1989 Annual Report

NATIONAL WESTERN LIFE
INSURANCE COMPANY

Table of Contents

10-K Report Available

National Western Life Insurance Company's earnings and financial position for the year ended December 31, 1989, 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.

National Western Life Insurance Company
Austin, Texas

TO OUR STOCKHOLDERS

In our 1988 Report, we predicted the Company would, in 1989, continue the growth of the past several years, and, we are pleased to report, we were correct in our prediction. The Company's combined life and annuity production continues to increase at above average levels, with sales of annuities in the qualified plan markets continuing to be the dominant area of production. This trend is expected to continue during 1990.

During 1989, net investment income increased over 29% from 1988 levels to $129 million. Recently much has been written and said about insurance company investments in high yield ("junk") bonds, and for good reason. Our Board of Directors authorized the investment officer, beginning in 1984, to make modest investments in good quality, high yield bonds with a restriction of no more than $1 million invested in any single issuer. At year-end 1989, our total investment in these bonds was less than 8% of total assets. Since year-end 1989, we have discontinued making any further investments in high yield bonds, which will result in a steadily declining ratio of these bonds to total assets. Since all bond investments are made with the intention of holding them to maturity, we feel comfortable with this position. Mortgage loans account for less than 6% of total assets at year-end 1989. Of these, less than 3% were non-performing or problem loans. We are making favorable progress in work-outs of these loans as the real estate market slowly improves. Our investment philosophy continues to be focused on sound investments with good return rather than risk capital for potentially large gains.

Profits from insurance operations were down from last year due primarily to increases in death benefits and amortization of deferred policy acquisition costs. The loss incurred by the Company's brokerage subsidiary also contributed to the consolidated earnings decrease from last year. The subsidiary loss was due primarily to decreased revenues related to market conditions. These causes for decreased profits in the insurance and brokerage operations are not expected to carry over to 1990 and, accordingly, an improved profit picture is projected for 1990.

Consolidated assets grew from $1.5 billion at year-end 1988 to $1.9 billion at the end of 1989. We feel a measure of the Company's success is the growth in assets. Over the last 20 years, National Western Life assets have grown from less than $140 million to current levels, and, since 1986, assets have increased over 93%. Insurance in force, another measure of the Company's growth, topped $5.1 billion in force in 1988. At the close of 1989, insurance in force was $5.6 billion, an increase of over 9%.

Because of the decreased consolidated profits for 1989, stockholders' equity increased by a modest 1.5% to $101 million at year-end 1989. The book value per share was $29.09 at the end of December, 1989, compared to $28.66 and $27.11 at the end of 1988 and 1987, respectively.

The Company was admitted to do business in the State of Rhode Island during the year. This raises to 43 the number of states in which we are admitted. We have applications pending in all remaining states except New York and will actively pursue affirmative action on these applications.

The success of the Company would not have been possible without our directors, officers, employees, and the outstanding efforts of our worldwide network of agents. It is management's pledge to continue directing the Company, as in the past, focusing on growth in assets as well as insurance in force.

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

Robert Moody

Harry L. Edwards
President and
Chief Operating Officer

Harry L. Edwards

A TRIBUTE TO HARRY L. EDWARDS

Harry L. Edwards, longtime President of Nat Western Life Insurance Company, will retire Jul 1990, after a long and a distinguished career in th insurance industry.

Over the last 20 years, Mr. Harry Edwards served as the Company's President and C Operating Officer. During his "watch," he guide Company from virtual bankruptcy in 1969 to the billion firm it is today.

His unstinting dedication over the years has instrumental in the Company's success, which Company would hereby like to recognize.

Mr. Edwards is quick to share credit for Company's progress and financial stability to "a of the most capable and successful people in th insurance industry."

The Company is now a major life insur company ranking in the top 10% of all life comp in the United States with $5.6 billion of life insur in force. It currently markets in 43 states numerous foreign countries.

Throughout his business career, Mr. Edwards been active in civic endeavors, including servin years as a Trustee of St. Edward's University, or those as Chairman.

Consolidated Balance Sheets

(In thousands)

ASSETS	December 31, 1989	December 31, 1988
Investments:		
Fixed maturities, primarily bonds, at amortized cost (market: $1,161,467 and $903,760)	$ 1,167,392	934,823
Preferred stocks, at market value (cost: $4,215 and $1,663)	3,905	1,141
Common stocks, at market value (cost: $2,033 and $3,625)	1,981	2,899
Mortgage loans, net of allowances for possible losses ($2,300 and $3,170)	105,273	83,548
Real estate held for investment	10,403	10,629
Policy loans	135,344	112,441
Life interest in Libbie Shearn Moody Trust	6,850	7,115
Other long-term investments, principally real estate acquired by foreclosure, net of allowances for possible losses ($5,800 and $3,606)	18,188	17,050
Securities purchased under agreements to resell	15,047	39,151
Mortgage loans held for sale, at lower of cost or market	20,228	25,155
Trading securities, at market	29,032	26,693
Short-term investments	84,874	14,060
Total investments	1,598,517	1,274,705
Cash	6,126	4,736
Insurance receivables, net	3,123	3,035
Brokerage trade receivables, net of allowance for possible losses ($121 and $200)	38,678	13,137
Accrued investment income	29,705	25,930
Deferred policy acquisition costs	223,384	181,196
Property and equipment, net	2,010	2,618
Other assets	6,638	5,233
	$ 1,908,181	1,510,590

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

(In thousands except shares outstanding)

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 1989	1988
LIABILITIES:		
Future policy benefits:		
Traditional life and annuity products	$ 194,185	198
Universal life and investment annuity contracts	1,444,261	1,054
Policy and contract claims	4,655	3
Policyholders' dividends, coupons, and endowment accumulations	8,650	9
Other policyholder funds	7,452	8
Short-term borrowings	48,214	34
Securities sold under agreements to repurchase	14,967	45
Brokerage trade payables	30,330	14
Federal income tax payable:		
Current	0	
Deferred	21,578	21
Other liabilities	32,717	21
Total liabilities	1,807,009	1,410
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 1989 and 1988	3,278	3
Class B of $1 par value, authorized, issued, and outstanding 200,000 shares in 1989 and 1988	200	
Additional paid-in capital	24,065	24
Net unrealized losses on investments in equity securities	(362)	(1
Retained earnings	73,991	73
Total stockholders' equity	101,172	99
	$ 1,908,181	1,510

See accompanying notes to consolidated financial statements.

Consolidated Statements of Earnings

(In thousands except per share data)

	Years Ended December 31, 1989	1988	1987
Premiums and other revenue:			
Premiums:			
Life	$ 25,611	28,363	30,459
Annuities	309	377	443
	25,920	28,740	30,902
Universal life and investment annuity contract revenues	22,974	18,994	14,903
Investment income, net	129,743	100,334	81,176
Brokerage revenues	20,053	24,778	25,501
Other income	498	504	232
Realized losses on investments	(3,028)	(4,329)	(1,546)
Total premiums and other revenue	196,160	169,021	151,168
Benefits and expenses:			
Life	34,050	31,212	32,342
Other	2,530	2,563	2,331
Decrease in liabilities for future policy benefits	(4,356)	(4,962)	(4,082)
Amortization of deferred policy acquisition costs	13,620	8,398	6,372
Universal life and investment annuity contract interest	101,487	74,373	55,776
Other insurance operating expenses	26,069	25,624	22,658
Brokerage operating expenses.	22,623	23,545	23,876
Total benefits and expenses	196,023	160,753	139,273
Earnings before Federal income tax	137	8,268	11,895
Provision (benefit) for Federal income tax:			
Current	(741)	824	271
Deferred	269	1,856	4,163
Total Federal income tax expense	(472)	2,680	4,434
Net earnings	$ 609	5,588	7,461
Earnings per share of common stock:			
Net earnings	$ 0.18	1.61	2.15

See accompanying notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

(In thousands)

	Years Ended December 31, 1989	1988	1987
Common stock:			
Balance at beginning and end of year	$ 3,478	3,478	3,[redacted]
Additional paid-in capital:			
Balance at beginning and end of year	24,065	24,065	24,[illegible]
Net unrealized losses on investments in equity securities:			
Balance at beginning of year	(1,248)	(1,233)	([redacted]
Decrease (increase) in unrealized losses on investments in equity securities during the year	886	(15)	([illegible]
Balance at end of year	(362)	(1,248)	(1,[illegible]
Retained earnings:			
Balance at beginning of year, as restated	73,382	67,968	60,[illegible]
Consolidation adjustment (Note 1)		(174)	
Net earnings	609	5,588	7,[redacted]
Balance at end of year	73,991	73,382	67,[illegible]
Total stockholders' equity	$ 101,172	99,677	94,[redacted]

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(In thousands)

	Years Ended December 31, 1989	1988
Cash flows from operating activities:		
Net income	$ 609	5,588
Adjustments to reconcile net income to net cash from operating activities:		
Universal life and investment annuity contract interest	101,487	74,373
Surrender charges	(7,413)	(6,536)
Realized capital losses on investments	3,028	4,329
Net amortization of discounts on investments	(3,479)	(2,945)
Depreciation and amortization	1,365	1,320
Decrease (increase) in insurance receivables and other assets	(1,621)	2,160
Decrease (increase) in brokerage receivables, net	(9,329)	10,095
Increase in accrued investment income	(3,775)	(1,123)
Increase in deferred policy acquisition costs	(42,188)	(31,826)
Decrease in liability for future policy benefits	(4,356)	(4,962)
Decrease in all other policyholder liabilities	(480)	(1,487)
Increase in Federal income taxes payable	247	1,827
Increase (decrease) in other liabilities	11,285	(1,413)
Net increase (decrease) in repurchase agreements less related liabilities	(6,482)	6,877
Net decrease (increase) in trading securities	(2,339)	2,445
Proceeds from sale of mortgage loans acquired for resale	271,505	70,330
Purchases of mortgage loans acquired for resale	(266,776)	(95,486)
Other, net	(831)	(35)
Net cash flows from operating activities	40,457	33,531
Cash flows from investing activities:		
Proceeds from sales of bond investments	71,628	18,221
Proceeds from maturities of bond investments	41,323	24,713
Proceeds from sale of other investments	7,244	14,658
Purchase of investments	(349,870)	(254,174)
Principal payments on mortgage loans	3,086	4,684
Cost of mortgage loans acquired	(28,578)	(11,855)
Net increase in policy loans	(22,903)	(15,166)
Purchases of property and equipment	(246)	(1,055)
Proceeds from sale of property and equipment	17	67
Net cash used in investing activities	(278,299)	(219,907)

(CONTINUED ON NEXT PAGE)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows(cont.)

(In thousands)

		Years Ended December 31,	
		1989	1988
Cash flows from financing activities:			
Net increase (decrease) in short-term borrowings	$	13,875	(3,696)
Deposits to account balances for universal life and investment annuity contract funds		389,828	253,775
Return of account balances on universal life and investment annuity contracts		(93,657)	(65,811)
Net cash used in financing activities		310,046	184,268
Net increase (decrease) in cash and cash equivalents		72,204	(2,108)
Cash and cash equivalents at beginning of year		18,796	20,904
Cash and cash equivalents at end of year	$	91,000	18,796

Supplemental disclosures of cash flow information:

Cash paid during 1989 and 1988 for interest (net of amount capitalized) was $4,997 and $3,063, respectively. Cash paid during 1989 and 1988 for income taxes was $1,468 and $1,053, respectively.

For purposes of this statement 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.

Non-cash investing activities:

The Company foreclosed on mortgage loans and collateral loans in 1989 and 1988 in the principal amounts of $8,503 and $11,192, respectively. In 1989, principal amounts of $7,256 and $1,247 were transferred to other long-term investments and mortgage loans, respectively, on the consolidated balance sheet. In 1988, the $11,192 principal amount was transferred to Other Long-term Investments on the consolidated balance sheet.

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Financial Position

(In thousands)

	Year Ended December 31, 1987
Funds provided:	
From operations:	
Net earnings	$ 7,461
Charges (credits) not affecting funds:	
Deferred Federal income taxes	4,163
Amortization of deferred policy acquisition costs	6,372
Decrease in liability for future policy benefits	(4,082)
Amortization of bond discount	(2,636)
Increase in investment loss allowance	3,385
Deposits to account balances for universal life and investment annuity contract funds	273,714
Return of account balances on universal life and investment annuity contracts	(54,737)
Universal life and investment annuity contract interest	55,776
Other	(3,239)
	286,177
Cost of investments sold and loans matured:	
Bonds and notes	57,204
Mortgage loans	20,819
Repurchase agreements	39,557
Decrease in trading securities	61,681
Other	5,942
	185,203
Decrease in cash	16,739
Decrease in brokerage receivables	14,985
Other, net	182
Total funds provided	$ 503,286
Funds used:	
Increase in policy loans	$ 13,283
Cost of investments purchased or loans disbursed:	
Bonds and notes	300,698
Mortgage loans	18,661
Real estate	10,088
Repurchase agreements	39,557
Other	1,227
	383,514
Additions to deferred policy acquisition costs	45,008
Decrease in short-term borrowings	65,310
Other, net	9,454
Total funds used	$ 503,286

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

YEARS ENDED DECEMBER 31, 1989, 1988, AND 1987

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

(B) Basis of Presentation — The accompanying consolidated financial statements, as they relate to insur operations, have been prepared in conformity with generally accepted accounting principles which vary in cer respects from reporting practices prescribed or permitted by insurance regulatory authorities. The following are m differences between generally accepted accounting principles and accounting principles prescribed by insur regulatory authorities:

1. In 1989, FAS No. 97, "Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contr and for Realized Gains and Losses from the Sale of Investments," was implemented, utilizing retroa restatement. The basic effect of the statement as regards certain long-duration contracts is that deposit universal life and investment annuity contracts will no longer be shown as revenues. The impact of restatement in prior years is as follows:

	1988			1987		
	Retained Earnings	Net Earnings	Net Earnings Per share	Retained Earnings	Net Earnings	Net Earnin Per sh
	(In thousands except per share data)					
As previously reported . . .	$ 71,068	7,609	2.19	63,633	5,704	[illegible]
Adjustment to implement FAS No. 97	2,314	(2,021)	(0.58)	4,335	1,757	[illegible]
As restated	$ 73,382	5,588	1.61	67,968	7,461	[illegible]

2. Commissions and certain expenses related to policy issuance and underwriting, all of which generally vary and are related to the production of new business, have been deferred. For traditional products, these costs being amortized over the premium-paying period of the related policies in proportion to the ratio of the prem earned to the total premium revenue anticipated, using the same assumptions as to interest, mortality, withdrawals as were used in calculating the liability for future policy benefits. For universal life and investr annuity contracts, these costs are amortized in relation to the present value of expected gross profits on tl policies.

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

	1989	1988	1987
		(In thousands)	
Costs deferred:			
Agents' Commissions	$ 52,470	37,479	42,028
Other	3,338	2,745	2,980
	$ 55,808	40,224	45,008
Amounts amortized	$ 13,620	8,398	6,372
First-year and single premium revenues	$ 2,809	3,430	3,307
Renewal premium revenues	$ 23,111	25,310	27,595
Universal life and investment annuity deposits	$ 405,389	266,234	284,445

Amortization of deferred policy acquisition costs in 1989 includes an additional $5,200,000 related to a reduction in surrender charges applicable to certain existing annuity contracts.

3. 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 and investment annuity contracts, the liability for future policy benefits represents the account balance.

4. 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.

5. 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.

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 income 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 the Years Ended December 31,		
	1989	1988	1987
		(In thousands)	
Per annual statement to insurance department	$ 5,257	10,201	4,456
Subsidiary earnings (loss) before deferred Federal income tax	(1,500)	701	1,442
Consolidated statutory net gain from operations	3,757	10,902	5,898
Adjustments:			
Deferral of policy acquisition costs	42,188	31,826	38,636
Adjustment of future policy benefits	(43,355)	(31,303)	(30,301)
Amortization of investment in the Trust	(265)	(262)	(260)
Deferred Federal income taxes	(269)	(1,856)	(4,163)
Realized gains on investments	0	0	2,692
Valuation allowance on investments	(1,489)	(3,557)	(4,332)
Other, net	42	(162)	(709)
Amounts per consolidated financial statements	$ 609	5,588	7,461

	Stockholders' Equity as of December 31,		
	1989	1988	1987
		(In thousands)	
Per annual statement to insurance department	$ 49,021	41,626	33,974
Adjustments:			
Difference in initial valuation of investment in the Trust, net of amortization	(4,592)	(4,330)	(4,103)
Deferral of policy acquisition costs, net of amortization	223,384	181,196	149,370
Adjustment of future policy benefits	(160,492)	(117,136)	(85,825)
Deferred Federal income taxes	(21,578)	(21,309)	(19,396)
Adjustment to report preferred stocks at market value	(240)	(349)	(324)
Transfer of Mandatory Securities Valuation Reserve to appropriated retained earnings	19,555	21,813	21,620
Reinstatement of non-admitted assets	2,945	4,379	3,399
Valuation allowance on investments	(8,100)	(6,776)	(4,000)
Other, net	1,269	563	(437)
Amounts per consolidated financial statements	$ 101,172	99,677	94,278

(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, 1989, were $440,157 and $802,668, respectively. The Company has the ability and intent to hold bonds to maturity. Trading activity in the bond portfolio is not significant, although in late December, 1989, the Company did convert approximately $60,000,000 of bonds to short-term investments in anticipation of funding a reinsurance agreement. The reinsurance agreement was not consummated and the funds were reinvested in bonds. There was no significant gain or loss on the sale of these bonds.

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 on traditional life insurance products 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. For universal life and investment annuity contracts, revenues consist of policy charges for the cost of insurance, policy administration, and surrender charges assessed during the period. Expenses for these policies include interest credited to policy account balances and benefit claims incurred in excess of policy account balances. The related deferred policy acquisition costs are amortized in relation to the present value of expected gross profits on the policies.

(E) Brokerage Revenue and Expense — Securities transactions and related revenue and expense are recorded 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) Classification — Certain reclassifications have been made to the prior years to conform to the reporting categories used in 1989.

(H) Statement of Cash Flows — In November, 1987, the Financial Accounting Standards Board issued Statement No. 95, "Statement of Cash Flows." The Company 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 years 1989 and 1988. For the year 1987, 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 considers all short-term investments with a maturity at date of purchase of three months or less to be cash equivalents.

(2) BROKERAGE SUBSIDIARY

The Westcap Corporation and Subsidiaries (Westcap), a wholly-owned brokerage firm, has been consolidated in the accompanying financial statements. 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,		
	1989	1988	1987
		(In thousands)	
Assets:			
Cash	$ 668	1,001	128
Receivable from customers and brokers	38,678	13,137	32,892
Trading inventory	29,032	26,693	29,370
Other assets	41,272	69,476	52,427
	$ 109,650	110,307	114,817
Liabilities and Stockholders' Equity:			
Notes payable	48,214	34,339	32,035
Payable to customers and brokers	30,330	14,433	26,478
Other liabilities	20,446	49,341	44,257
Stockholders' equity	10,660	12,194	12,047
	$ 109,650	110,307	114,817
Revenues	$ 20,053	24,778	28,886
Net income (loss)	$ (1,534)	732	1,876

(3) DEPOSITS WITH REGULATORY AUTHORITIES

The following assets were on deposit with state and other regulatory authorities as required by law at the end of each year:

		1989	1988
		(In thousands)	
Bonds, at amortized cost	$	79,123	74,362
Certificates of deposit	$	200	200

(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 $32,792,000 at December 31, 1989, 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,		
	1989	1988	1987
		(In thousands)	
Investment income:			
Interest on bonds	$ 106,481	82,952	64,017
Interest on mortgage loans	10,232	8,514	8,216
Interest on policy loans	9,651	7,877	6,765
Other investment income	5,801	3,578	4,128
Total investment income	132,165	102,921	83,126
Investment expenses	2,422	2,587	1,950
Net investment income	$ 129,743	100,334	81,176

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

Type of Investment		December 31, 1989	1988
		(In thousands)	
Bonds	$	1,891	1,591
Stocks	$	731	707
Mortgage loans	$	2,721	2,199
Other long-term investments	$	2,161	3,809

As of December 31, 1989, mortgage loans totaling $7,644,531 were on a non-accrual status. During 1989, 1988, and 1987, reduction in interest income associated with non-accrual loans was as follows:

	December 31, 1989	1988	1987
	(In thousands)		
Interest at contract rate	$ 1,013	980	1,259
Interest income recognized	0	0	0
Interest income not accrued	$ 1,013	980	1,259

Significant individual investments concentrated in any one entity at December 31, 1989 and 1988, are as follows:

	December 31, 1989	1988
	(In thousands)	
Midwest Federal Savings and Loan (See Note 14):		
Investments fully collateralized with life insurance policy cash values as follows:		
Bonds: 8% debentures, maturing from 1990 through 1995	$ 8,000	8,000
Short-term investments: 8% debentures, matured in 1989	0	1,755
	$ 8,000	9,755

(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)	(Increase) Decrease in Unrealized Investment Losses	Total Investment Gains (Losses)
		(In thousands)	
Year Ended December 31, 1989			
Bonds	$ (1,735)	25,138	23,403
Stocks	(550)	886	336
Other	(743)	0	(743)
Total	$ (3,028)	26,024	22,996

	Net Realized Investment Gains (Losses)	(Increase) Decrease in Unrealized Investment Losses	Total Investment Gains (Losses)
		(In thousands)	
Year Ended December 31, 1988			
Bonds	$ (1,353)	(13,278)	(14,631)
Stocks	44	(15)	29
Other	(3,020)	0	(3,020)
Total	$ (4,329)	(13,293)	(17,622)
Year Ended December 31, 1987			
Bonds	$ 899	(43,999)	(43,100)
Stocks	483	(887)	(404)
Other	(2,928)	0	(2,928)
Total	$ (1,546)	(44,886)	(46,432)

(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, 1989, 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, 1989, 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, 1989, no retained earnings were so allocated.

Participating business constitutes approximately 2% and 3% of the Company's life insurance in force, 12% and 14% of the life insurance policies in force, and 3% and 3% of the premium revenues and universal life deposits for the years ended December 31, 1989 and 1988, 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 $708,000,000 and $630,000,000 is ceded on a yearly renewable term basis, $826,000 and $832,000 is ceded on a modified coinsurance basis, and $76,000,000 and $96,000,000 is ceded on a coinsurance basis at December 31, 1989 and 1988, respectively. In accordance with the reinsurance contracts, credits in the amounts of approximately $8,300,000, $3,200,000, and $1,700,000 were taken against the liability for future policy benefits at December 31, 1989, 1988, and 1987, respectively. Premium revenues were reduced by $3,957,000, $3,233,000, and $3,220,000 for reinsurance premiums incurred during the years ended December 31, 1989, 1988, and 1987, respectively. Benefits were reduced by $2,018,000, $1,706,000, and $2,868,000 for reinsurance recoverable during the years ended December 31, 1989, 1988, and 1987, 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.

(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, 1989, 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, 1989, 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:

	Years ended December 31,		
	1989	1988	1987
		(In thousands)	
Policy acquisition costs expensed for tax purposes and deferred for financial accounting purposes	$ 14,503	10,980	15,641
Excess of the increase in the liability for future policy benefits for tax purposes over the increase for financial statement purposes	(14,430)	(10,653)	(11,115)
Use of tax operating loss deduction	0	3,013	1,141
Investment income recognized for tax purposes and deferred for financial accounting purposes	(497)	(468)	(479)
Accretion of bond discount recognized for financial accounting purposes and deferred for tax purposes	540	598	384
Difference in tax accounting and financial accounting for asset valuation allowances	(564)	(1,236)	(1,833)
Amounts expensed for financial accounting not currently tax deductible	300	(340)	495
Other	417	(38)	(71)
Deferred tax expense per accompanying financial statements	$ 269	1,856	4,163

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:

	Years ended December 31,		
	1989	1988	1987
		(In thousands)	
Income taxes at the statutory rate	$ 46	2,811	4,758
Dividends received deduction	(198)	(207)	(376)
Amortization of life interest in the Libbie Shearn Moody Trust	90	89	104
Rate difference on operating loss carry back	(336)	0	0
Capital gains rate difference on bond discount	0	0	(73)
Other	(74)	(13)	21
Provision for Federal income taxes per accompanying financial statements	$ (472)	2,680	4,434

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 was to be effective for fiscal years beginning after December 15, 1989, but has been delayed until fiscal years beginning after December 15, 1991, by FAS No. 103. Although the Company has not completed calculations regarding implementation of FAS No. 96, preliminary calculations indicate that as of December 31, 1989, 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, 3,477,862, and 3,477,822 for the years ended December 31, 1989, 1988, and 1987, 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, 1989	December 31, 1988
	(In thousands)	
Original valuation of life interest at February 26, 1960	$ 13,793	13,793
Less accumulated amortization	(6,943)	(6,678)
Net asset value of life interest in Trust	$ 6,850	7,115

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, 1989	1988	1987
		(In thousands)	
Income distributions	$ 2,016	1,820	1,741
Add (deduct):			
Amortization	(265)	(262)	(260)
Reinsurance premiums	(109)	(100)	(113)
Increase in surrender value of life insurance policies	3	35	15
Net income from life interest in the Trust	$ 1,645	1,493	1,383

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 $-0- in 1989, $9,000 in 1988, and $23,000 in 1987, and liabilities for future policy benefits related to these policies in the amounts of $1,270,000, $1,270,000, and $1,261,000 at December 31, 1989, 1988, and 1987, 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 (the 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.

Pension costs (credits) included the following components:

	1989	1988	1987
		(In thousands)	
Service cost-benefits earned during the period	$ 287	150	159
Interest cost on projected benefit obligations	368	306	274
Actual return on plan assets	(85)	(221)	(303)
Net amortization and deferral	(321)	(204)	(98)
Net pension cost	$ 249	31	32

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

	December 31, 1989	December 31, 1988
	(In thousands)	
Actuarial present value of benefit obligations:		
Accumulated benefit obligations, including vested benefits of $3,845,000 and $2,849,000, respectively	$ (3,903)	(3,200)
Projected benefit obligations for service rendered to date	$ (4,932)	(3,883)
Plan assets at fair market value primarily consisting of cash equivalents and fixed income securities	4,568	4,215
Plan assets in excess of projected benefit obligations	(364)	332
Unrecognized net transitional obligation (asset) at January 1, 1987, being recognized over employees' average remaining service of 15 years	(649)	(704)
Unrecognized net losses (gains) from past experience different from that assumed	1,007	309
Prepaid (accrued) pension cost	$ (6)	(63)

The discount rate used in determining the actuarial present value of the projected benefit obligation was 8.5% and 9% for 1989 and 1988, respectively. The projected increase in future compensation levels was based on a rate of 6.5% and 7.0% for 1989 and 1988, respectively. The projected long-term rate of return on plan assets was 8.5% and 9.0% for 1989 and 1988, respectively.

(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, 1989 and 1988 (the subsidiary's fiscal year-end), had a market value of approximately $36,689,000 and $24,279,000, respectively. The average interest rate on the borrowings for the years ended September 30, 1989 and 1988, was 10.55% and 8.02%, respectively.

Another Westcap subsidiary has a loan agreement for 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, 1989 and 1988, the outstanding amounts under this loan agreement were $15,350,978 and $18,768,599, respectively.

(14) COMMITMENTS AND CONTINGENCIES

The Company is a defendant in a lawsuit seeking recovery of certain values of life insurance policies pledged as collateral for debentures which have a book value of $8,000,000, but a market value of zero due to the insolvency of the issuer (See Note 5). Should the plaintiff prevail, the Company could realize a loss of $8,000,000. The Company's management believes the collateral assignment is enforceable and that the Company will not sustain a significant loss as a result of this lawsuit.

The Company is a defendant in several other 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, 1989, unsettled forward purchase and sale contracts approximated $280,700,000 and $285,700,000, 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 $19,370,000 at September 30, 1989. This Westcap subsidiary held approximately $18,007,000 of loans in inventory at September 30, 1989, that will be sold under the commitments. In addition, at September 30, 1989, this subsidiary had issued commitments to other mortgage companies to purchase approximately $6,268,000 of mortgage loans at amounts that approximate market prices at the time of closing.

(15) FOREIGN SALES

Total premium revenues and universal life deposits related to life insurance written in foreign countries, primarily Central and South America, were approximately $41,900,000, $37,400,000, and $30,400,000 for the years ended December 31, 1989, 1988, and 1987, respectively.

(16) SIGNIFICANT AGENCY RELATIONSHIPS

A significant portion of the Company's universal life and investment annuity contracts are written through one agency. Such business accounted for approximately 81%, 67%, and 65% of total premium revenues and total universal life and investment annuity contract deposits for 1989, 1988, and 1987, respectively.

(17) SEGMENT INFORMATION

Information concerning the Company's two industry segments follows:

	Life Insurance Business	Brokerage Business	Elimina-tions	Consoli-dated Amounts
	(In thousands)			
Gross revenues:				
1989	$ 176,337	20,053	(230)	196,160
1988	144,435	24,778	(192)	169,021
1987	125,686	25,501	(19)	151,168
Net earnings (loss):				
1989	2,143	(1,534)	0	609
1988	4,856	732	0	5,588
1987	6,512	949	0	7,461
Identifiable assets:				
1989	1,811,191	109,650	(12,660)	1,908,181
1988	1,414,497	110,307	(14,214)	1,510,590
1987	1,161,481	124,887	(14,240)	1,272,128

(18) UNAUDITED QUARTERLY FINANCIAL DATA

Quarterly results of operations are summarized as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands except per share data)			
1989:				
Revenues	$ 43,376	44,063	51,409	57,312
Net earnings (loss) as previously reported	(635)	71	1,852	(679)
Adjustment to implement FAS No. 97	(51)	(199)	(401)	651
Adjustment of deferred acquisition costs applicable to the first quarter	(1,181)			1,181
Net earnings (loss), as restated	(1,867)	(128)	1,451	1,153
Per share:				
Net earnings (loss) as previously reported	(0.18)	0.02	0.53	(0.19)
Adjustment to implement FAS No. 97	(0.01)	(0.06)	(0.12)	0.19
Adjustment of deferred acquisition costs applicable to the first quarter	(0.34)			0.34
Net earnings (loss), as restated	(0.53)	(0.04)	0.41	0.34

		First Quarter	Second Quarter	Third Quarter	Fourth Quarter
		(In thousands except per share data)			
1988:					
Revenues	$	39,621	44,047	40,987	44,366
Net earnings as previously reported		2,649	1,632	2,720	608
Adjustment to implement FAS No. 97		(758)	808	(358)	(1,713)
Net earnings (loss), as restated		1,891	2,440	2,362	(1,105)
Per share:					
Net earnings as previously reported		0.76	0.47	0.78	0.18
Adjustment to implement FAS No. 97		(0.22)	0.23	(0.10)	(0.49)
Net earnings (loss), as restated		0.54	0.70	0.68	(0.31)

Fourth quarter net loss in 1988 reflects a write-down of investments of $1,167,000, net of tax.

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of National Western Life Insurance Company and subsidiaries as of December 31, 1989 and 1988, and the related consolidated statements of earnings and stockholders' equity for each of the years in the three-year period ended December 31, 1989, the consolidated statements of cash flows for the years ended December 31, 1989 and 1988, and the consolidated 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.

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, 1989 and 1988, and the results of their operations for each of the years in the three-year period ended December 31, 1989, their cash flows for the years ended December 31, 1989 and 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 (FAS) No. 95, "Statement of Cash Flows," in 1988.

As discussed in note 1 to the financial statements, the Company adopted FAS No. 97, "Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments," in 1989.

Austin, Texas
March 16, 1990

KPMG Peat Marwick

FIVE-YEAR FINANCIAL REVIEW

The following five-year financial summary includes comparative amounts taken from the audited financial statements:

	Years Ended December 31,				
	1989	1988	1987	1986	1985
	(Amounts in Thousands except Per Share Statistics)				
Premium income	$ 25,920	28,740	30,902	257,663	182,219
Universal life and investment annuity contract revenues	22,974	18,994	14,903		
Net investment income	129,743	100,334	81,176	62,137	47,547
Brokerage revenues	20,053	24,778	25,501	37,982	
Other income	498	504	232	745	765
Realized losses on investments	(3,028)	(4,329)	(1,546)		
Total income	196,160	169,021	151,168	358,527	230,531
Policyholder benefits	(133,711)	(103,186)	(86,367)	(256,362)	(177,262)
Commissions and other insurance expenses	(39,689)	(34,022)	(29,030)	(56,113)	(43,826)
Brokerage expenses	(22,623)	(23,545)	(23,876)	(30,086)	
Total expenses	(196,023)	(160,753)	(139,273)	(342,561)	(221,088)
Benefit (Provision) for Federal income taxes	472	(2,680)	(4,434)	(6,172)	(3,000)
Earnings from operations				9,794	6,443
Equity in earnings of brokerage subsidiary					2,524
Realized gains on investments				2,937	495
Net earnings	$ 609	5,588	7,461	12,731	9,462
Per Share:					
Earnings from operations	$			2.81	1.85
Equity in earnings of brokerage subsidiary					0.73
Realized gains on investments				0.85	0.14
Net earnings	$ 0.18	1.61	2.15	3.66	2.72
Total assets	$ 1,908,181	1,510,590	1,272,128	989,495	594,554
Stockholders' equity	$ 101,172	99,677	94,278	87,704	72,563

NOTE: To implement the consolidation provisions of Statement of Financial Accounting Standards (FAS) No. 94, the Company's brokerage subsidiary is consolidated in 1989, 1988, 1987, and 1986. For 1985, subsidiary amounts were included on the equity basis. Additionally, FAS No. 97 was implemented in 1989, with restatement for 1988 and 1987. The years 1986 and 1985 have not been restated for FAS No. 97. Revenues from universal life and investment annuity contracts are shown separately in lieu of being included in premium income and the change in liability for future policy benefits. Realized gains and losses for 1987, 1988, and 1989 have been reported on a pretax basis with other income.

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-three 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 total premium revenues, universal life, and investment annuity contract deposits. 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	
	1987	1988	1989	1987-88	1988-89
Premium revenues	20.4%	17.0%	13.2%	(7.0)	(9.8)%
Universal life and investment annuity contract revenues	9.9	11.2	11.7	27.5	21.0
Investment income	53.7	59.4	66.1	23.6	29.3
Brokerage revenues	16.9	14.7	10.2	(2.8)	(19.1)
Other income	0.1	0.3	0.3	117.2	(1.2)
Realized investment losses	(1.0)	(2.6)	(1.5)	180.0	(30.0)
Total revenues	100.0	100.0	100.0	11.8	16.1
Policyholder benefits	(20.2)	(17.1)	(16.5)	(5.8)	11.8
Universal life and investment annuity contract interest	(36.9)	(44.0)	(51.7)	33.3	36.5
Commissions and other expenses	(19.2)	(20.2)	(20.2)	17.2	16.7
Brokerage expenses	(15.8)	(13.9)	(11.5)	(1.4)	(3.9)
Provision for Federal income taxes	(3.0)	(1.6)	0.2	(39.6)	(117.6)
Net earnings	4.9%	3.2%	0.3%	(25.1)	(89.1)

Results of Operations

Premium Revenues: This revenue category represents the premiums on traditional type policies which the Company continues to market. Sales in most all of the Company's markets are moving toward the non-traditional type policies such as universal life and investment annuities. This move in market direction accounts for the decrease in revenues in this category over the three-year period.

Universal Life and Investment Annuity Contract Revenues: This caption results from implementation of FAS No. 97, which provides for different accounting for the Company's non-traditional products including universal life and investment annuities. Revenues from these types of policies have increased from $14.9 million in 1987 to $23.0 million in 1989. There is every indication that the trend toward this market will continue and that the increases should also continue.

Investment Income: Net cash flow resulting from increasing life and annuity production has increased total invested assets to $1.6 billion at the end of 1989, compared to $1.3 billion in 1988 and $1.0 billion in 1987. The increases in invested assets produced net investment income of $129.7 million in 1989, compared to $100.3 million in 1988 and $81.2 million in 1987. 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 1989, 1988, and 1987 were $20.1 million, $24.8 million, and $25.5 million, respectively. The decreases from 1987 were primarily the result of adverse bond market conditions.

Policyholder Benefits: This expense item increased steadily over the last three years, primarily resulting from interest paid on universal life and investment annuity contract funds. This follows closely the change in revenues from these policy types.

Commissions and Other Expenses: Amounts for this expense category were $39.7 million, $34.0 million, and $29.0 million for 1989, 1988, and 1987, respectively. These expenses were relatively constant as related to total revenues in 1988 and 1987. The 1989 expenses included an additional $5.2 million of amortization of deferred policy acquisition costs related to a reduction in surrender charges applicable to certain existing annuity contracts.

Brokerage expenses for 1989, 1988, and 1987 were $22.6 million, $23.5 million, and $23.9 million, respectively. The major portion of these expenses relate to commission compensation and vary directly with brokerage revenues.

Realized Losses on Investments: Realized losses were $3.0 million, $4.3 million, and $1.5 million for the years 1989, 1988, and 1987, respectively. The losses in the three years include write-downs on Texas real estate or mortgage loans of $1,324,000, $2,777,000, and $2,490,000, respectively. The Company is closely monitoring the holdings in these categories in an effort to minimize potential losses. Also included in the losses for the three years were adjustments for permanent impairments on bonds of $727,000, $781,000, and $1,280,000 in 1989, 1988, and 1987, respectively.

Liquidity and Capital Resources

The liquidity requirements of the Company are met primarily by funds provided from the life insurance operations. Policy deposits and revenues, investment income, and investment maturities are the primary sources of funds, while investment purchases and interest on universal life and investment annuity funds are the primary uses of funds. The Company's brokerage subsidiary uses revolving lines of credit to complement any funds generated from operations. These lines of credit are used primarily for clearing functions for all securities transactions with its customers and for warehousing of mortgage loans. The Company expects future cash flows to be adequate to meet the demands for funds.

The Company has had no long-term debt during 1989 or 1988. There are no present material commitments for capital expenditures in 1990, and the Company does not anticipate incurring any such commitments through the balance of 1990.

Financial Accounting Standards (FAS) Board Statements

In December, 1987, FAS No. 96 on Accounting for Income Taxes was issued. It was to be effective for fiscal years beginning after December 15, 1988. FAS No. 103 postponed the implementation date to fiscal years beginning after December 31, 1991. The Company has reviewed its provisions and anticipates no major problem in implementation. The impact on stockholders' equity is not expected to be significant. It is expected that this statement will be implemented in the last quarter of 1992.

Common Stock Prices

Quarter	Ending	High	Low
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
3-31	1989	14-1/4	12-5/8
6-30	1989	14-1/2	11-7/8
9-30	1989	13-1/8	11-1/4
12-31	1989	11-3/8	9-7/8

Statutory Balance Sheets

	(Unaudited) December 31, 1989	1988
ASSETS		
Bonds	$ 1,169,402,600	938,398,637
Preferred stocks	8,239,056	5,583,098
Common stocks	8,588,772	11,040,089
Mortgage loans	107,443,395	84,719,902
Real estate	29,142,210	27,294,651
Policy loans	135,343,528	112,440,958
Collateral loans	249,028	1,025,000
Income interest in Libbie Shearn Moody Trust	11,442,246	11,444,746
Cash on hand and in banks	5,764,753	4,649,243
Short-term investments	84,524,616	13,107,149
Premiums deferred and uncollected	7,276,945	8,708,604
Investment income due and accrued	27,912,859	24,113,175
Other assets	6,859,638	4,573,793
	$ 1,602,189,646	1,247,099,045
LIABILITIES, SURPLUS, AND OTHER FUNDS		
Aggregate reserve for life policies	$ 1,483,751,608	1,142,442,381
Aggregate reserve for accident and health policies	273,659	251,018
Supplementary contracts without life contingencies	853,767	526,066
Life claims	4,612,054	3,810,138
Accident and health claims	165,209	139,578
Policyholders' dividend, coupon, and endowment accumulations	8,609,950	9,203,729
Policyholders' dividend liability	244,661	268,067
Other liabilities to policyholders	6,855,307	7,873,786
Commissions, expenses, and taxes due or accrued	5,071,232	4,674,191
Borrowed money	0	0
Other liabilities	23,176,475	14,470,985
Mandatory Securities Valuation Reserve	19,554,704	21,813,174
Total liabilities	1,553,168,626	1,205,473,113
Capital paid up	3,477,862	3,477,862
Paid-in and contributed surplus	12,750,763	12,750,763
Unassigned surplus	32,792,395	25,397,307
Total capital and surplus	49,021,020	41,625,932
	$ 1,602,189,646	1,247,099,045

Statutory Statements of Operations

	(Unaudited) Years Ended December 31, 1989	1988
Premiums and annuity considerations	$ 446,764,399	307,055,660
Considerations for supplementary contracts, dividend, coupon, and endowment accumulations	613,424	470,322
Net investment income	129,487,804	99,453,119
Other income	5,311,901	2,107,771
Total income	582,177,528	409,086,872
Death claims	15,989,977	12,260,224
Accident and health claims	737,683	668,083
Surrender benefits	106,954,232	81,944,483
Coupons and endowments to policyholders	462,863	542,935
Payments on supplementary contracts, dividend, coupon, and endowment accumulations	1,252,714	1,451,056
Other policy benefits	25,487,960	17,805,010
Increase in life and accident and health reserves	341,331,868	218,674,222
Decrease in other reserves	(266,077)	(668,811)
Commissions	69,368,069	52,064,743
General expenses, taxes, and other expenses	12,006,384	12,286,949
Decrease in loading	406,552	309,038
Total benefits and expenses	573,732,225	397,337,932
Net gain before dividends and Federal income taxes	8,445,303	11,748,940
Dividends to policyholders	226,327	262,341
Net gain before Federal income taxes	8,218,976	11,486,599
Federal income taxes	1,340,000	500,000
Net gain from operations before realized capital gains or (losses)	6,878,976	10,986,599
Realized capital gains or (losses)	(1,622,078)	(785,280)
Net income	$ 5,256,898	10,201,319

Statutory Statements of Capital and Surplus

	(Unaudited) Years Ended December 31	
	1989	1988
Balance at beginning of year	$ 41,625,932	33,973,766
Additions (deductions):		
Net income	5,256,898	10,201,319
Net unrealized capital losses	(1,703,404)	(539,672)
Change in non-admitted assets and related items	1,552,875	(996,709)
Change in Mandatory Securities Valuation Reserve	2,258,470	(193,158)
Other increases (decreases)	30,249	(819,614)
Balance at end of year	$ 49,021,020	41,625,932

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
Director of Administrative Services, American National Insurance Company
Galveston, Texas
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

Charles S. LaShelle, JD, CLU
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, JD
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

Helen L. Miller
Assistant Vice President
Premium Accounting

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

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

ACCOUNTANTS
KPMG Peat Marwick, 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
Mail Stop: 45-02-09
P. O. Box 644
Boston, Massachusetts 02102-0644
Telephone: 617/575-2900

Co-Transfer Agent
First City, Texas—Austin
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.

NATIONAL WESTERN LIFE INSURANCE COMPANY
850 East Anderson Lane Austin, Texas 78752-1602