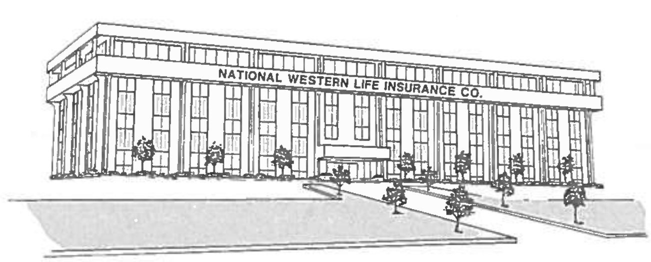
Annual Report 1987

NATIONAL WESTERN LIFE INSURANCE COMPANY



National Western Life Insurance Company
Austin, Texas

Table of Contents

10-K Report Available

National Western Life Insurance Company's earnings and financial position for the year ended December 31, 1987, have been presented in your Annual Report and are incorporated in the Form 10-K by reference. 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 78752-1602.

To Our Stockholders

1987 was a significant year in the growth of National Western Life. During the fourth quarter of the year, the Company's assets exceeded the $1 billion mark. At year-end, assets were $1,067,951,390, an increase over 1986 of 30%. Life insurance in force at year-end was $4.8 billion and should surpass $5 billion before the end of 1988.

Over the last five years, growth of the company has been primarily in new business written by the company's marketing organizations. In 1987 total new written business was 28% above 1986, continuing the upward trend of recent years. Life premium was $103,870,723, up 2.9% over 1986, while annuity premium rose 41.4% to $221,692,753. Unless an acquisition of a company or block of business is presented which enhances the company's economics, the strategy of increasing insurance in force through existing and new markets will be continued. The company is not actively seeking acquisitions at this time but is prepared to respond if an opportunity is presented.

Renewal premium increased during 1987 to $96,142,785 from $78,614,544 in 1986, for a 22% increase. Overall lapses of existing policies have been low, enhancing the profitability of the portfolio of products.

As prior reports have indicated, the life insurance industry has experienced and continues to experience rapid change. The company's marketing strategy focuses on multiple markets through more than 7,000 agents worldwide. In order to effectively compete with other financial institutions and to maintain profitability with newer products having lower profit margins, the company has strived to operate on as cost efficient a basis as possible without compromising service to agents and clients. Expenses have been below the industry average during recent years, and management will attempt to maintain expenses at current ratios.

Earnings from insurance operations for 1987 exceeded 1986 by 5.6%. However, consolidated net earnings for 1987 were $5,703,950, compared to $12,730,611 in 1986. Consolidated net earnings were down primarily due to realized investment losses as discussed in the following paragraph, and lower earnings from the company's brokerage subsidiary, The Westcap Corporation. Westcap's earnings were $948,874 in 1987 compared to $4,324,413 in 1986, with the decrease resulting from general bond market conditions in the second and third quarters of 1987.

Net investment losses of $1,020,382 resulted from write-downs of various impaired bonds and certain real estate properties located in Texas. The company's investment policy has been, and will continue to be, to avoid high risk or speculative ventures, and to concentrate on obtaining the best possible yields through quality investments. Excepting real property mortgages and capital gains, the securities portfolio average yield was 10.3% and consisted primarily of investment grade securities. High yield securities accounted for less than 10% of the portfolio.

In 1982 stockholders' equity was $30,875,960, or $8.88 per share. Steady increases have been experienced over the 5-year period, and at the end of 1987 stockholder equity was $89,943,301, or $25.86 per share, a 191% increase. In 1987 stockholder equity exceeded 1986 by 5.7%. Management has noted the market performance of National Western stock during the past year, ranging from a high of 20-3/4 to a low of 8-3/4. In the absence of any unusual or extraordinary circumstances which might account for this fluctuation, it would appear that National Western stock continues to be subject to prevailing market conditions and the cyclical variations of most life insurance stocks. Common stock prices by quarter for the past year are presented elsewhere in this report.

Management is pleased to report another successful year and, with the continuing efforts of our marketing division, both domestic and international, and our staff of capable, loyal employees, looks forward to continued growth and profitability through 1988 and beyond.

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

Robert L. Moody

Harry L. Edwards
President and
Chief Operating Officer

Harry L. Edwards

Consolidated Balance Sheets

ASSETS	December 31, 1987	December 31, 1986
Investments:		
Fixed maturities, primarily bonds, at amortized cost (market: $ 723,102,187 and $522,251,987)	$ 740,886,980	496,037,738
Preferred stocks, at market value (cost: $ 3,168,157 and $ 6,176,910)	2,772,378	6,033,175
Common stocks, at market value (cost: $ 3,397,092 and $ 3,093,264)	2,559,690	2,891,244
Mortgage loans, net of allowances for possible losses ($1,850,000 in 1987 and $1,410,000 in 1986.)	85,598,582	89,095,646
Real estate held for investment	3,440,583	2,720,775
Policy loans	97,275,418	83,992,357
Investment in subsidiary, at equity	14,221,130	12,679,000
Life interest in Libbie Shearn Moody Trust	7,377,369	7,637,325
Other long-term investments, principally real estate acquired by foreclosure, net of allowances for possible losses ($2,150,000 in 1987 and $100,000 in 1986)	10,362,866	4,772,573
Short-term investments	16,133,517	35,883,139
Total investments	980,628,513	741,742,972
Cash	4,642,777	5,600,216
Insurance receivables, net	2,670,617	2,074,389
Accrued investment income	19,852,013	14,459,408
Deferred policy acquisition costs	56,790,387	52,643,772
Property and equipment, net	996,872	843,506
Other assets	2,370,211	2,399,511
	$ 1,067,951,390	819,763,774

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

LIABILITIES AND STOCKHOLDERS' EQUITY	DECEMBER 31, 1987	DECEMBER 31, 1986
LIABILITIES:		
Future policy benefits	$ 915,136,368	676,027,754
Policy and contract claims	4,013,137	3,584,407
Policyholders' dividends, coupons, and endowment accumulations	9,904,981	10,836,401
Other policyholder funds	8,940,993	9,182,403
Federal income tax payable:		
Current	106,000	
Deferred	17,162,000	14,662,000
Other liabilities	22,744,610	20,344,075
Total liabilities	978,008,089	734,637,040
COMMITMENTS AND CONTINGENCIES (Note 13)		
STOCKHOLDERS' EQUITY:		
Common stock:		
Class A of $1 par value, authorized 7,500,000 shares; issued and outstanding 3,277,862 shares in 1987 and 3,277,819 shares in 1986	3,277,862	3,277,819
Class B of $1 par value, authorized, issued, and outstanding 200,000 shares in 1987 and 1986	200,000	200,000
Additional paid-in capital	24,065,352	24,065,352
Net unrealized losses on investments in equity securities	(1,233,181)	(345,755)
Retained earnings	63,633,268	57,929,318
Total stockholders' equity	89,943,301	85,126,734
	$ 1,067,951,390	819,763,774

See accompanying notes to consolidated financial statements.

Consolidated Statements of Earnings

	Years Ended December 31,		
	1987	1986	1985
Premiums and other revenue:			
Premiums:			
Life	$ 103,870,723	100,901,946	75,280,376
Annuities	221,692,753	156,789,145	106,938,767
	325,563,476	257,691,091	182,219,143
Investment income, net	81,195,128	62,136,811	47,547,208
Other income	910,953	744,565	765,276
Total premiums and other revenue	407,669,557	320,572,467	230,531,627
Benefits and expenses:			
Life	44,704,888	35,729,246	35,307,654
Other	51,334,356	39,871,095	31,123,769
Increase in liabilities for future policy benefits	239,108,614	180,763,027	110,830,548
Amortization of deferred policy acquisition costs	11,740,590	13,554,957	13,080,845
Other operating expenses	51,873,651	42,584,639	30,745,753
Total benefits and expenses	398,762,099	312,502,964	221,088,569
Earnings before Federal income taxes and other items	8,907,458	8,069,503	9,443,058
Provision for Federal income taxes	(3,132,000)	(2,600,000)	(3,000,000)
Earnings from insurance operations	5,775,458	5,469,503	6,443,058
Equity in net earnings of subsidiary	948,874	4,324,413	2,523,978
Realized gains (losses) on investments, less income taxes	(1,020,382)	2,936,695	495,203
Net earnings	$ 5,703,950	12,730,611	9,462,239
Earnings per share of common stock:			
Earnings from insurance operations	$ 1.66	1.57	1.85
Equity in net earnings of subsidiary	0.27	1.24	0.73
Realized gains (losses) on investments, less income taxes	(0.29)	0.85	0.14
Net earnings	$ 1.64	3.66	2.72

See accompanying notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

	Years Ended December 31,		
	1987	1986	1985
Common stock:			
Balance at beginning of year	$ 3,477,819	3,477,819	3,477,819
Correction of outstanding in 1987	43		
Balance at end of year	3,477,862	3,477,819	3,477,819
Additional paid-in capital:			
Balance at beginning and end of year	24,065,352	24,065,352	24,065,352
Net unrealized losses on investments in equity securities:			
Balance at beginning of year	(345,755)	(178,736)	(877,712)
Decrease (increase) in unrealized losses on investments in equity securities during the year	(887,426)	(167,019)	698,976
Balance at end of year	(1,233,181)	(345,755)	(178,736)
Retained earnings:			
Balance at beginning of year	57,929,318	45,198,707	35,736,468
Net earnings	5,703,950	12,730,611	9,462,239
Balance at end of year	63,633,268	57,929,318	45,198,707
Total stockholders' equity	$ 89,943,301	85,126,734	72,563,142

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position

	Years Ended December 31, 1987	1986	1985
Funds provided:			
From operations:			
Net earnings	$ 5,703,950	12,730,611	9,462,239
Charges (credits) not affecting funds:			
Deferred Federal income taxes	3,026,000	2,600,000	3,000,000
Amortization of deferred policy acquisition costs	11,740,590	13,554,957	13,080,845
Increase in liability for future policy benefits	239,108,614	180,763,027	110,830,548
Amortization of bond discount	(2,636,017)	(682,512)	(1,960,375)
Increase in allowance for loss on investments, net of tax	2,859,083	2,067,369	
Other	(4,527,166)	(5,225,949)	(2,758,673)
	255,275,054	205,807,503	131,654,584
Cost of investments sold and loans matured:			
Bonds and notes	57,204,316	59,504,924	32,085,254
Mortgage loans	20,819,174	7,558,041	8,671,945
Other	7,347,686	8,184,992	3,565,669
	85,371,176	75,247,957	44,322,868
Decrease (increase) in cash	20,707,061	(27,589,900)	1,457,835
Other, net	6,182,357	22,293,621	3,356,494
Total funds provided	$ 367,535,648	275,759,181	180,791,781
Funds used:			
Increase in policy loans	$ 13,283,061	14,055,396	9,091,615
Cost of investments purchased or loans disbursed:			
Bonds and notes	300,697,756	218,751,811	133,196,314
Stocks	1,213,204	6,595,679	4,305,500
Mortgage loans	18,660,896	20,717,561	18,651,443
Real estate	10,087,726	1,737,175	435,580
Collateral loans and other	2,013,500	88,134	116,150
	345,956,143	261,945,756	165,796,602
Additions to deferred policy acquisition costs	15,887,205	18,634,548	13,515,321
Other, net	5,692,300	(4,821,123)	1,479,858
Total funds used	$ 367,535,648	275,759,181	180,791,781

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

YEARS ENDED DECEMBER 31, 1987, 1986, AND 1985

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements include the accounts of National Western Life Insurance Company and its inactive wholly-owned subsidiary (the Company). The Company's wholly-owned subsidiary, The Westcap Corporation and subsidiaries (Westcap), is not consolidated into these financial statements because of the nature of its operations. The earnings of Westcap are recognized by the equity method. All significant intercorporate 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. 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 policy acquisition costs and premiums follows:

	1987	1986	1985
Costs deferred:			
Agents' Commissions	$ 14,400,261	13,213,833	11,944,563
Other	1,486,944	5,420,715	1,570,758
	$ 15,887,205	18,634,548	13,515,321
Amounts amortized	$ 11,740,590	13,554,957	13,080,845
First-year and single premiums	$ 229,420,691	179,076,547	122,641,406
Renewal premiums	$ 96,142,785	78,614,544	59,577,737

2. The liability for future policy benefits on traditional products 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. For universal life products, the liability for future policy benefits represents the account balance, net of loading. For flexible premium annuities, the Commissioners Annuity Reserve Valuation method has been used to calculate the liability for future policy benefits, which approximates the net reserve required by generally accepted accounting principles.

   In December, 1987, FAS No. 97 on Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments was issued. It is to be effective for fiscal years beginning after December 15, 1988, with restatement required, if practicable. The basic effect of the statement as regards certain long-duration contracts is that deposits for universal life and flexible premium annuities will no longer be shown as revenues and that accounting for these products will be consistent with the accounting for interest-bearing or other financial instruments. The Company will implement this statement in 1989. It will have a significant impact on the appearance of the earnings statement, but the overall impact on the financial statements is not determinable at this time.

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.

4. Investments in subsidiaries are recorded at admitted asset value for statutory purposes, whereas the financial statements of the inactive wholly-owned subsidiary have been consolidated with those of the Company under generally accepted accounting principles. The Company's investment in Westcap, a non-insurance subsidiary, is recorded on the equity basis in the accompanying consolidated financial statements.

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.

6. The Mandatory Securities Valuation Reserve, a contingency reserve required by insurance regulatory authorities, has been eliminated, as it is not required under generally accepted accounting principles.

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. The statutory amount is not being amortized.

8. 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, to the respective amounts as reported in the accompanying consolidated financial statements are as follows:

	Net Earnings for Years Ended December 31,		
	1987	1986	1985
Per annual statement to insurance department	$ 4,455,643	5,239,889	7,015,805
Net earnings of subsidiary	1,532	1,502	2,017
Consolidated statutory net gain from operations	4,457,175	5,241,391	7,017,822
Adjustments:			
Deferral of policy acquisition costs	4,146,615	5,079,591	434,476
Adjustment of future policy benefits	1,259,880	1,590,096	1,458,303
Amortization of investment in Trust	(259,956)	(257,480)	(255,029)
Deferred Federal income taxes	(3,026,000)	(2,600,000)	(3,000,000)
Realized gains (losses) on investments, net	(1,020,382)	2,936,695	495,203
Other, net	146,618	740,318	3,311,464
Amounts per consolidated financial statements	$ 5,703,950	12,730,611	9,462,239

	Stockholders' Equity as of December 31,		
	1987	1986	1985
Per annual statement to insurance department	$ 33,973,766	38,896,230	39,410,022
Adjustments:			
Difference in initial valuation of investment in Libbie Shearn Moody Trust, net of amortization	(4,102,577)	(3,857,319)	(3,734,591)
Deferral of policy acquisition costs, net of amortization	56,790,387	52,643,772	47,564,181
Adjustment of future policy benefits	1,135,501	(3,413,507)	(5,333,889)
Deferred Federal income taxes	(17,162,000)	(14,662,000)	(10,862,000)
Adjustment to report preferred stocks at market value	(323,742)	(131,215)	(625,863)
Transfer of Mandatory Securities Valuation Reserve to appropriated retained earnings	21,620,016	15,042,227	6,492,271
Reinstatement of non-admitted assets	3,398,592	3,129,801	2,468,193
Other, net	(5,386,642)	(2,521,255)	(2,815,182)
Amounts per consolidated financial statements	$ 89,943,301	85,126,734	72,563,142

(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. Such losses are determined, using the specific-identification method. Net unrealized investment gains and losses on marketable equity securities are accounted for as direct increases or decreases in stockholders' equity. Gross unrealized investment gains and losses on marketable equity securities at December 31, 1987, were $398,439 and $1,631,620, respectively.

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 Property and Equipment — Depreciation is based on the estimated useful lives of the assets and is calculated on the straight-line basis.

(E) Classification — Certain reclassifications have been made to the prior years to conform to the reporting categories used in 1987.

(2) INVESTMENT IN SUBSIDIARY, AT EQUITY

Westcap, a 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.

A summary of the most recent audited financial information is as follows:

	September 30,		
	1987	1986	1985
Assets:			
Cash	$ 4,495,344	1,578,431	2,965,605
Receivables	32,892,482	38,120,213	25,154,243
Trading inventory	29,370,072	41,050,330	30,267,046
Other assets	48,058,788	21,654,384	10,037,969
	$ 114,816,686	102,403,358	68,424,863
Liabilities:			
Notes payable	32,035,048	38,612,420	26,657,456
Payable to customers and brokers	21,740,378	26,037,624	17,872,930
Other liabilities	48,994,066	26,175,036	13,302,064
Stockholders' equity	12,047,194	11,578,278	10,592,413
	$ 114,816,686	102,403,358	68,424,863
Revenues	$ 28,885,777	36,628,512	28,095,080
Net income	$ 1,875,660	4,045,126	2,483,791

The accompanying consolidated financial statements include the investment in Westcap as of December 31, 1987 and 1986, and the equity in Westcap's earnings for each of the years in the three-year period ended December 31, 1987. Investment in subsidiary also includes a $2,000,000 note receivable from Westcap at December 31, 1987.

In October, 1987, FAS No. 94 on Consolidation of All Majority-owned Subsidiaries was issued. It is to be effective for fiscal years ending after December 15, 1988, with restatement of comparative financial statements for earlier years required. The Company will implement this statement for 1988 and consolidate its wholly-owned subsidiary, The Westcap Corporation. This subsidiary has previously been included in the Company's financial statements using the equity method.

(3) DEPOSITS WITH REGULATORY AUTHORITIES

The following assets were on deposit with state and other regulatory authorities as required by law:

	December 31,	
	1987	1986
Bonds, at amortized cost	$ 59,966,054	53,405,176
Mortgage loans on real estate	$ 2,030,320	2,282,398
Certificates of deposit	$ 200,429	202,759

(4) 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 $17,745,000 at December 31, 1987, and stockholders' equity in that amount was available for dividends subject to the tax effects of distributions from the "policyholders' surplus account".

(5) NET INVESTMENT INCOME AND CONCENTRATION OF INVESTMENTS

The major components of net investment income are as follows:

	Years Ended December 31,		
	1987	1986	1985
Investment income:			
Interest on bonds	$ 64,036,306	44,513,953	31,908,440
Interest on mortgage loans	8,215,835	8,831,358	8,124,956
Interest on policy loans	6,764,952	5,650,989	4,350,856
Other investment income	4,128,257	4,391,077	4,079,162
Total investment income	83,145,350	63,387,377	48,463,414
Investment expenses	1,950,222	1,250,566	916,206
Net investment income	$ 81,195,128	62,136,811	47,547,208

Investments of the following amounts were non-income producing for the preceding twelve months:

	December 31,	
Type of Investment	1987	1986
Bonds	$ 1,771,560	2,046,960
Stocks	$ 857,707	507,961
Mortgage loans	$ 4,123,568	1,934,708
Real estate	$ 705,580	1,043,438

As of December 31, 1987, mortgage loans totaling $12,240,663 were on a non-accrual status. Reduction in interest income during 1987 associated with non-accrual loans was as follows:

Interest at contract rate	$ 1,259,289
Interest income recognized	0
Interest income not accrued	$ 1,259,289

(6) 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:

	Net Realized Investment Gains (Losses) Net of Tax	(Increase) Decrease in Unrealized Losses on Investments	Total Investment Gains (Losses)
Year Ended December 31, 1987:			
Bonds	$ 898,238	(43,999,042)	(43,100,804)
Stocks	483,492	(887,426)	(403,934)
Other	(2,928,112)		(2,928,112)
Deferred tax (expense) benefit	526,000		526,000
Total	$ (1,020,382)	(44,886,468)	(45,906,850)
Year Ended December 31, 1986:			
Bonds	$ 2,082,666	16,012,577	18,095,243
Stocks	482,460	(167,019)	315,441
Other	1,571,569		1,571,569
Deferred tax (expense) benefit	(1,200,000)		(1,200,000)
Total	$ 2,936,695	15,845,558	18,782,253
Year Ended December 31, 1985:			
Bonds	$ (116,782)	26,225,102	26,108,320
Stocks	355,588	698,976	1,054,564
Other	394,397		394,397
Deferred tax (expense) benefit	(138,000)		(138,000)
Total	$ 495,203	26,924,078	27,419,281

(7) PARTICIPATING POLICIES

The company has 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, 1987, are entitled to dividends equal to an aggregate maximum of less than 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, 1987, 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 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, 1987, no retained earnings were so allocated.

Participating business constitutes approximately 4% and 5% of the Company's life insurance in force, 15% and 16% of the policies in force, and 2% and 3% of the premium income for the years ended December 31, 1987 and 1986, respectively.

(8) 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 $527,000,000 and $407,000,000 is ceded on a yearly renewable term basis, $1,100,000 and $1,200,000 is ceded on a modified coinsurance basis, and $129,000,000 and $150,000,000 is ceded on a coinsurance basis at December 31, 1987 and 1986, respectively. In accordance with the reinsurance contracts, credits in the amounts of approximately $1,700,000 were taken against the liability for future policy benefits at December 31, 1987 and 1986. 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 December 31, 1986, a reinsurance agreement was effected whereby the Company received cash of approximately $18,700,000 and assumed reserves of approximately $22,700,000 on approximately $531,000,000 of face amount of universal life policies. The $4,000,000 net cost of the business has been deferred as a policy acquisition cost and is being amortized over the estimated life of the reinsured business.

(9) FEDERAL INCOME TAXES

For Federal income tax purposes prior to January 1, 1984, the Company was taxed on the lesser of taxable investment income or gain from operations, plus one-half of any excess of gain from operations over taxable investment income. The one-half of any excess of gain from operations over taxable investment income not currently taxed, plus certain special deductions allowed in computing the gain from operations, is accumulated in a special memorandum tax account entitled policyholders' surplus.

At December 31, 1987, the Company had accumulated approximately $2,446,000 in its policyholders' surplus account. Under the provisions of the 1984 Act, the policyholders' surplus account is frozen at its December 31, 1983, balance. 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 transaction that would cause any part of this amount to become taxable. Should the balance in the policyholders' surplus account at December 31,1987, become taxable, the Federal income tax computed at present rates would be approximately $978,000.

The Company and Westcap 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:

	December 31,		
	1987	1986	1985
Policy acquisition costs expensed for tax purposes and deferred for financial accounting purposes	$ 1,846,000	371,000	164,000
Excess of the increase in the liability for future policy benefits for tax purposes over the increase for financial statement purposes	1,509,000	680,000	892,000
Use of tax operating loss deduction		1,795,000	1,330,000
Investment income recognized for tax purposes and deferred for financial accounting purposes	(479,000)	(589,000)	(362,000)
Accretion of bond discount recognized for financial accounting purposes and deferred for tax purposes	912,000	640,000	554,000
Tax operating loss not utilized	(458,000)		
Difference in tax accounting and financial accounting for bad debts expense	29,000	(465,000)	48,000
Other	(333,000)	(168,000)	374,000
	$ 3,026,000	2,600,000	3,000,000

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	December 31, 1987	1986	1985
Income taxes at the statutory rate	$ 3,943,000	5,701,000	5,505,000
Special life insurance company deduction		(805,000)	(591,000)
Dividends received deduction	(376,000)	(631,000)	(510,000)
Amortization of life interest in Libbie Shearn Moody Trust	104,000	118,000	117,000
Equity in net earnings of subsidiary	(380,000)	(1,989,000)	(1,161,000)
Capital gains rate difference on bond discount	(165,000)	(392,000)	(357,000)
Other	6,000	598,000	(3,000)
Federal income tax provision	$ 3,132,000	2,600,000	3,000,000

For the years ended December 31, 1987, 1986, and 1985, net realized gains on investments were stated net of deferred Federal income tax expense (benefit) of $(526,000), $1,200,000, and $138,000, respectively.

At December 31, 1987, the Company had a loss carry-forward of approximately $10,000,000 for tax purposes which expires in 1999. The Company also has unused tax credits of approximately $219,000, expiring in 2001.

In December, 1987, FAS No. 96 on Accounting for Income Taxes was issued. It is to be effective for fiscal years beginning after December 15, 1988. It is expected that there will be significant effect on the Company's deferred tax liability, but the effect is indeterminable at December 31, 1987.

(10) 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 3,477,822, 3,477,819, and 3,477,819 for the years ended December 31, 1987, 1986, and 1985 respectively.

(11) 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 recorded amount of the Company's life interest in the Trust is summarized below:

	December 31, 1987	1986
Original valuation of life interest at February 26, 1960	$ 13,793,150	13,793,150
Less accumulated amortization	(6,415,781)	(6,155,825)
Net asset value of life interest in Trust	$ 7,377,369	7,637,325

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.

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

	Years Ended December 31,		
	1987	1986	1985
Income distributions received	$ 1,741,000	1,614,000	1,466,000
Add (deduct):			
Amortization	(260,000)	(257,000)	(255,000)
Reinsurance premiums	(113,000)	(105,000)	(97,000)
Increase in surrender value of life insurance policies	15,000	135,000	12,000
Net income from life interest in the Trust	$ 1,383,000	1,387,000	1,126,000

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 $23,000 in 1987, $19,000 in 1986, and $27,000 in 1985, and liabilities for future policy benefits related to these policies in the amounts of $1,261,000, $1,238,000, and $1,219,000 at December 31, 1987, 1986, and 1985, 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 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 stockholders of both Class A and Class B common stock, based on the number of shares held.

(12) PENSION PLAN

The National Western Life Insurance Company Pension Plan is a noncontributory pension plan covering substantially all full-time employees who have completed one year of service. Assets of the pension trust are managed by Texas Commerce Bank — Austin.

The Company is maintaining required minimum funding for its pension plan in accordance with Section 412 of the Internal Revenue Code.

The financial statements reflect the adoption of Statement of Financial Accounting Standards Statement No. 87, which had the effect of increasing pension cost by approximately $32,000.

Pension cost for the year ended December 31, 1987, included the following components:

Service cost-benefits earned during the period	$ 159,000
Interest cost on projected benefit obligation	274,000
Actual return on plan assets	(303,000)
Net amortization and deferral	(98,000)
Net periodic pension cost	$ 32,000

The funded status of the plan at December 31, 1987, was as follows:

Actuarial present value of benefit obligations:	
Accumulated benefit obligation, including non-vested benefits of $313,000	$ 2,844,000
Present value of benefit obligation related to assumed future pay increases	400,000
Projected benefit obligation	3,244,000
Plan assets at fair value (primarily listed stocks and bonds)	(4,142,000)
Plan assets in excess of projected benefit obligation	(898,000)
Unrecognized net loss from past experience different from that assumed and effect of changes in assumptions	171,000
Unrecognized net assets at January 1, 1987	759,000
Accrued pension cost at December 31, 1987	$ 32,000

The weighted average discount rate and rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation were 9.5% and 7.0%, respectively. The expected long-term rate of return on assets was 9.0%.

(13) CONTINGENCIES

The Company is a defendant in several 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.

(14) FOREIGN SALES

Total premium income related to life insurance written in foreign countries, primarily Central and South America, was approximately $30,400,000, $25,500,000, and $20,500,000 for the years ended December 31, 1987, 1986, and 1985, respectively.

(15) UNAUDITED QUARTERLY FINANCIAL DATA

Quarterly results of operations are summarized as follows:

		First Quarter	Second Quarter	Third Quarter	Fourth Quarter
		(thousands, except for per share amounts)			
1987:					
Revenues	$	110,681	117,595	86,961	92,433
Earnings from insurance operations		2,302	880	1,869	724
Equity in net earnings of subsidiary		549	76	149	175
Net earnings (loss)		3,635	1,777	910	(618)
Per share:					
Earnings from insurance operations		0.66	0.25	0.54	0.21
Equity in net earnings of subsidiary		0.16	0.02	0.04	0.05
Net earnings (loss)		1.05	0.51	0.26	(0.18)

The loss in the fourth quarter was caused by the write-down of investments of $1,684, net of tax.

		First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1986:					
Revenues	$	71,557	76,110	75,604	97,301
Earnings from insurance operations		2,234	547	1,353	1,336
Equity in net earnings of subsidiary		1,311	901	1,012	1,100
Net earnings		3,546	3,847	2,584	2,754
Per share:					
Earnings from insurance operations		0.64	0.16	0.39	0.38
Equity in net earnings of subsidiary		0.38	0.26	0.29	0.31
Net earnings		1.02	1.11	0.74	0.79

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 sheet of National Western Life Insurance Company and subsidiary as of December 31, 1987, and the related consolidated statements of earnings, stockholders' equity and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The consolidated balance sheet of National Western Life Insurance Company and subsidiary as of December 31, 1986, and the related consolidated statements of earnings, stockholders' equity and changes in financial position for the years ended December 31, 1986 and 1985, were examined by other auditors whose report dated March 16, 1987, expressed an unqualified opinion on those statements.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of National Western Life Insurance Company and subsidiary at December 31, 1987, and the results of their operations and changes in their financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

March 4, 1988
Austin, Texas

Peat Marwick Main & Co.

Five-Year Financial Review

	Years Ended December 31,				
	1987	1986	1985	1984	1983
Premium income	$ 325,563,476	257,691,091	182,219,143	121,867,822	79,527,511
Net investment income	81,195,128	62,136,811	47,547,208	35,510,437	27,205,917
Other income	910,953	744,565	765,276	700,546	1,196,694
Total income	407,669,557	320,572,467	230,531,627	158,078,805	107,930,122
Policyholder benefits	(335,147,858)	(256,363,368)	(177,261,971)	(113,966,001)	(75,180,142)
Commissions and other expenses	(63,614,241)	(56,139,596)	(43,826,598)	(34,482,758)	(25,027,423)
Total expenses	(398,762,099)	(312,502,964)	(221,088,569)	(148,448,759)	(100,207,565)
Deferred Federal income tax adjustment				19,984,000	
Provision for Federal income taxes	(3,132,000)	(2,600,000)	(3,000,000)	(3,341,000)	(2,900,000)
Earnings from insurance operations	5,775,458	5,469,503	6,443,058	26,273,046	4,822,557
Equity in earnings of brokerage subsidiary	948,874	4,324,413	2,523,978	424,456	2,504,780
Realized gains (losses) on investments	(1,020,382)	2,936,695	495,203	(2,847,447)	(220,834)
Net earnings	$ 5,703,950	12,730,611	9,462,239	23,850,055	7,106,503
Per Share:					
Earnings from insurance operations	$ 1.66	1.57	1.85	7.56	1.39
Equity in earnings of brokerage subsidiary	0.27	1.24	0.73	0.12	0.72
Realized gains (losses) on investments	(0.29)	0.85	0.14	(0.82)	(0.07)
Net earnings	$ 1.64	3.66	2.72	6.86	2.04
Total assets	$ 1,067,951,390	819,763,774	594,553,759	467,349,352	390,799,858
Stockholders' equity	$ 89,943,301	85,126,734	72,563,142	62,401,927	38,172,208

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

General

The Company is a life insurance company, chartered in the State of Colorado in 1956, and doing business in forty-two states and the District of Columbia. It also accepts applications from and issues policies to residents of Central and South American countries. These policies are issued in the United States, and account for approximately nine percent of the Company's premium income. The Company ranks among the top ten percent of all life insurance companies by size. The primary products marketed by the Company are its universal life and flexible premium annuity products. Most of the Company's new business comes from the development of a market and the design and marketing of a specific product for that market. As this method of operation has proven successful, there are no immediate plans to make any material changes in marketing operations. The Company has two wholly-owned subsidiaries, The Westcap Corporation and Commercial Adjusters, Inc. Westcap's principal activity is that of a U.S. Government and Municipal Securities Dealer, and Commercial Adjusters is an inactive corporation, previously engaged in premium financing. The Company foresees no immediate material changes in its plans for continued controlled growth.

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 Years Ended December 31,			Period to Period Increase (Decrease) Years Ended	
	1985	1986	1987	1985-86	1986-87
Premiums	79.0%	80.4%	79.8%	41.4%	26.3%
Investment income	20.6	19.4	20.0	30.7	30.7
Other income	0.4	0.2	0.2	(2.7)	22.3
Total revenues	100.0	100.0	100.0	39.1	27.2
Policyholder benefits	(76.9)	(80.0)	(82.1)	44.6	30.7
Commissions and other expenses	(19.0)	(17.5)	(15.6)	28.1	13.3
Provision for Federal income taxes	(1.3)	(0.7)	(0.8)	(13.3)	20.5
Equity earnings of brokerage subsidiary	1.1	1.3	0.2	71.3	(78.1)
Realized gains (losses) on investments	0.2	0.9	(0.3)	493.0	(134.7)
Net earnings	4.1%	4.0%	1.4%	34.5	(55.2)

Results of Operations

Premium Income: Total premium income increased to $325.6 million in 1987 from $257.7 million in 1986 and $182.2 million in 1985. The major growth area continues to be in annuity considerations, which increased to $221.7 million in 1987 from $156.8 million in 1986 and $106.9 million in 1985.

Life premiums for 1987 increased by $2.4 million, or 2.3% over 1986. This was down from the 34% increase from 1985 to 1986, due primarily to an adverse 1987 tax ruling on single premium life products. The Universal Life product continues to provide most of the increase in life premium. Annuity considerations increased from 1986 by 41.4%, with most of the increase coming from sales of Tax Sheltered Annuities.

Investment Income: Net cash flow resulting from increasing life and annuity production has increased total invested assets to $980.6 million at the end of 1987 compared to $741.7 million in 1986 and $528.4 million in 1985. The increases in invested assets produced net investment income of $81.2 million in 1987, compared to $62.1 million in 1986 and $47.5 million in 1985. This growth trend is expected to continue as life and annuity production continues to increase.

Income From Subsidiary: The Company's equity interest in the earnings of The Westcap Corporation, a brokerage company located in Houston, Texas, amounted to approximately $.9 million in 1987 as compared to $4.3 million in 1986 and $2.5 million in 1985. Earnings from this subsidiary vary directly with trading activity in the government securities market.

Policyholder Benefits: A 30.7% increase in this item was reflected by total benefits at $335.1 million in 1987, with most of the increase relating to the increase in the liability for future policy benefits. The increase in this liability follows closely the increase in premium and annuity considerations. Total benefits for 1986 were $256.4 million compared to $177.3 million in 1985.

Commissions and Other Expenses: Amounts for this expense category were $63.6 million, $56.1 million, and $43.8 million for 1987, 1986, and 1985, respectively. Increased commission expense in 1986 and 1987 relate to production of the flexible premium annuity.

Provision for Federal Income Tax: The provision for deferred Federal income tax as related to pretax income before realized gains on investments has remained relatively constant over the last three years. The provision for current Federal income tax resulted from being able to use only 90% of the net operating loss deduction to offset the alternative minimum tax.

Realized Gains and Losses on Investments: Realized gains (losses), net of tax, were ($1.02 million) for 1987, $2.9 million for 1986, and $.5 million for 1985. The amounts for 1985 were results of normal investment activities. The 1986 gain was net of a $1.2 million write-down on certain Texas real estate that the Company had acquired through foreclosure. The 1987 loss includes a write-down of approximately $2.5 million on other Texas properties and a $1.3 million adjustment for permanent impairments on bonds.

Liquidity and Capital Resources

Stockholders' equity increased to $89.9 million as of December 31, 1987. The book value per share was $25.86 compared to $24.48 at the end of 1986, a 6% increase.

At year-end 1987, policy loans had increased by approximately $13.3 million, or 15.8% from 1986. Most of this loan demand has arisen from the loan availability granted by TEFRA in the tax sheltered annuity area. These particular loans are made at an interest rate substantially higher than the average of all other types of policy loans. Accordingly, the demand would not be expected to exceed amounts that could be handled from the Company's normal cash flow.

The Company did not incur material short-term debt during 1985, 1986, or 1987, and had no material amounts outstanding at either year-end. There are no present material commitments for capital expenditures in 1988, and the Company does not anticipate incurring any such commitments through the balance of 1988.

Financial Accounting Standards Board Statements

In October, 1987, FAS No. 94 on Consolidation of All Majority-owned Subsidiaries was issued. It is to be effective for fiscal years ending after December 15, 1988, with restatement of comparative financial statements for earlier years required. The Company will implement this statement for 1988 and consolidate its wholly-owned subsidiary, The Westcap Corporation. This subsidiary has previously been included in the Company's financial statements using the equity method.

In November, 1987, FAS No. 95 on Statements of Cash Flow was issued. It is to be effective for fiscal years ending after July 15, 1988, with restatement for earlier years encouraged but not required. The Company will implement this statement for 1988.

In December, 1987, FAS No. 96 on Accounting for Income Taxes was issued. It is to be effective for fiscal years beginning after December 15, 1988. The Company has reviewed its provisions and anticipates no major problem in implementation. It is expected that there will be a significant effect on the Company's deferred tax liability, but the effect is indeterminable at this time.

In December, 1987, FAS No. 97 on Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments was issued. It is to be effective for fiscal years beginning after December 15, 1988, with restatement for earlier years required, if practicable. The basic effect of the statement as regards certain long-duration contracts is that deposits for universal life and flexible premium annuities will no longer be shown as revenues and that accounting for these products will be consistent with the accounting for interest-bearing or other financial instruments. The change in presentation of realized gains on investments is that they will be reported on a pretax basis as a component of other income. The Company will implement this statement in 1989. It will have a significant impact on the appearance of the earnings statement, but the overall impact on the financial statements is not determinable at this time.

Common Stock Prices

Quarter	Ending	High	Low
3-31	1987	20-3/4	17-3/4
6-30	1987	18-5/8	15-5/8
9-30	1987	16-3/4	14
12-31	1987	14-3/4	8-3/4

Statutory Balance Sheets

	(Unaudited) December 31, 1987	1986
ASSETS		
Bonds	$ 745,407,846	498,403,300
Preferred stocks	7,774,496	12,249,510
Common stocks	9,966,180	8,420,604
Mortgage loans	88,557,999	91,675,413
Real estate	13,535,445	4,356,302
Policy loans	97,275,418	83,992,357
Collateral loans	925,000	2,061,729
Income interest in Libbie Shearn Moody Trust	11,479,946	11,494,644
Cash on hand and in banks	5,358,625	6,186,052
Short-term investments	15,380,260	35,260,665
Premiums deferred and uncollected	9,232,006	9,596,006
Investment income due and accrued	19,851,010	14,459,059
Other assets	2,729,872	2,446,915
	$ 1,027,474,103	780,602,556
LIABILITIES, SURPLUS, AND OTHER FUNDS		
Aggregate reserve for life policies	$ 923,750,849	681,445,752
Aggregate reserve for accident and health policies	268,328	292,997
Supplementary contracts without life contingencies	550,305	567,662
Life claims	3,629,660	3,500,195
Accident and health claims	135,411	1,681
Policyholders' dividend, coupon, and endowment accumulations	9,848,300	10,777,875
Policyholders' dividend liability	297,900	320,000
Other liabilities to policyholders	8,844,614	9,103,300
Commissions, expenses, and taxes due or accrued	3,718,627	3,214,460
Borrowed money	9,200,546	3,190,309
Other liabilities	11,635,781	14,249,868
Mandatory Securities Valuation Reserve	21,620,016	15,042,227
Total liabilities	993,500,337	741,706,326
Capital paid up	3,477,862	3,477,819
Paid-in and contributed surplus	12,750,763	12,750,763
Unassigned surplus	17,745,141	22,667,648
Total capital and surplus	33,973,766	38,896,230
	$ 1,027,474,103	780,602,556

Statutory Statements of Operations

	(Unaudited) Years Ended December 31, 1987	1986
Premiums and annuity considerations	$ 223,960,036	182,833,936
Annuity and other fund deposits	100,947,643	73,905,747
Considerations for supplementary contracts, dividend, coupon, and endowment accumulations	839,066	1,621,134
Net investment income	81,005,776	61,471,413
Other income	922,351	23,400,501
Total income	407,674,872	343,232,731
Death claims	11,852,783	11,363,792
Accident and health claims	653,326	132,803
Surrender benefits	68,789,684	51,320,965
Coupons and endowments to policyholders	611,983	742,848
Payments on supplementary contracts, dividend, coupon, and endowment accumulations	2,202,707	2,679,509
Other policy benefits	13,113,101	11,896,329
Increase in life and accident and health reserves	239,997,860	205,080,591
Decrease in other reserves	(946,932)	(1,380,595)
Commissions	53,910,406	43,702,060
General expenses, taxes, and other expenses	12,774,428	12,707,085
Decrease in loading	(217,878)	(560,529)
Total benefits and expenses	402,741,468	337,684,858
Net gain before dividends and Federal income taxes	4,933,404	5,547,873
Dividends to policyholders	297,761	307,984
Net gain before Federal income taxes	4,635,643	5,239,889
Federal income taxes	180,000	
Net gain from operations	$ 4,455,643	5,239,889

Statutory Statements of Capital and Surplus

	(Unaudited) Years Ended December 31, 1987	1986
Balance at beginning of year	$ 38,896,230	39,410,022
Additions (deductions):		
Net gain from operations	4,455,643	5,239,889
Net capital gains (losses)	1,654,378	7,824,189
Net gain (loss) from non-admitted assets	(590,188)	(670,989)
Increase in Mandatory Securities Valuation Reserve	(6,577,789)	(8,549,956)
Other decreases	(3,864,508)	(4,356,925)
Balance at end of year	$ 33,973,766	38,896,230

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
Chief Executive Officer
The Donner 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
Director of Development
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
Graduate Student
Harvard Business School
Boston, Massachusetts
NWL Director—1981 to present

Louis E. Pauls, Jr.
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

Charles S. LaShelle, JD, CLU
Senior Vice President
Administration

Richard C. Andrews, CLU
Vice President
Qualified Plans

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

Richard L. Boswell, FSA, MAAA
Vice President
Actuary

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

David G. Caldwell
Vice President
Legal Counsel

Richard M. Edwards
Vice President
International Marketing

Dr. Jose M. Galano
Vice President
Latin American Operations

William K. Hawkins, CLU, FLMI, CFP
Vice President
Domestic Marketing

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

Weldon K. Huffman
Vice President
Systems Management
Assistant Secretary

James A. Kincl
Vice President
Salary Savings

Bob Laughlin
Vice President
General Markets

Charles D. Milos, Jr.
Vice President
Investment Analyst

James R. Naiser, FLMI
Vice President
Systems Development

Harold L. Ponder
Vice President
Risk Selection

James V. Robinson
Vice President
Secretary

Ralph K. Schmitz
Vice President
Federal Markets

Mary L. Smith
Vice President
Assistant to the President

Larry D. White, FLMI
Vice President
Policyowner Services

Robert J. Dicks, FLMI
Assistant Vice President
Underwriting

Carol Jackson
Assistant Vice President
Personnel Director

Doris Kruse
Assistant Vice President
Policy Benefits

Jo Nell Morris
Assistant Vice President
Policyowner Services

Lee E. Posey, FLMI
Assistant Vice President
Administrative Services

B. Ben Taylor, ASA, MAAA
Assistant Vice President
Assistant Actuary

Hans W. Weber
Assistant Vice President
Assistant Treasurer

Ellen C. Otte
Assistant Secretary

Margaret M. Simpson
Assistant Secretary

EXECUTIVE OFFICES
National Western Life Insurance Company, 850 East Anderson Lane, Austin, Texas 78752-1602

ACCOUNTANTS
Peat Marwick Main & Co., 1300 One Capitol Square, 300 West 15th Street, Austin, Texas 78701

GENERAL COUNSEL
Will D. Davis, Heath Davis & McCalla, Attorneys at Law, Austin, Texas 78701

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

STOCKHOLDER INFORMATION
Principal Transfer Agent
The First National Bank of Boston
Shareholder Services
P. O. Box 644
Boston, Massachusetts 02102
Telephone: 617/929-5445

Co-Transfer Agent
First City National Bank
Stock Transfer Division
P. O. Box 2127
Austin, Texas 78768

Requests for information and assistance with transfer of stock should be directed to the Company's Principal Transfer Agent.

Annual Report 1987

NATIONAL WESTERN LIFE INSURANCE COMPANY

NATIONAL WESTERN LIFE
INSURANCE COMPANY
850 E. Anderson Lane
Austin, Texas 78752

BULK RATE
U.S. Postage
Paid
Austin, Texas
Permit No. 2164