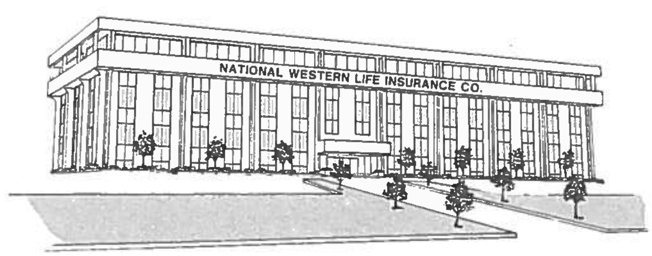
NATIONAL WESTERN LIFE INSURANCE COMPANY

1988 Annual Report



National Western Life Insurance Company
Austin, Texas

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10-K Report Available

National Western Life Insurance Company's earnings and financial position for the year ended December 31, 1988, 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 78752-1602.

To Our Stockholders

1988 was another important year in the growth of National Western Life Insurance Company. The Company surpassed $5.1 billion of life insurance in force, an increase over 1987 of 7.7%. It was in our 1984 Report to Stockholders that we noted the Company had achieved $3 billion of life insurance in force. This is a 67% increase in insurance in force from 1984 through 1988. In 1987 assets grew to over $1 billion and reached $1.3 billion in 1988.

Life premium was $72,046,329 during the year, and annuity premium rose 6% to $234,941,467. 1988 renewal premium increased 29% to $123,588,019. Lapses of previously written policies continue to be low, resulting in greater profitability of the products written. Maintaining high levels of persistency is a major effort by management. In the rankings of premium income among the 500 leading life companies, National Western Life moved from 232nd in 1977 to 136th in 1987, the latest date the ranking information is available.

Investment income rose to $100,333,521. The substantial improvement in investment income in 1988 over 1987 was due primarily to the substantial growth of invested assets. Mortgage loans are only 6.6% of the Company's total invested assets, reflecting the Company's long-term conservative investment philosophy. Also reflecting this philosophy, less than 10% of invested assets are in high yield bonds.

The Company's consolidated net earnings amounted to $7.6 million, or $2.19 per share, compared to $1.64 per share in 1987. The Company's subsidiary, Westcap Corporation, contributed $732,000 to 1988 earnings.

The ratio of general expense to premium income is an important measurement of a company's management policies and ability to control expenses. In a recent industry report comparing the 100 leading U.S. life companies, National Western Life was among the lowest in all categories except commission expense, which was higher because of the Company's significant growth in new business during the past five years. Even so, the overall average ratio of the 100 leading companies was 17.7% compared to National Western Life's 20.7%.

Stockholder equity grew from $89,943,301 in 1987 to $97,363,004 at the end of 1988, an increase of 8%. In the January 1989 issue of Forbes Magazine, National Western Life was listed 4th in profitability, 6th in growth, and 18th in earnings per share of all of the life and health companies in the United States.

Company plans for 1989 include an increase in domestic life insurance premium coupled with several new products for the tax sheltered annuity market which, together, should make 1989 another year of growth for the Company.

We would like to acknowledge the efforts of our international and domestic marketing organizations and the contributions and dedication of the employees, officers, and directors, without which the results reported herein would not be possible.

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, 1988	1987
Investments:		
Fixed maturities, primarily bonds, at amortized cost (market: $ 903,760,392 and $ 723,102,187)	$ 934,823,094	740,886,980
Preferred stocks, at market value (cost: $1,663,611 and $3,168,157)	1,140,916	2,772,378
Common stocks, at market value (cost: $3,624,909 and $3,397,092)	2,899,484	2,559,690
Mortgage loans, net of allowances for possible losses ($3,170,000 and $1,850,000)	83,548,373	85,598,582
Real estate held for investment	10,629,092	3,440,583
Policy loans	112,440,958	97,275,418
Life interest in Libbie Shearn Moody Trust	7,114,913	7,377,369
Other long-term investments, principally real estate acquired by foreclosure, net of allowances for possible losses ($3,606,000 and $2,150,000)	17,048,348	10,362,866
Securities purchased under agreements to resell	39,150,750	50,094,000
Mortgage loans held for sale, at lower of cost or market	25,155,422	0
Trading securities, at market	26,693,453	20,337,000
Short-term investments	14,060,273	16,133,517
Total investments	1,274,705,076	1,036,838,383
Cash	4,736,496	4,845,777
Insurance receivables, net	3,035,110	2,670,617
Brokerage trade receivables, net of allowance for possible losses ($200,000 and $433,000)	13,136,845	44,419,000
Accrued investment income	24,980,387	21,635,846
Deferred policy acquisition costs	63,605,224	56,790,387
Property and equipment, net	2,617,706	2,616,872
Other assets	5,232,237	8,781,211
	$ 1,392,049,081	1,178,598,093

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

LIABILITIES AND STOCKHOLDERS' EQUITY	DECEMBER 31, 1988	1987
LIABILITIES:		
Future policy benefits	$ 1,137,867,636	915,136,368
Policy and contract claims	3,854,338	3,877,726
Policyholders' dividends, coupons, and endowment accumulations	9,250,995	9,904,981
Other policyholder funds	8,131,620	8,940,993
Short-term borrowings	34,339,048	23,764,000
Securities sold under agreements to repurchase	39,805,750	50,094,000
Brokerage trade payables	14,433,242	32,855,870
Federal income tax payable:		
Current	22,000	108,000
Deferred	20,116,361	17,162,000
Other liabilities	26,865,087	26,810,854
Total liabilities	1,294,686,077	1,088,654,792
COMMITMENTS AND CONTINGENCIES (Note 14)		
STOCKHOLDERS' EQUITY:		
Common stock:		
Class A of $1 par value, authorized 7,500,000 shares; issued and outstanding 3,277,862 shares in 1988 and 1987	3,277,862	3,277,862
Class B of $1 par value, authorized, issued, and outstanding 200,000 shares in 1988 and 1987	200,000	200,000
Additional paid-in capital	24,065,352	24,065,352
Net unrealized losses on investments in equity securities	(1,248,120)	(1,233,181)
Retained earnings	71,067,910	63,633,268
Total stockholders' equity	97,363,004	89,943,301
	$ 1,392,049,081	1,178,598,093

See accompanying notes to consolidated financial statements.

Consolidated Statements of Earnings

	Years Ended December 31, 1988	1987	1986
Premiums and other revenue:			
Premiums:			
Life	$ 72,046,329	103,225,039	100,873,591
Annuities	234,941,467	221,692,753	156,789,145
	306,987,796	324,917,792	257,662,736
Investment income, net	100,333,521	81,175,961	62,136,811
Brokerage revenues	24,777,901	25,500,874	37,982,413
Other income	2,373,936	910,953	744,565
Total premiums and other revenue	434,473,154	432,505,580	358,526,525
Benefits and expenses:			
Life	42,836,448	44,152,627	35,727,565
Other	70,353,729	51,334,356	39,871,095
Increase in liabilities for future policy benefits	222,731,268	239,108,614	180,763,027
Amortization of deferred policy acquisition costs	11,444,743	11,740,590	13,554,957
Other insurance operating expenses	47,902,841	51,780,228	42,557,965
Operating brokerage expenses	23,545,165	23,875,833	30,086,000
Total benefits and expenses	418,814,194	421,992,248	342,560,609
Earnings before Federal income taxes and other items	15,658,960	10,513,332	15,965,916
Provision for Federal income taxes:			
Current	824,323	271,000	4,029,000
Deferred	4,369,000	3,518,000	2,143,000
Earnings from operations	10,465,637	6,724,332	9,793,916
Realized gains (losses) on investments, less income taxes (Note 6)	(2,857,079)	(1,020,382)	2,936,695
Net earnings	$ 7,608,558	5,703,950	12,730,611
Earnings per share of common stock:			
Earnings from operations	$ 3.01	1.93	2.81
Realized gains (losses) on investments, less income taxes	(0.82)	(0.29)	0.85
Net earnings	$ 2.19	1.64	3.66

See accompanying notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

	Years Ended December 31, 1988	1987	1986
Common stock:			
Balance at beginning of year	$ 3,477,862	3,477,819	3,477,819
Correction of outstanding in 1987		43	
Balance at end of year	3,477,862	3,477,862	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	(1,233,181)	(345,755)	(178,736)
Decrease (increase) in unrealized losses on investments in equity securities during the year	(14,939)	(887,426)	(167,019)
Balance at end of year	(1,248,120)	(1,233,181)	(345,755)
Retained earnings:			
Balance at beginning of year	63,633,268	57,929,318	45,198,707
Consolidation adjustment (Note 1)	(173,916)		
Net earnings	7,608,558	5,703,950	12,730,611
Balance at end of year	71,067,910	63,633,268	57,929,318
Total stockholders' equity	$ 97,363,004	89,943,301	85,126,734

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

	Year Ended December 31, 1988
Cash flows from operating activities:	
Net income	$ 7,608,558
Adjustments to reconcile net income to net cash from operating activities:	
Realized capital losses on investments	4,329,079
Net amortization of discounts on investments	(2,944,535)
Depreciation and amortization	1,319,801
Decrease in insurance receivables and other assets	2,317,182
Decrease in brokerage receivables	10,095,162
Increase in accrued investment income	(2,685,799)
Increase in deferred policy acquisition costs	(6,814,837)
Increase in liability for future policy benefits	222,731,268
Decrease in all other policyholder liabilities	(1,486,746)
Increase in Federal income taxes payable	2,711,122
Increase in other liabilities	149,742
Net cash flows from operating activities	237,329,997
Cash flows from investing activities:	
Proceeds from sale of investments	57,592,037
Purchase of investments	(254,174,436)
Principal payments on mortgage loans	4,684,146
Cost of mortgage loans acquired	(11,855,077)
Net increase in policy loans	(15,165,540)
Net increase in repurchase agreements less related liabilities	6,876,644
Net increase in mortgage loans acquired for resale	(25,157,515)
Net decrease in trading securities	2,445,499
Purchases of property and equipment	(1,054,862)
Proceeds from sale of property and equipment	67,248
Net cash used in investing activities	(235,741,856)
Cash flows from financing activities:	
Net decrease in short-term borrowings	(3,696,000)
Net cash used in financing activities	(3,696,000)
Net decrease in cash and cash equivalents	(2,107,859)
Cash and cash equivalents at beginning of year	20,904,628
Cash and cash equivalents at end of year	$ 18,796,769

Supplemental disclosures of cash flow information:

Cash paid during the year for interest (net of amount capitalized) and income taxes was $3,062,870 and $1,053,000, respectively.

Noncash investing activities:

During the year, the Company foreclosed on mortgage loans in the principal amount of $11,192,000. This amount has been transferred to Other Long-term Investments on the consolidated balance sheet.

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position

	Years Ended December 31, 1987	1986
Funds provided:		
From operations:		
Net earnings	$ 5,703,950	12,730,611
Charges (credits) not affecting funds:		
Deferred Federal income taxes	3,518,000	2,143,000
Amortization of deferred policy acquisition costs	11,740,590	13,554,957
Increase in liability for future policy benefits	239,108,614	180,763,027
Amortization of bond discount	(2,636,017)	(682,512)
Increase in investment loss allowance, net of tax	2,859,083	2,067,369
Other	(3,238,826)	(624,228)
	257,055,394	209,952,224
Cost of investments sold and loans matured:		
Bonds and notes	57,204,316	59,504,924
Mortgage loans	20,819,174	7,558,041
Repurchase agreements	39,557,397	10,336,125
Decrease in trading securities	61,680,686	
Other	5,940,942	5,525,732
	185,202,515	82,924,822
Decrease (increase) in cash	16,739,487	(25,909,231)
Decrease (increase) in brokerage receivables	14,985,057	(16,660,200)
Other, net	182,357	24,483,292
Total funds provided	$ 474,164,810	274,790,907
Funds used:		
Increase in policy loans	$ 13,283,061	14,055,396
Cost of investments purchased or loans disbursed:		
Bonds and notes	300,697,756	218,751,811
Stocks	1,213,204	6,595,679
Mortgage loans	18,660,896	20,717,561
Real estate	10,087,726	1,737,175
Repurchase agreements	39,557,397	10,336,125
Increase in trading securities		32,977,599
Other	13,500	88,134
	383,513,540	305,259,480
Additions to deferred policy acquisition costs	15,887,205	18,634,548
Decrease (increase) in short-term borrowings	65,310,448	(45,392,818)
Other, net	9,453,617	(3,710,303)
Total funds used	$ 474,164,810	274,790,907

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

YEARS ENDED DECEMBER 31, 1988, 1987, AND 1986

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Consolidation—The accompanying consolidated financial statements include the accounts of National Western Life Insurance Company, its wholly-owned subsidiary, The Westcap Corporation, and an inactive wholly-owned subsidiary (the Company). All significant intercorporate transactions and accounts have been eliminated in consolidation.

In 1988, the Company adopted the provisions of Statement of Financial Accounting Standards No. 94, and, accordingly, its brokerage subsidiary, which has previously been accounted for on the equity method, is now included in the Company's consolidated financial statements. Prior period financial statements have been restated to reflect this change.

4. During 1988, the Company began reporting earnings of its brokerage subsidiary based upon the subsidiary's fiscal year rather than the Company's year-end. As a result, earnings of the subsidiary for the three months ended December 31, 1987, of $173,916, which have been included on both 1988 and 1987 consolidated earnings, have been deducted from retained earnings.

(B) Basis of Presentation—The accompanying consolidated financial statements, as they relate to insurance operations, 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:

	1988	1987	1986
Costs deferred:			
Agents' Commissions	$ 16,676,827	14,400,261	13,213,833
Other	1,582,753	1,486,944	5,420,715
	$ 18,259,580	15,887,205	18,634,548
Amounts amortized	$ 11,444,743	11,740,590	13,554,957
First-year and single premiums	$ 183,399,777	228,795,545	179,048,192
Renewal premiums	$ 123,588,019	96,122,247	78,614,544

2. The liability for future policy benefits on traditional products has been calculated by the net level method using assumptions as to future mortality (based on the 1965 and 1970 Select and Ultimate mortality tables), interest ranging from 4% to 8%, and withdrawals (based on Company experience) 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, utilizing retroactive restatement. It will have a significant impact on the appearance of the earnings statement. The implementation of FAS 97 will not have a significant impact on stockholders' equity at December 31, 1988.

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 subsidiaries have been consolidated with those of the Company under generally accepted accounting principles.

5. 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.

6. 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.

7. 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,		
	1988	1987	1986
Per annual statement to insurance department	$ 10,201,319	4,455,643	5,239,889
Subsidiary earnings before deferred Federal income tax	700,576	1,442,406	3,868,915
Consolidated statutory net gain from operations	10,901,895	5,898,049	9,108,804
Adjustments:			
Deferral of policy acquisition costs	6,814,837	4,146,615	1,079,591
Adjustment of future policy benefits	(3,229,870)	1,259,880	1,590,096
Amortization of investment in Trust	(262,456)	(259,956)	(257,480)
Deferred Federal income taxes	(2,897,000)	(2,992,000)	(3,343,000)
Realized gains (losses) on investments	0	2,692,353	7,008,041
Valuation allowance on investments	(3,557,211)	(4,331,944)	(2,871,346)
Other, net	(161,637)	(709,047)	415,905
Amounts per consolidated financial statements	$ 7,608,558	5,703,950	12,730,611

	Stockholders' Equity as of December 31,		
	1988	1987	1986
Per annual statement to insurance department	$ 41,625,932	33,973,766	38,896,230
Adjustments:			
Difference in initial valuation of investment in Libbie Shearn Moody Trust, net of amortization	(4,329,833)	(4,102,577)	(3,857,319)
Deferral of policy acquisition costs, net of amortization	63,605,224	56,790,387	52,643,772
Adjustment of future policy benefits	(2,102,261)	1,135,501	(3,413,507)
Deferred Federal income taxes	(20,116,361)	(17,162,000)	(14,662,000)
Adjustment to report preferred stocks at market value	(348,742)	(323,742)	(131,215)
Transfer of Mandatory Securities Valuation Reserve to appropriated retained earnings	21,813,174	21,620,016	15,042,227
Reinstatement of non-admitted assets	4,379,189	3,398,592	3,129,801
Valuation allowance on investments	(6,776,000)	(4,000,000)	(1,510,000)
Other, net	(387,318)	(1,386,642)	(1,011,255)
Amounts per consolidated financial statements	$ 97,363,004	89,943,301	85,126,734

(C) 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, 1988, were $336,619 and $1,584,739, respectively.

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

Trading securities, principally composed of state and municipal obligations, corporate obligations, and obligations issued or guaranteed by the U.S. Government or its agencies, are carried at market value. Unrealized gains and losses on trading securities are included in brokerage revenues.

Securities purchased under agreements to resell and securities sold under agreements to repurchase are treated as financial transactions, collateralized by negotiable securities and carried at the amounts at which the securities will be subsequently resold or repurchased as specified in the respective agreements.

Mortgage loans held for sale are carried at the lower of cost or market as determined by reference to the purchase price commitments from investors. Discounts from loan originations are deferred during the period that the loans are being processed for sale. The difference between the original discount and the discount required by the investors is recorded as a portion of the gain or loss when the loans are ultimately sold. Interest on loans is recorded as earned.

(D) Insurance 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.

(E) Brokerage Revenue and Expense — Securities transactions and related revenue and expense are recorded in the accounts on a settlement date basis. Revenues and expenses related to securities transactions executed but not yet settled as of year-end were not material to the financial position of the Company.

(F) Depreciation of Property and Equipment — Depreciation is based on the estimated useful lives of the assets and is calculated on the straight-line and accelerated methods.

(G) Statement of Cash Flows — In November, 1987, the Financial Accounting Standards Board issued Statement No. 95, "Statement of Cash Flows." The Company has adopted the provisions of Statement No. 95 in 1988 and has presented a statement of cash flows instead of a statement of changes in financial position for the year 1988. For the years 1987 and 1986, the statement of changes in financial position is presented as in prior years. For purposes of the statement of cash flows as it relates to "cash equivalents", the Company will consider all short-term investments with a maturity at date of purchase of three months or less to be cash equivalents.

(H) Classification — Certain reclassifications have been made to the prior years to conform to the reporting categories used in 1988.

(2) BROKERAGE SUBSIDIARY

The Westcap Corporation and Subsidiaries (Westcap), a wholly-owned brokerage firm, has been consolidated in the accompanying financial statements (See Note (1)(A)). Westcap 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,		
	1988	1987	1986
Assets:			
Cash	$ 1,001,140	128,333	172,624
Receivables	13,136,845	32,892,482	38,120,213
Trading inventory	26,693,453	29,370,072	41,050,330
Other assets	69,475,670	52,425,799	23,060,191
	$ 110,307,108	114,816,686	102,403,358
Liabilities:			
Notes payable	34,339,048	32,035,048	38,612,420
Payable to customers and brokers	14,433,242	26,478,045	32,681,390
Other liabilities	49,340,786	44,256,399	19,531,270
Stockholders' equity	12,194,032	12,047,194	11,578,278
	$ 110,307,108	114,816,686	102,403,358
Revenues	$ 24,777,901	28,885,777	36,628,512
Net income	$ 731,746	1,875,660	4,045,126

(3) DEPOSITS WITH REGULATORY AUTHORITIES

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

	December 31,	
	1988	1987
Bonds, at amortized cost	$ 74,361,982	59,966,054
Mortgage loans on real estate	$ 0	2,030,320
Certificates of deposit	$ 200,385	200,429

(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 $25,397,000 at December 31, 1988, 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,		
	1988	1987	1986
Investment income:			
Interest on bonds	$ 82,951,860	64,017,139	44,513,953
Interest on mortgage loans	8,514,424	8,215,835	8,831,358
Interest on policy loans	7,876,848	6,764,952	5,650,989
Other investment income	3,576,962	4,128,257	4,391,077
Total investment income	102,920,094	83,126,183	63,387,377
Investment expenses	2,586,573	1,950,222	1,250,566
Net investment income	$ 100,333,521	81,175,961	62,136,811

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

	December 31,	
Type of Investment	1988	1987
Bonds	$ 1,591,181	1,771,560
Stocks	$ 706,677	857,707
Mortgage loans	$ 2,198,959	4,123,568
Other long-term investments	$ 3,808,985	705,580

As of December 31, 1988, mortgage loans totaling $10,435,775 were on a non-accrual status. During 1988, 1987, and 1986, reduction in interest income associated with non-accrual loans was as follows:

	December 31,		
	1988	1987	1986
Interest at contract rate	$ 979,568	1,259,289	1,170,266
Interest income recognized	0	0	0
Interest income not accrued	$ 979,568	1,259,289	1,170,266

Significant individual investments concentrated in any one entity at December 31, 1988 and 1987, are as follows:

	December 31,	
	1988	1987
Midwest Federal Savings and Loan:		
Investments fully collateralized with life insurance policy cash values as follows:		
Bonds: 8% debentures, maturing from 1990 through 1995	$ 8,000,000	8,000,000
Short-term investments: 8% debentures, maturing in 1989	1,755,000	1,755,000
Total	$ 9,755,000	9,755,000

(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, 1988:			
Bonds	$ (1,352,223)	(13,277,909)	(14,630,132)
Stocks	43,539	(14,939)	28,600
Other	(3,020,395)		(3,020,395)
Deferred tax (expense) benefit	1,472,000		1,472,000
Total	$ (2,857,079)	(13,292,848)	(16,149,927)
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

(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, 1988, 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, 1988, 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. 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, 1988, no retained earnings were so allocated.

Participating business constitutes approximately 3% and 4% of the Company's life insurance in force, 14% and 15% of the policies in force, and 3% and 2% of the premium income for the years ended December 31, 1988 and 1987, 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 $630,000,000 and $527,000,000 is ceded on a yearly renewable term basis, $832,000 and $1,100,000 is ceded on a modified coinsurance basis, and $96,000,000 and $129,000,000 is ceded on a coinsurance basis at December 31, 1988 and 1987, respectively. In accordance with the reinsurance contracts, credits in the amounts of approximately $2,800,000, $1,700,000, and $1,700,000 were taken against the liability for future policy benefits at December 31, 1988, 1987, and 1986, respectively. Premium revenues were reduced by $4,691,000, $3,220,000, and $2,454,000 for reinsurance premiums incurred during the years ended December 31, 1988, 1987, and 1986, respectively. Benefits were reduced by $1,706,000, $2,868,000, and $1,326,000 for reinsurance recoverable during the years ended December 31, 1988, 1987, and 1986, respectively. A contingent liability exists with respect to such reinsurance which could become a liability of the Company in the event such reinsurance companies are unable to meet their obligations under existing reinsurance agreements.

On 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, 1988, 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 31,1988, become taxable, the Federal income tax computed at present rates would be approximately $832,000.

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,		
	1988	1987	1986
Policy acquisition costs expensed for tax purposes and deferred for financial accounting purposes	$ 2,476,000	1,846,000	371,000
Excess of the increase in the liability for future policy benefits for tax purposes over the increase for financial statement purposes	(1,108,000)	1,509,000	680,000
Use of tax operating loss deduction	3,013,000	1,141,000	4,064,000
Investment income recognized for tax purposes and deferred for financial accounting purposes	(468,000)	(479,000)	(589,000)
Accretion of bond discount recognized for financial accounting purposes and deferred for tax purposes	598,000	384,000	640,000
Difference in tax accounting and financial accounting for asset valuation allowances	(1,236,000)	(1,833,000)	(1,528,000)
Amounts expensed for financial accounting not currently tax deductible	(340,000)	495,000	(587,000)
Other	(38,000)	(71,000)	292,000
Total deferred tax expense	2,897,000	2,992,000	3,343,000
Deferred tax (expense) benefit netted against realized gains (losses)	1,472,000	526,000	(1,200,000)
Deferred tax expense per accompanying financial statements	$ 4,369,000	3,518,000	2,143,000

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, 1988	1987	1986
Income taxes at the statutory rate	$ 3,852,000	3,587,000	9,247,000
Special life insurance company deduction			(805,000)
Dividends received deduction	(207,000)	(376,000)	(631,000)
Amortization of life interest in Libbie Shearn Moody trust	89,000	104,000	118,000
Capital gains rate difference on bond discount	0	(73,000)	(1,095,000)
Other	(13,000)	21,000	538,000
Federal income tax provision	3,721,000	3,263,000	7,372,000
Tax (expense) benefit netted against realized gains (losses)	1,472,000	526,000	(1,200,000)
Provision for Federal income taxes per accompanying financial statements	$ 5,193,000	3,789,000	6,172,000

The Company has unused tax credits of approximately $216,000, expiring from 1991 to 2000.

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

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. Although the Company has not completed calculations regarding implementation of FAS 96, preliminary calculations indicate that as of December 31, 1988, there will be no significant impact on stockholders' equity.

(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 3,477,862, 3,477,822, and 3,477,819 for the years ended December 31, 1988, 1987, and 1986, 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,	
	1988	1987
Original valuation of life interest at February 26, 1960	$ 13,793,150	13,793,150
Less accumulated amortization	(6,678,237)	(6,415,781)
Net asset value of life interest in Trust	$ 7,114,913	7,377,369

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,		
	1988	1987	1986
Income distributions received	$ 1,820,000	1,741,000	1,614,000
Add (deduct):			
Amortization	(262,000)	(260,000)	(257,000)
Reinsurance premiums	(100,000)	(113,000)	(105,000)
Increase in surrender value of life insurance policies	35,000	15,000	135,000
Net income from life interest in the Trust	$ 1,493,000	1,383,000	1,387,000

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 $9,000 in 1988, $23,000 in 1987, and $19,000 in 1986, and liabilities for future policy benefits related to these policies in the amounts of $1,270,000, $1,261,000, and $1,238,000 at December 31, 1988, 1987, and 1986, 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. The plan provides benefits based on the participants' years of service and compensation. The Company makes annual contributions to the plan that comply with the minimum funding provisions of the Employee Retirement Income Security Act.

Effective January 1, 1987, the Company changed its method of accounting for pension costs by adopting the new requirements of Statement of Financial Accounting Standards ("FAS") No. 87, "Employers' Accounting for Pensions." The net effect of the change was not material to the Company's financial position or operating results. In accordance with the new standards, prior years' financial statements have not been restated.

Pension costs (credits) included the following components:

	1988	1987
Service cost-benefits earned during the period	$ 150,000	159,000
Interest cost on projected benefit obligations	306,000	274,000
Actual return on plan assets	(221,000)	(303,000)
Net amortization and deferral	(204,000)	(98,000)
Net pension cost	$ 31,000	32,000

Prior to 1987, pension costs were computed in accordance with Accounting Principles Board Opinion No. 8 using accepted actuarial methods.

The following sets forth the plan's funded status and the related amounts recognized in the Company's balance sheet as of:

	December 31,	
	1988	1987
Actuarial present value of benefit obligations:		
Accumulated benefit obligations, including vested benefits of $2,849,000 and $2,531,000, respectively	$ (3,200,000)	(2,844,000)
Projected benefit obligations for service rendered to date	$ (3,883,000)	(3,244,000)
Plan assets at fair market value primarily consisting of cash equivalents and fixed income securities	4,215,000	4,142,000
Plan assets in excess of projected benefit obligations	332,000	898,000
Unrecognized net transitional obligation (asset) at January 1, 1987, being recognized over employees' average remaining service of 15 years	(704,000)	(759,000)
Unrecognized net losses (gains) from past experience different from that assumed	309,000	(171,000)
Prepaid (accrued) pension cost	$ (63,000)	(32,000)

The discount rate used in determining the actuarial present value of the projected benefit obligation was 9% and 9.5% for 1988 and 1987, respectively. The projected increase in future compensation levels was based on a rate of 7%. The projected long-term rate of return on plan assets was 9%.

(13) SHORT-TERM BORROWINGS

Certain subsidiaries of the Company's brokerage subsidiary (Westcap) have arrangements with a financial institution whereby the institution performs clearing functions for all securities transactions with customers and brokers and dealers. These arrangements include revolving line of credit agreements which bear interest at variable rates based on Federal funds rates and are due on demand. Borrowings under these arrangements are guaranteed by Westcap and collateralized by trading securities and certain customers' and brokers' and dealers' unpaid securities, which at September 30, 1988 and 1987 (the subsidiary's fiscal year end), had a market value of approximately $24,279,000 and $42,704,000, respectively. The average interest rate on the borrowings for the years ended September 30, 1988 and 1987, was 8.57% and 7.00%, respectively.

During April, 1988, another Westcap subsidiary obtained a $20 million revolving line of credit for the temporary warehousing of real estate mortgages. The line of credit is secured by the related mortgages and bears interest at a calculated rate not to exceed the prime rate plus one percent. At September 30, 1988, $18,758,599 was outstanding under the loan agreement. The loan is guaranteed by Westcap and matures on April 8, 1989. This subsidiary was not in compliance at September 30, 1988, with certain covenants on which the bank has waived compliance.

(14) COMMITMENTS AND CONTINGENCIES

The Company is a defendant in several lawsuits, substantially all of which are in the normal course of business. In the opinion of management of the Company, the liability, if any, which may arise from these lawsuits would not have a material adverse effect on the Company's consolidated financial condition.

In the normal course of business, the Company's brokerage subsidiary (Westcap) enters into when-issued, underwriting, forward, and futures contracts principally related to mortgage-backed, U.S. Government, and municipal securities issues which have settlement dates ranging from several weeks to several months after trade date. Revenues and expenses related to such contracts are recorded on settlement date. As of September 30, 1988, unsettled forward purchase and sale contracts approximated $140,000,000 and $137,000,000, respectively, substantially all of which are matched. In the opinion of management, the settlement of these transactions is not expected to have a material effect on Westcap's consolidated financial condition.

Commitments from investors to purchase loans from a Westcap subsidiary totalled approximately $60,000,000 at September 30, 1988. This Westcap subsidiary held approximately $23,452,000 of loans in inventory at September 30, 1988, that will be sold under the commitments. In addition, at September 30, 1988, this subsidiary had issued commitments to other mortgage companies to purchase approximately $38,080,000 of mortgage loans at amounts that approximate market prices at the time of closing.

(15) FOREIGN SALES

Total premium income related to life insurance written in foreign countries, primarily Central and South America, was approximately $37,400,000, $30,400,000, and $25,500,000 for the years ended December 31, 1988, 1987, and 1986, respectively.

(16) SIGNIFICANT AGENCY RELATIONSHIPS

A significant portion of the Company's flexible premium annuity and life business is written through one agency. Such business accounted for approximately 67%, 65%, and 63% of total premium income for 1988, 1987, and 1986, respectively.

(17) SEGMENT INFORMATION

Information concerning the Company's two industry segments follows:

(In thousands)		Life Insurance Business	Brokerage Business	Eliminations	Consolidated Amounts
Gross revenues:					
1988	$	409,887	24,778	(192)	434,473
1987		407,024	25,501	(19)	432,506
1986		320,545	37,982	0	358,527
Earnings from operations:					
1988		9,734	732	0	10,466
1987		5,775	949	0	6,724
1986		5,470	4,324	0	9,794
Identifiable assets:					
1988		1,295,956	110,307	(14,214)	1,392,049
1987		1,067,951	124,887	(14,240)	1,178,598
1986		819,764	181,460	(12,679)	988,545

(18) 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)			
1988:					
Revenues	$	104,852	119,416	100,385	109,820
Earnings from operations		2,565	2,068	3,664	2,169
Net earnings		2,649	1,632	2,720	608
Per share:					
Earnings from operations		0.74	0.60	1.05	0.62
Net earnings		0.76	0.47	0.78	0.18
1987:					
Revenues	$	118,128	123,208	93,152	98,018
Earnings from operations		2,851	956	2,018	899
Net earnings (loss)		3,635	1,777	910	(618)
Per share:					
Earnings from operations		0.82	0.27	0.58	0.26
Net earnings (loss)		1.05	0.51	0.26	(0.18)

Fourth quarter net earnings (loss) in 1988 and 1987 reflect a write-down of investments of $1,167,000 and $1,684,000, net of tax, respectively.

The above quarterly information has been restated to reflect consolidation of Westcap as a result of implementation of FAS 94.

Independent Auditors' Report

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

We have audited the consolidated balance sheets of National Western Life Insurance Company and subsidiaries as of December 31, 1988 and 1987, and the related statements of earnings and stockholders' equity for the years then ended, the statement of cash flows for the year ended December 31, 1988, and the statement of changes in financial position for the year ended December 31, 1987. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The 1986 consolidated financial statements of National Western Life Insurance Company and subsidiaries were audited by other auditors, whose report dated March 16, 1987, expressed an unqualified opinion on those statements.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Western Life Insurance Company and subsidiaries at December 31, 1988 and 1987, and the results of their operations for the years ended December 31, 1988 and 1987, their cash flows for the year ended December 31, 1988, and their changes in financial position for the year ended December 31, 1987, in conformity with generally accepted accounting principles.

As discussed in note 1 to the financial statements, the Company adopted Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows," in 1988.

As discussed in note 1 to the financial statements, the Company adopted Statement of Financial Accounting Standards (FAS) No. 94, "Consolidation of All Majority-Owned Subsidiaries," in 1988.

We have reviewed the adjustments that were applied to restate the 1986 financial statements related to adoption of FAS No. 94 described in the preceding paragraph. In our opinion, such adjustments are appropriate and have been applied properly.

Austin, Texas
March 17, 1989

Peat Marwick Main & Co.

Five-Year Financial Review

	Years Ended December 31,				
	1988	1987	1986	1985	1984
	(Amounts in Thousands except Per Share Statistics)				
Premium income	$ 306,988	324,918	257,663	182,219	121,868
Net investment income	100,333	81,175	62,137	47,547	35,510
Brokerage revenues	24,778	25,501	37,982		
Other income	2,374	911	745	765	701
Total income	434,473	432,505	358,527	230,531	158,079
Policyholder benefits	(335,921)	(334,596)	(256,362)	(177,262)	(113,966)
Commissions and other insurance expenses	(59,348)	(63,520)	(56,113)	(43,826)	(34,483)
Brokerage expenses	(23,545)	(23,876)	(30,086)		
Total expenses	(418,814)	(421,992)	(342,561)	(221,088)	(148,449)
Deferred Federal income tax adjustment					19,984
Provision for Federal income taxes	(5,193)	(3,789)	(6,172)	(3,000)	(3,341)
Earnings from operations	10,466	6,724	9,794	6,443	26,273
Equity in earnings of brokerage subsidiary				2,524	424
Realized gains (losses) on investments	(2,857)	(1,020)	2,937	495	(2,847)
Net earnings	$ 7,609	5,704	12,731	9,462	23,850
Per Share:					
Earnings from operations	$ 3.01	1.93	2.81	1.85	7.56
Equity in earnings of brokerage subsidiary				0.73	0.12
Realized gains (losses) on investments	(0.82)	(0.29)	0.85	0.14	(0.82)
Net earnings	$ 2.19	1.64	3.66	2.72	6.86
Total assets	$ 1,392,049	1,178,598	988,545	594,554	467,349
Stockholders' equity	$ 97,363	89,943	85,127	72,563	62,402

NOTE: To reflect the consolidation provisions of Financial Accounting Standards Board Statement 94, the Company's brokerage subsidiary is consolidated in 1988, 1987, and 1986. For 1985 and 1984, subsidiary amounts were included on the equity basis.

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 twelve percent of the Company's total 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	
	1986	1987	1988	1986-87	1987-88
Premiums	71.9%	75.1%	70.7%	26.1%	(5.5)%
Investment income	17.3	18.8	23.1	30.6	23.6
Brokerage revenues	10.6	5.9	5.7	(32.9)	(2.8)
Other income	0.2	0.2	0.5	22.3	160.6
Total revenues	100.0	100.0	100.0	20.6	.5
Policyholder benefits	(71.5)	(77.4)	(77.3)	30.5	.4
Commissions and other expenses	(15.6)	(14.7)	(13.7)	13.2	(6.6)
Brokerage expenses	(8.4)	(5.5)	(5.4)	(20.6)	(1.4)
Provision for Federal income taxes	(1.7)	(0.9)	(1.2)	(38.6)	37.1
Realized gains (losses) on investments	0.8	(0.2)	(.7)	(134.7)	(180.1)
Net earnings	3.6%	1.3%	1.7%	(55.2)	33.4

Results of Operations

Premium Income: Total premium income was $307.0 million in 1988, $324.9 million in 1987, and $257.7 million in 1986. The major growth area continues to be in annuity considerations, which were $234.9 million in 1988, $221.7 million in 1987, and $156.8 million in 1986.

Life premiums for 1988 decreased by $31.2 million, or 30.2% from 1987, 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 1987 by 6.0%, 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 $1.27 billion at the end of 1988, compared to $1.04 billion in 1987 and $821.6 million in 1986. The increases in invested assets produced net investment income of $100.3 million in 1988, compared to $81.2 million in 1987 and $62.1 million in 1986. This growth trend is expected to continue as life and annuity production continues to increase.

Brokerage Revenues: These revenues were derived from the Company's wholly-owned subsidiary, The Westcap Corporation. Revenues for 1988, 1987, and 1986 were $24.8 million, $25.5 million, and $38.0 million, respectively. The decreases from 1986 were primarily the result of adverse bond market conditions.

Policyholder Benefits: This expense item remained relatively flat from 1987 to 1988. Total benefits for 1987 were $334.6 million compared to $256.4 million in 1986. The increase from 1986 to 1987 results primarily from the increase in the liability for future policy benefits, which follows closely the change in premium and annuity considerations.

Commissions and Other Expenses: Amounts for this expense category were $59.3 million, $63.5 million, and $56.1 million for 1988, 1987, and 1986, respectively. Increased commission expense in 1986 and 1987 relate to production of the flexible premium annuity, while the decreased amount for 1988 results from decreased life production.

Brokerage expenses for 1988, 1987, and 1986 were $23.5 million, $23.9 million, and $30.1 million, respectively. The major portion of these expenses relate to commission compensation and vary directly with brokerage revenues.

Realized Gains and Losses on Investments: Realized gains (losses), net of tax, were ($2.9 million) for 1988, ($1.0 million) for 1987, and $2.9 million for 1986. 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. The 1988 loss includes a write-down of approximately $2.8 million in mortgages and real estate and $781,000 in permanently impaired bonds.

Liquidity and Capital Resources

Stockholders' equity increased to $97.4 million as of December 31, 1988. The book value per share was $28.00 compared to $25.86 at the end of 1987, an 8% increase.

At year-end 1988, policy loans had increased by approximately $15.2 million, or 15.6% from 1987. 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.

While short-term borrowings have not been significant, they relate primarily to the revolving lines of credit of the brokerage subsidiary, used in clearing functions for all securities transactions with its customers, brokers, and dealers. Amounts outstanding as of December 31, 1988 and 1987, were $34 million and $24 million, respectively.

There are no present material commitments for capital expenditures in 1989, and the Company does not anticipate incurring any such commitments through the balance of 1989.

Financial Accounting Standards (FAS) Board Statements

In October, 1987, FAS No. 94 on Consolidation of All Majority-owned Subsidiaries was issued. It is effective for fiscal years ending after December 15, 1988, with restatement of comparative financial statements for earlier years required. The Company has implemented this statement for 1988, with 1987 and 1986 being restated to conform. The Company's wholly-owned subsidiary, The Westcap Corporation, which had previously been accounted for under the equity method, is now included in the consolidation.

In November, 1987, FAS No. 95 on Statements of Cash Flow was issued, to be effective for fiscal years ending after July 15, 1988, with restatement for earlier years encouraged but not required. The Company has implemented this statement for 1988, but elected not to restate for 1987 and 1986, using instead the Statement of Changes in Financial Position, restated to reflect the consolidation of its brokerage subsidiary.

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 this statement will be implemented in the last quarter of 1989, with prior quarters being restated. Although the Company has not completed calculations regarding implementation of FAS 96, preliminary calculations indicate that as of December 31, 1988, there will be no significant impact on stockholders' equity.

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 plans to implement this statement in the first quarter of 1989, utilizing retroactive restatement. It will have a significant impact on the appearance of the earnings statement. The implementation of FAS 97 will not have a significant impact on stockholders' equity at December 31, 1988.

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
3-31	1988	12-1/8	8-5/8
6-30	1988	11-3/4	9-1/8
9-30	1988	12-3/8	11
12-31	1988	14-3/8	11

Statutory Balance Sheets

	(Unaudited) December 31, 1988	1987
ASSETS		
Bonds	$ 938,398,637	745,407,846
Preferred stocks	5,583,098	7,774,496
Common stocks	11,040,089	9,966,180
Mortgage loans	84,719,902	88,557,999
Real estate	27,294,651	13,535,445
Policy loans	112,440,958	97,275,418
Collateral loans	1,025,000	925,000
Income interest in Libbie Shearn Moody Trust	11,444,746	11,479,946
Cash on hand and in banks	4,649,243	5,358,625
Short-term investments	13,107,149	15,380,260
Premiums deferred and uncollected	8,708,604	9,232,006
Investment income due and accrued	24,113,175	19,851,010
Other assets	4,573,793	2,729,872
	$ 1,247,099,045	1,027,474,103
LIABILITIES, SURPLUS, AND OTHER FUNDS		
Aggregate reserve for life policies	$ 1,142,442,381	923,750,849
Aggregate reserve for accident and health policies	251,018	268,328
Supplementary contracts without life contingencies	526,066	550,305
Life claims	3,810,138	3,629,660
Accident and health claims	139,578	135,411
Policyholders' dividend, coupon, and endowment accumulations	9,203,729	9,848,300
Policyholders' dividend liability	268,067	297,900
Other liabilities to policyholders	7,873,786	8,844,614
Commissions, expenses, and taxes due or accrued	4,674,191	3,718,627
Borrowed money	0	9,200,546
Other liabilities	14,470,985	11,635,781
Mandatory Securities Valuation Reserve	21,813,174	21,620,016
Total liabilities	1,205,473,113	993,500,337
Capital paid up	3,477,862	3,477,862
Paid-in and contributed surplus	12,750,763	12,750,763
Unassigned surplus	25,397,307	17,745,141
Total capital and surplus	41,625,932	33,973,766
	$1,247,099,045	1,027,474,103

Statutory Statements of Operations

	(Unaudited) Years Ended December 31,	
	1988	1987
Premiums and annuity considerations	$ 200,555,617	223,960,036
Annuity and other fund deposits	106,500,043	100,947,643
Considerations for supplementary contracts, dividend, coupon, and endowment accumulations	470,322	839,066
Net investment income	99,453,119	81,005,776
Other income	2,107,771	922,351
Total income	409,086,872	407,674,872
Death claims	12,260,224	11,852,783
Accident and health claims	668,083	653,326
Surrender benefits	81,944,483	68,789,684
Coupons and endowments to policyholders	542,935	611,983
Payments on supplementary contracts, dividend, coupon, and endowment accumulations	1,451,056	2,202,707
Other policy benefits	17,805,010	13,113,101
Increase in life and accident and health reserves	218,674,222	239,997,860
Decrease in other reserves	(668,811)	(946,932)
Commissions	52,064,743	53,910,406
General expenses, taxes, and other expenses	12,286,949	12,774,428
Change in loading	309,038	(217,878)
Total benefits and expenses	397,337,932	402,741,468
Net gain before dividends and Federal income taxes	11,748,940	4,933,404
Dividends to policyholders	262,341	297,761
Net gain before Federal income taxes	11,486,599	4,635,643
Federal income taxes	500,000	180,000
Net gain from operations before realized capital gains or (losses)	10,986,599	4,455,643
Realized capital gains or (losses)	(785,280)	2,692,353
Net income	$ 10,201,319	7,147,996

Statutory Statements of Capital and Surplus

	(Unaudited) Years Ended December 31,	
	1988	1987
Balance at beginning of year	$ 33,973,766	38,896,230
Additions (deductions):		
Net income	10,201,319	7,147,996
Net unrealized capital gains or (losses)	(539,672)	(1,037,975)
Change in non-admitted assets and related items	(996,709)	(590,188)
Change in Mandatory Securities Valuation Reserve	(193,158)	(6,577,789)
Other decreases	(819,614)	(3,864,508)
Balance at end of year	$ 41,625,932	33,973,766

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, FSA
Senior 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

Russell S. Moody
Investments
Galveston, Texas
NWL Director—1988 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

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Executive Vice President
Administration

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
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International Marketing

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Latin American Operations

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Domestic Marketing

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

Weldon K. Huffman
Vice President
Systems Management
Assistant Secretary

James A. Kincl
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Investment Analyst

James R. Naiser, FLMI
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Mary L. Smith
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Larry D. White, FLMI
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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, FLMI
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

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Principal activity: Premium Financing
Inactive
The Westcap Corporation, Houston, Texas
Principal activity: U.S. Government and Municipal Securities Dealer

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

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