stockholders' Equity		
	1983	1982	1981
Per annual statement to insurance department ...	$40,621,469	37,106,181	32,938,627
Adjustments to generally accepted accounting principles:			
Difference in initial valuation of investment in Libbie Shearn Moody Trust, net of amortization ...	(3,234,722)	(3,049,416)	(2,887,062)
Excess of cost over net assets of subsidiaries acquired ...	466,444	561,010	655,576
Deferral of policy acquisition costs, net of amortization ...	46,228,083	46,977,815	49,286,187
Adjustment of future policy benefits ...	(7,381,325)	(7,827,876)	(9,639,675)
Adjustment for portfolio reinsurance (note 9) ...	(20,477,850)	(22,477,850)	(24,477,850)
Deferred Federal income taxes ...	(26,135,000)	(23,235,000)	(21,347,000)
Adjustment to report preferred stocks at market value ...	(1,323,826)	(1,338,559)	(2,080,895)
Adjustments of investments in bonds to reflect permanent impairments in value ...	(505,935)	(843,894)	(471,538)
Transfer of Mandatory Securities Valuation Reserve to appropriated retained earnings ...	6,152,511	1,892,149	17,254
Allowance for uncollectible mortgage loans ...	(200,000)	(200,000)	(200,000)
Reinstatement of non-admitted assets ...	3,035,604	1,727,258	1,659,361
Other, net ...	926,755	1,584,142	(328,859)
Amounts per consolidated financial statements ...	$38,172,208	30,875,960	23,124,126

(B) Investments—Investments in bonds are stated principally at amortized cost and investments in preferred and common stocks are stated at market values. 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, 1983, gross unrealized investment gains and losses on marketable equity securities were $617,599 and $1,876,252, 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.

(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 1983, 1982 and 1981 amounted to approximately $95,000.

(2) 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 its 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 statements of operations for the years ended December 31, 1983, 1982 and 1981 include approximately $2,504,000, $3,086,000, and $1,060,000, respectively, of equity earnings of the subsidiary. As of December 31, 1983, the Company owned approximately 83% of the outstanding common stock and 100% of the voting, convertible 8% noncumulative preferred stock of the subsidiary. The total equity ownership of the Company is approximately 100%. Effective December 1, 1980, the subsidiary changed its name to The Westcap Corporation.

The brokerage firm is subject to the net capital rules adopted and administered by the Securities and Exchange Commission. These capital rules may restrict retained earnings as to the payment of dividends if certain financial ratios are not met.

Summary balance sheets, revenue and net income as of September 30, 1983, 1982 and 1981 and for the years then ended follows:

	1983	1982	1981
Assets:			
Cash	$ 2,934,290	1,366,306	170,398
Receivables	15,712,254	31,196,237	4,167,177
Trading inventory	9,655,353	13,575,757	7,903,374
Other assets	12,458,690	5,268,801	431,452
	$40,760,587	51,407,101	12,672,401
Liabilities:			
Notes payable	$ 2,460,047	10,992,540	4,556,847
Payables to customers and brokers	12,952,381	26,246,723	4,045,772
Other liabilities	17,272,000	8,912,836	863,250
	32,684,428	46,152,099	9,465,869
Stockholders' investment	8,076,159	5,255,002	3,206,532
	$40,760,587	51,407,101	12,672,401
Revenues	$26,365,455	15,981,074	7,397,427
Income before extraordinary items	$ 3,300,843	1,574,443	94,077
Extraordinary items	396,089	1,245,712	83,395
Net income	$ 3,696,932	2,820,155	177,472

(3) TRANSACTIONS WITH CONTROLLING STOCKHOLDER AND AFFILIATES

(A) Life Interest in Libbie Shearn Moody Trust—The Company is the beneficial owner of a life interest (1/8 share), previously owned by Mr. Robert L. Moody, 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,	
	1983	**1982**
Original valuation of life interest at February 26, 1960	$13,793,149	$13,793,149
Less accumulated amortization	5,390,716	5,140,522
Net asset value of life interest in Trust	$ 8,402,433	$ 8,652,627

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 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 175,000 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 approximately 7,000 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 $11.37 per share at December 31, 1983.

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

	Year Ended December 31,		
	1983	**1982**	**1981**
Income distributions received	$ 1,167,000	1,088,000	946,000
Add (deduct):			
Amortization of initial valuation	(250,000)	(248,000)	(245,000)
Reinsurance premiums charged to operations	(83,000)	(78,000)	(73,000)
Increase in cash surrender value of company-owned life insurance policies	65,000	85,000	70,000
Net income from life interest in the Trust	$ 899,000	847,000	698,000

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 $40,000 in 1983, $46,000 in 1982, and $53,000 in 1981, and liabilities for future policy benefits related to these policies in the amounts of $1,158,000, $1,118,000 and $1,072,000 at December 31, 1983, 1982 and 1981, 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 1,161,760 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.

(4) FEDERAL INCOME TAXES

The Company is presently computing Federal income taxes under stopgap provisions enacted as part of the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA). This legislation expired December 31, 1983. New tax legislation is under consideration by Congress. While it is expected that any new tax legislation will make significant changes in the way life insurance companies are taxed and possibly impact deferred Federal income tax provisions from prior years, no new law has been enacted at this time. Should Congress fail to pass any new tax legislation for life insurance companies, they will continue to be taxed under the Life Insurance Company Income Tax Act of 1959.

Under the provisions of the Life Insurance Company Income Tax Act of 1959, a life insurance company is taxed on its total income. The Company's tax base is its gain from operations. Taxable income is the sum of the lesser of taxable investment income or gain from operations, plus one-half of the excess, if any, of gain from operations over taxable investment income. In computing gain from operations, the Company is allowed certain statutory special deductions. The Company is required to maintain two memorandum accounts for tax purposes. These accounts are designated as the shareholders' and policyholders' surplus accounts. In general, the accumulated income subject to current taxation less the tax thereon is accumulated in the shareholders' surplus account. The portion of gain from operations over taxable investment income which is not currently subject to taxation, plus the special deductions allowed in computing gain from operations, are accumulated in the policyholders' surplus account.

At December 31, 1983, the Company had accumulated approximately $2,446,000 in its policyholders' surplus account. This account was increased by $735,000 for the year ended December 31, 1983. In general, amounts accumulated in the policyholders' surplus account are subject to Federal income taxation (a) to the extent that policyholders' surplus exceeds a specified maximum; (b) if distributions to stockholders are made in excess of the shareholders' surplus account; or (c) if a company ceases to be a life insurance company as defined by the Internal Revenue Code. Deferred Federal income taxes have not been provided on the amounts accumulated in the policyholders' surplus account, since the Company does not anticipate any other transactions that would cause any part of this amount to become taxable. Should the balance in the policyholders' surplus account at December 31, 1983 become taxable, the Federal income tax computed at present rates would be approximately $1,125,000.

The Company and its subsidiary 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 are as follows:

	1983	1982	1981
Policy acquisition costs expensed for tax purposes and deferred for financial accounting purposes	$(350,000)	(1,067,000)	211,000
Excess of the increase in the liability for future policy benefits for tax purposes over the increase for financial accounting	1,251,000	1,560,000	638,000
Special life insurance company deductions	—	—	(717,000)
Net level premium election	(514,000)	(12,736,000)	(1,933,000)
Use of tax operating loss deduction	1,896,000	13,695,000	2,691,000
Other	617,000	436,000	840,000
	$ 2,900,000	1,888,000	1,730,000

The provisions for Federal income taxes 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	1983	1982	1981
Computed expected income taxes at the statutory rate	$ 3,795,000	2,994,000	2,500,000
Add (deduct):			
Special life insurance company deductions allowed for tax purposes	(370,000)	(323,000)	(670,000)
Dividends received deduction	(407,000)	(338,000)	(119,000)
Amortization of life interest in Libbie Shearn Moody Trust which is not tax deductible	115,000	114,000	113,000
Other	(233,000)	(559,000)	(94,000)
Total provision for Federal income taxes	$ 2,900,000	1,888,000	1,730,000

At December 31, 1983 the Company had loss carryforwards of approximately $11,705,000 which the Company has treated on its Federal income tax return as expiring in 1995. The Company also has unused tax credits of approximately $260,000.

(5) STOCKHOLDERS' EQUITY

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 $24,391,000, $20,876,000, and $17,340,000 at December 31, 1983, 1982 and 1981, 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 4, note 10, and the contingencies described in note 12. Also, as long as the portfolio reinsurance agreement described in note 9 remains in effect, the Company has agreed not to declare or pay any dividends without the prior approval of the reinsurers. The rights of the respective classes of common stock to share in dividends of the Company are described in note 3.

(6) EARNINGS PER SHARE

Earnings 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 3,477,950, 3,423,188, and 3,411,538 for the years ended December 31, 1983, 1982 and 1981, respectively.

(7) NET INVESTMENT INCOME AND CONCENTRATION OF INVESTMENTS

The major components of net investment income are as follows:

	1983	1982	1981
Investment income:			
Interest on bonds	$17,535,742	12,470,505	9,685,747
Interest on mortgage loans	5,779,645	5,391,556	5,555,837
Interest on policy loans	2,979,137	2,897,967	2,577,111
Interest on notes receivable from affiliates	40,000	40,000	40,000
Income from life interest in Libbie Shearn Moody Trust (see note 3)	1,167,110	1,087,966	946,392
Other investment income	1,837,810	1,280,872	1,514,017
Total investment income	29,339,444	23,168,866	20,319,104
Interest expense on other short-term borrowings	5,462	—	1,802,541
Other investment expenses	2,128,065	2,248,524	1,775,092
Net investment income	$27,205,917	20,920,342	16,741,471

Investments of the following amounts were non-income producing for the twelve months prior to December 31, 1983 and 1982:

Type of Investment	1983	1982
Bonds	$ 1,067,000	680,580
Preferred stock	—	145,998
Real estate	$ 815,715	625,723

Listed below is a summary of investments other than real estate amounting to 10% or more of total stockholders' equity at December 31, 1983 and 1982. In the case of real estate, no investments in excess of 10% were acquired within the previous five years.

	1983	1982
Life interest in Libbie Shearn Moody Trust	$ 8,402,433	8,652,627

(8) 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 and investments in marketable equity securities during the years ended December 31, 1983, 1982 and 1981, respectively:

	Net Realized Investment (Gains) Losses Net of Tax	Increase (Decrease) in Unrealized Losses on Investments	Total
Year Ended December 31, 1983			
Bonds	$ 211,539	1,921,211	2,132,750
Stocks	(13,953)	(189,745)	(203,698)
Other	23,248	—	23,248
Total	$ 220,834	1,731,466	1,952,300

	Net Realized Investment (Gains) Losses Net of Tax	Increase (Decrease) in Unrealized Losses on Investments	Total
Year Ended December 31, 1982			
Bonds	$ 608,269	(10,031,883)	(9,423,614)
Stocks	(31,566)	(674,121)	(705,687)
Other	(22,221)	—	(22,221)
Total	$ 554,482	(10,706,004)	(10,151,522)
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

(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 $245,000,000 and $261,000,000 is ceded on a yearly renewable term basis, $1,500,000 and $1,900,000 is ceded on a modified coinsurance basis and $46,000,000 and $32,400,000 is ceded on a coinsurance basis at December 31, 1983 and 1982, respectively. In accordance with the reinsurance contracts, credits in the amounts of approximately $1,600,000 and $1,500,000 were taken against the liability for future policy benefits at December 31, 1983 and 1982, 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.

In December 1982, the Company reinsured approximately 98% of its accident and health business with another insurance carrier under an assumption reinsurance agreement.

On May 22, 1980, the Company entered into a portfolio reinsurance agreement. 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 reinsurers 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. Under the provisions of this agreement, risk and expense charges of approximately $1,120,000 and $1,230,000 were paid during the years ended December 31, 1983 and 1982, respectively. These amounts were charged to other expense (note 1).

(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, 1983 are entitled to dividends equal to an aggregate maximum of approximately 1% 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, 1983 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, and issue date of policies, and the provision for 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, 1983, no retained earnings were so allocated.

Participating business constitutes approximately 13% and 16% of the Company's life insurance in force, 23% and 25% of the policies in force, and 13% and 15% of the premium income for the years ended December 31, 1983 and 1982, respectively.

(11) DEPOSITS WITH REGULATORY AUTHORITIES

At December 31, 1983 and 1982, the following assets were on deposit with state and other regulatory authorities as required by law:

	1983	1982
Bonds, at amortized cost	$48,651,240	29,584,457
Mortgage loans on real estate	3,865,114	5,097,609
Certificates of deposit	284,144	316,182

(12) CONTINGENCIES

The Company and certain of its past and present directors are involved in a lawsuit seeking certain claims. 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 Bylaws 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 has been the plaintiff in a civil action against four former officers and directors of The Westcap Corporation, the parent corporation of Westcap Government Securities, Inc., and their former 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. On September 30, 1983, the Company accepted a partial settlement. Under the settlement agreement between the Company and The Westcap Corporation, Westcap Government Securities, Inc., and their former independent accounting firm, the Company received $1,000,000 from The Westcap Corporation and Westcap Government Securities, Inc., and $100,000 from their former accounting firm. Each party to the settlement agreement dismissed with prejudice any and all claims asserted in connection with the civil action against the other parties to the settlement agreement and agreed to indemnify the other parties in the event of any derivative claim on their behalf or any claim seeking indemnity or contribution from such other party. However, the Company, The Westcap Corporation and Westcap Government Securities, Inc., did not release the four former officers from any claim asserted in the civil action. Under the civil action, the Company is seeking actual damages of $35,000,000 and punitive damages of $20,000,000.

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 material liability. 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 $3,298,578 at December 31, 1983.

(13) 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, 1983, the unfunded past service cost of the pension plan was $128,321. The actuarially computed value of vested benefits of the pension plan did not exceed the net assets of the plan at December 31, 1983. The assumed interest rate used by the plan was 4.5%. Pension expense for the years ended December 31, 1983, 1982, and 1981 amounted to $246,000, $239,000, and $209,000, respectively.

(14) FOREIGN SALES

Total premium income related to life insurance written in foreign countries, primarily Central and South America, was approximately $17,000,000, $17,000,000, and $16,000,000 for the years ended December 31, 1983, 1982 and 1981, respectively.

(15) QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The four quarters of 1982 and the first three quarters of 1983 have been restated. This resulted from correction of a $431,000 error in the calculation of the 1982 deferred Federal income tax provision. The tax provision assumptions used in the first three quarters of 1983 were based on incorrect 1982 data and, accordingly, were also in error. Had these changes been in effect and applied during each quarter in 1982 and 1983, the effect on quarterly results of operations for 1982 would have been an increase (decrease) of $71,000, $(17,000), $20,000 and $(505,000), respectively. For the first three quarters of 1983, the effect on quarterly results of operations would have been an increase (decrease) of $(155,000), $(140,000) and $(415,000).

Quarterly results of operations for the years ended December 31, 1983 (as restated), 1982 (as restated), and 1981 are summarized as follows:

(000's omitted except for per share amounts)	1983 First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total premiums and other revenue	$ 25,912	27,636	27,867	29,020
Total benefits and expenses	22,766	25,474	25,254	26,714
Earnings before Federal income taxes, net realized gains on investments and extraordinary tax credit	3,146	2,162	2,613	2,306
Federal income taxes	650	465	1,095	690
Earnings before net realized gains on investments and extraordinary tax credit	2,496	1,697	1,518	1,616
Net realized gains (losses) on investments, net of tax	46	169	45	(481)
Earnings before extraordinary tax credit	2,542	1,866	1,563	1,135
Extraordinary tax credit	22	81	22	(125)
Net earnings	$ 2,564	1,947	1,585	1,010
Per share results:				
Earnings before net realized gains on investments and extraordinary tax credit	$ .72	.49	.44	.46
Net realized gains (losses) on investments, net of tax	.01	.04	.01	(.13)
Earnings before extraordinary tax credit	.73	.53	.45	.33
Extraordinary tax credit	.01	.02	.01	(.04)
Net earnings	$ .74	.55	.46	.29
Weighted average shares outstanding	3,477,950	3,477,950	3,477,950	3,477,950

(000's omitted except for per share amounts)	1982 First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total premiums and other revenue	$ 21,883	24,036	27,279	29,321
Total benefits and expenses	19,872	22,757	23,858	27,143
Earnings before Federal income taxes, net realized gains on investments and extraordinary tax credit	2,011	1,279	3,421	2,178
Federal income taxes	549	381	694	264
Earnings before net realized gains on investments and extraordinary tax credit	1,462	898	2,727	1,914
Net realized gains (losses) on investments, net of tax	7	(141)	(340)	(80)
Earnings before extraordinary tax credit	1,469	757	2,387	1,834
Extraordinary tax credit	3	(3)	—	—
Net earnings	$ 1,472	754	2,387	1,834

	1982			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Per share results:				
Earnings before net realized gains on investments and extraordinary tax credit	$ .43	.26	.80	.55
Net realized gains (losses) on investments, net of tax	—	(.04)	(.10)	(.02)
Earnings before extraordinary tax credit	.43	.22	.70	.53
Extraordinary tax credit	—	—	—	—
Net earnings	$ .43	.22	.70	.53
Weighted average shares outstanding	3,413,231	3,413,231	3,413,231	3,423,188

	1981			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
(000's omitted except for per share amounts)				
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 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 before net realized gains 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 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 before net realized gains on investments and extraordinary tax credit	$ .27	.26	.38	.49
Net realized gains (losses) on investments, net of tax	.02	—	.01	(.06)
Earnings 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

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, 1983 and 1982, and the related statements of operations, stockholders' equity and changes in financial position for each of the three years in the period ended December 31, 1983. 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, 1983 and 1982, and the consolidated results of their operations and the changes in their financial position for the three years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

March 15, 1984
Austin, Texas

Touche Ross & Co.

Summary of Operations

	Years Ended December 31				
	1983	1982	1981	1980	1979
Premium Income	$79,527,511	78,254,641	47,374,317	46,912,884	42,101,649
Investment Income	27,205,917	20,920,342	16,741,471	12,824,117	15,963,618
Other Income	3,701,474	3,344,130	1,490,063	652,171	71,056
Total Income	110,434,902	102,519,113	65,605,851	60,389,172	58,136,323
Policyowner Benefits	75,180,142	68,126,320	40,877,577	40,272,556	36,567,517
Commissions and Other Expenses	25,027,423	25,503,599	18,213,893	15,813,047	14,473,481
Total Expenses	—	93,629,919	59,091,470	56,085,603	51,040,998
Loss on Write-down of Subsidiary	—	—	—	—	6,750,000
Earnings Before Taxes	10,227,337	8,889,194	6,514,381	4,303,569	345,325
Federal Income Taxes	2,900,000	1,888,000	1,730,000	1,270,000	2,040,000
Earnings (Loss) From Operations	7,327,337	7,001,194	4,784,381	3,033,569	(1,694,675)
Net Investment Losses	(220,834)	(554,482)	(117,131)	(14,182,680)	(21,330,506)
Extraordinary Credit	—	—	—	—	—
Net Earnings (Loss)	$ 7,106,503	6,446,712	4,667,250	(11,149,111)	(23,025,181)
Per Share:					
Earnings (Loss) From Operations	$ 2.11	2.04	1.40	.89	(.50)
Investment Losses	(.07)	(.16)	(.03)	(4.16)	(6.25)
Extraordinary Credit	—	—	—	—	—
Net Earnings (Loss)	$ 2.04	1.88	1.37	(3.27)	(6.75)

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	
	1981	1982	1983	1981-82	1982-83
Premiums	72.2%	76.3%	72.0%	65.2%	1.6%
Investment income	25.5	20.4	24.6	25.0	30.0
Other income	2.3	3.3	3.4	124.4	10.7
Total revenues	100.0	100.0	100.0	56.3	7.7
Policyowner benefits	62.3	66.5	68.1	66.7	10.4
Commissions and other expenses	27.8	24.9	22.7	40.0	(1.9)
Earnings before taxes	9.9	8.6	9.2	36.5	15.1
Provision for income taxes	2.6	1.8	2.6	9.1	53.6
Earnings from operations	7.3	6.8	6.6	46.3	4.7
Net investment gains (losses)	(0.2)	(0.5)	(.2)	373.4	(60.2)
Net earnings	7.1%	6.3%	6.4%	38.1	10.2

Results of Operations

Premium Income: In 1982, the Company aggressively expanded its annuity production, which exceeded $36 million or 46% of total premium and accounted for most of the 65% increase in premium income from 1981. In 1983, annuity production continued to improve, accounting for approximately 51% of total premium. Total premium income for 1983 increased by 1.6% over 1982. This increase was net of a $2.5 million decrease in accident and health premiums resulting from the Company's reinsuring most of the business with another carrier late in 1982. During 1983, the Company entered the universal life market and expects this product to become an important source of future premium income.

Investment Income: The 25% increase from 1981 to 1982 and the 30% increase from 1982 to 1983 are directly related to the increased cash flow from new annuity sales and the resulting reinvestment of funds. The invested assets from which this income is produced increased from approximately $242 million in 1981 to $285 million in 1982 and to $330 million in 1983. As annuity and other production continues to increase, invested assets and the related investment income should continue the same growth pattern.

Other Income: Most of this income is derived from equity basis income from the Company's brokerage subsidiary, The Westcap Corporation. Income recognized from this source for 1983, 1982 and 1981 was $2,504,000, $3,086,000 and $1,060,000, respectively. Also included in other income for 1983 is $1,100,000 received in partial settlement of a certain pending lawsuit which is more fully described in footnote 12 to the Company's consolidated financial statements.

Policyowner Benefits: The increase from 1981 to 1982 relates primarily to the Company's new annuity program introduced in early 1982 as it relates to annuity reserves. Annuity reserves increased proportionately to annuity premiums, which increased by more than $31 million. The 1982-1983 increase was much less dramatic in that annuity premiums increased only $4.5 million, 1983 over 1982.

Commissions and Other Expenses: From 1981 to 1982, commissions and other expenses increased by 40%. The major portion of this increase was directly related to amortization of deferred policy acquisition costs. Approximately $2 million of accident and health deferred policy acquisition cost was expensed when the portfolio was reinsured in December, 1982. Increased surrender benefits also contributed to this amortization increase. Additionally, $550,000 of interest expense was accrued on the Company's Federal income tax assessment for the years 1971 through 1975. From 1982 to 1983, the decrease in this expense category was 1.9%. Salaries, taxes and other miscellaneous expenses increased less than 1% over 1982, but commissions provided enough decrease to net the 1.9%. The decrease in commissions is partially related to the decrease in life premium, which usually provides a higher commission rate than other insurance lines. Additionally, the absence of most of the accident and health business in 1983 provided approximately $400,000 of decreased commission expense.

Provision for Deferred Federal Income Tax: The tax provision for the four quarters of 1982 and the first three quarters of 1983 have been restated. This restatement is described in footnote 15 to the Company's consolidated financial statements. After restatement and elimination of the Company's equity basis income from its brokerage subsidiary which is recorded net of tax, the tax provision as a percentage of pretax income is comparable for all three years.

Liquidity and Capital Resources

The demand for policy loans in 1981 and 1982 began to ease with the improvement in economic conditions and decreasing interest rates. For the first time in several years, there was a decrease in policy loans for 1983; this decrease is primarily due to the easing of inflationary pressures and lower interest rates.

After repaying approximately $15 million of short-term debt in 1981 through use of current cash flow, the Company has not incurred further material short-term debt and had none outstanding at December 31, 1982 and 1983.

Under the portfolio reinsurance agreement effected in 1980, the Company is committed to quarterly payments to the reinsurers which amounted to $1,119,000, $1,232,000 and $1,350,00 in 1983, 1982 and 1981, respectively.

Management anticipates that the Company will be able to meet its reinsurance commitment and fund policy loans from current cash flow without having to use any of its unsecured lines of credit, which at December 31, 1983 totalled $7,500,000.

The Company has no present material commitments for capital expenditures in 1984 and does not anticipate incurring any such commitments through the balance of 1984.

Common Stock Prices

Quarter Ending		High Bid	Low Asked
6-30	1983	17-7/8	14-5/8
9-30	1983	16-3/4	13-7/8
12-31	1983	14-3/4	11-1/8
3-31	1984	13-3/8	9-1/2

Statutory Balance Sheets

	(Unaudited) December 31	
	1983	1982
ASSETS		
Bonds	$185,216,118	156,677,504
Preferred stocks	13,332,204	8,508,846
Common stocks	2,535,553	633,777
Mortgage loans	65,005,564	56,619,719
Real estate	4,502,799	4,879,601
Policy loans	54,796,960	55,186,008
Collateral loans	1,313,076	353,076
Income interest in Libbie Shearn Moody Trust	11,637,155	11,702,043
Cash on hand and in banks	1,201,543	2,610,764
Short term investments	2,229,435	—
Premiums deferred and uncollected	10,835,603	10,620,657
Investment income due and accrued	5,170,769	4,246,620
Other assets	2,423,455	2,398,948
	$360,200,234	314,437,563
LIABILITIES, SURPLUS AND OTHER FUNDS		
Aggregate reserve for life policies	$279,577,014	245,156,391
Aggregate reserve for accident and health policies	348,513	286,341
Supplementary contracts without life contingencies	457,511	460,631
Life claims	2,136,731	1,849,416
Accident and health claims	5,000	911,700
Policyholders' dividend, coupon and endowment accumulations	14,301,499	15,038,302
Policyholders' dividend liability	391,600	406,000
Other liabilities to policyholders	5,015,606	1,737,823
Commissions, expenses and taxes due or accrued	1,444,532	1,253,888
Borrowed money	3,298,578	3,302,481
Other liabilities	6,449,672	5,036,260
Mandatory Securities Valuation Reserve	6,152,511	1,892,149
Total liabilities	319,578,766	277,331,382
Capital paid up	3,477,950	3,477,950
Paid-in and contributed surplus	12,751,909	12,751,909
Unassigned surplus	24,391,609	20,876,322
Total capital and surplus	40,621,468	37,106,181
	$360,200,234	314,437,563

Statutory Statements of Operations

	(Unaudited) Years Ended December 31	
	1983	1982
Premiums and annuity considerations	$ 61,973,763	85,031,538
Annuity and other fund deposits	6,650,291	5,892,619
Considerations for supplementary contracts, dividend, coupon and endowment accumulations	1,459,644	1,781,851
Reserve adjustment on reinsurance ceded	(7,436,593)	(2,456,556)
Commission and expense allowances on reinsurance ceded	2,002,711	2,638,856
Net investment income	28,201,626	22,143,856
Other income	327,406	137,782
Total income	93,178,848	115,169,946
Death claims	6,068,971	7,311,685
Accident and health claims	(100,045)	2,291,436
Surrender benefits	8,340,116	12,971,850
Coupons and endowments to policyholders	1,388,171	1,608,589
Payments on supplementary contracts, dividend, coupon and endowment accumulations	2,836,915	2,768,848
Other policy benefits	10,874,614	4,441,900
Increase in life reserves	34,420,625	38,679,913
Increase (decrease) in accident and health reserves	62,172	(1,542,178)
Decrease in other reserves	(741,214)	(386,520)
Reserves transferred and adjustments on reinsurance	—	14,633,184
Commissions and expenses on reinsurance assumed	—	4,073,305
Commissions	13,233,175	12,365,076
General expenses, taxes and other expenses	10,235,185	9,488,299
Increase in loading	278,443	265,175
Total benefits and expenses	86,897,128	108,970,562
Net gain before dividends and Federal income taxes	6,281,720	6,199,384
Dividends to policyholders	381,565	397,553
Net gain before Federal income taxes	5,900,155	5,801,831
Federal income taxes	—	—
Net gain from operations	$ 5,900,155	5,801,831

Statutory Statements of Capital and Surplus

	(Unaudited) Years Ended December 31	
	1983	1982
Balance at beginning of year	$ 37,106,181	32,938,627
Additions (deductions):		
Net gain from operations	5,900,155	5,801,831
Net capital gains	2,409,755	1,274,249
Net loss from non-admitted assets	(1,197,416)	(177,459)
Increase in Mandatory Securities Valuation Reserve	(4,260,362)	(1,874,895)
Other increases (decreases)	663,155	(856,172)
Balance at end of year	$ 40,621,468	37,106,181

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

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

E. Douglas McLeod
Project Developer
Moody Foundation
Galveston, Texas
NWL Director—1979 to present

Charles D. Milos, Jr.
Vice President and Investment Analyst, National Western Life Insurance Company
NWL Director—1981 to present

Ross R. Moody
Executive Trainee, Sealcraft Operators, Inc.; Student, University of Texas,
Austin, Texas
NWL Director—1981 to Present

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

Officers

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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 C. Andrews, CLU
Vice President
Employee Benefits

Charles P. Baley, FLMI, CLU
Vice President
Data Processing

Richard L. Boswell, FSA, MAAA
Vice President
Actuary

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

Richard M. Edwards
Vice President
International Marketing Department

Dr. Jose M. Galano
Vice President
Latin American 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

Charles D. Milos, Jr.
Vice President
Investment Analyst

Edward R. Nadalin
Vice President
Domestic Marketing Department

Harold L. Ponder
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Larry D. White, FLMI
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Policyowner Services

David G. Caldwell
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Legal Counsel

Robert J. Dicks, FLMI
Assistant Vice President
Underwriting

Doris Kruse
Assistant Vice President
Policy Benefit Department

James R. Naiser
Assistant Vice President
Data Processing

Lee E. Posey, FLMI
Assistant Vice President
Administrative Services

Mary L. Smith
Assistant Secretary

Hans W. Weber
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NATIONAL WESTERN LIFE INSURANCE COMPANY
850 E. Anderson Lane
Austin, Texas 78776

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