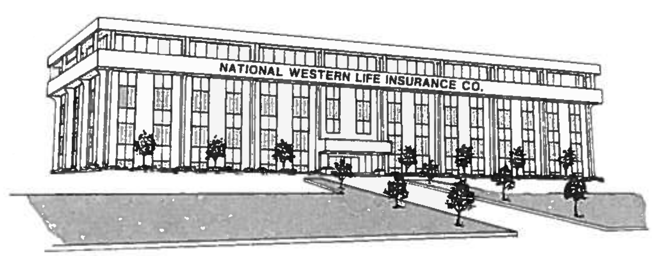
1990 Annual Report

NATIONAL WESTERN LIFE
INSURANCE COMPANY



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, 1990, 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:

1990 was another year of growth for National Western Life. The Company's life and annuity revenues increased during 1990 by 15.9% to over $56 million. New life insurance issued during 1990 was $1.57 billion compared to $1.23 billion in 1989, an increase of 27.6%. Life insurance in force was $6.3 billion, an increase of 12.5% over life insurance in force of $5.6 billion in 1989. While the majority of new business is derived from annuities in qualified plan markets, the Company continues to develop production from new markets. For 1991, the Company's marketing philosophy will continue to focus on multiple markets and revenues from life insurance and annuities are expected to increase modestly.

National Western Life operates in the interest sensitive life insurance and annuity business. Therefore, our investment portfolio continues to provide the majority of our total revenues. As previously reported, the Company had elected to enter the high-yield bond market in 1984 on a limited basis and has experienced above-average investment performance in the high-yield portfolio since that time. In January, 1990, however, following much adverse publicity, a decision was made by the Board of Directors to make no further investments in high-yield bonds. Later in 1990, under new investment management, the Company initiated programs to upgrade the overall quality of the investment portfolio while improving net spreads over credited rates on liabilities. Though this new direction was in effect for only part of the year, operating earnings have had an upward trend in the third and fourth quarters. We fully expect a continuance of this trend.

The life insurance industry experienced significant financial difficulties during 1990. Poor investment performance in real estate and high-yield bonds continued to plague industry profitability. Many companies with extensive real estate and high-yield bond portfolios have been forced out of business or have been acquired at discounted prices. While National Western experienced some negative effects in 1990 from real estate and high-yield bond holdings, the impact on the Company has been significantly less as compared to many other insurance companies. This is attributable to our relatively small and conservative holdings of both real estate and high-yield bonds.

Net investment income increased 23.3% over 1989 to $159 million in 1990. Investment losses of approximately $17 million were recognized including write-downs and sales of high-yield bonds. While some sales were income tax motivated, others were made in an effort to improve the quality of the investment portfolio while enhancing overall portfolio yields. As of December 31, 1990, the consolidated investment portfolio consisted of 76.5% bonds, 7.6% policy loans, 6.0% mortgage loans, and 9.9% in other investments. Of the total bond portfolio, only 4.3% was in high-yield bonds. This compared favorably to 9.8% at year-end 1989. Continued improvement should be seen in this percentage by year-end 1991 through purchases of investment grade issues only. In the modest mortgage loan portfolio, less than 3% were nonperforming at year-end 1990.

The Company's brokerage operations realized net earnings of $183 thousand for 1990. Net earnings included a loss of $1.69 million from discontinued operations which resulted from the closing of its unprofitable mortgage subsidiary. A complete turnaround is expected in this operation during 1991.

Consolidated assets grew from $1.9 billion in 1989 to $2.2 billion in 1990. Stockholders' equity, however, decreased 5% to $96 million in 1990 due to losses in the investment portfolio. Accordingly, book value per share decreased from $29.09 in 1989 to $27.65 in 1990.

Management expects to face many new and formidable challenges during 1991 including the continued effort to improve the quality and yield of the investment portfolio. The market for insurance and investment products continues to face fierce competition. However, the ability of management to find better and more economical ways to provide service will be the key to future successes. We believe that the ever-increasing customer base demands and has a right to high quality service and we are committed to that high level of service. We pledge to be expense efficient and meet the profit expectations of our stockholders. Furthermore, our loyal employees are committed to and capable of realizing these positive results and look forward to continued growth and future profitability through 1991 and beyond.

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

Robert L. Moody

William P. Tedrow
President and
Chief Operating Officer

William P. Tedrow

Consolidated Balance Sheets

(In thousands)

ASSETS	December 31, 1990	1989
Investments:		
Fixed maturities, primarily bonds, at amortized cost (market: $1,456,573 and $1,161,467)	$ 1,479,856	1,167,392
Preferred stocks, at market value (cost: $2,163 and $4,215)	1,797	3,905
Common stocks, at market value (cost: $2,602 and $2,033)	2,342	1,981
Mortgage loans, net of allowances for possible losses ($3,075 and $2,300)	116,059	105,273
Real estate held for investment	10,250	10,403
Policy loans	147,781	135,344
Life interest in Libbie Shearn Moody Trust	6,583	6,850
Other long-term investments, principally real estate acquired by foreclosure, net of allowances for possible losses ($6,350 and $5,800)	16,794	18,188
Securities purchased under agreements to resell	35,677	15,047
Trading securities, at market	92,459	29,032
Short-term investments	25,736	84,874
Total investments	1,935,334	1,578,289
Cash	4,945	5,622
Insurance receivables, net	4,580	3,123
Brokerage trade receivables, net of allowances for possible losses ($185 and $121)	20,989	38,258
Accrued investment income	30,752	28,889
Deferred policy acquisition costs	265,363	223,384
Property and equipment, net	1,833	1,894
Other assets	4,530	5,993
Assets of discontinued operations	19,955	22,729
	$ 2,288,281	1,908,181

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

(In thousands except shares outstanding)

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 1990	1989
LIABILITIES:		
Future policy benefits:		
Traditional life and annuity products	$ 184,374	194
Universal life and investment annuity contracts	1,767,722	1,444
Policy and contract claims	5,349	4
Policyholders' dividends, coupons, and endowment accumulations	8,146	8
Other policyholder funds	1,444	7
Short-term borrowings	65,946	29
Securities sold under agreements to repurchase	56,154	14
Brokerage trade payables	19,683	29
Federal income tax payable:		
Current	1,015	
Deferred	18,985	21
Other liabilities	45,789	32
Liabilities of discontinued operations	17,516	19
Total liabilities	2,192,123	1,807
COMMITMENTS AND CONTINGENCIES (Notes 7 and 13)		
STOCKHOLDERS' EQUITY:		
Common stock:		
Class A of $1 par value, authorized 7,500,000 shares; issued and outstanding 3,277,842 and 3,277,862 shares in 1990 and 1989	3,278	3
Class B of $1 par value, authorized, issued, and outstanding 200,000 shares in 1990 and 1989	200	
Additional paid-in capital	24,065	24
Net unrealized losses on investments in equity securities	(626)	(
Retained earnings	69,241	73
Total stockholders' equity	96,158	101
	$ 2,288,281	1,908

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations

(In thousands except per share data)

	Years Ended December 31,		
	1990	1989	1988
Premiums and other revenue:			
Premiums:			
Life	$ 22,615	25,611	28,363
Annuities	280	309	377
	22,895	25,920	28,740
Universal life and investment annuity contract revenues	33,777	22,974	18,994
Investment income, net	159,938	129,743	100,334
Brokerage revenues	25,681	16,453	23,686
Other income	578	498	504
Realized losses on investments	(17,071)	(3,028)	(4,329)
Total premiums and other revenue	225,798	192,560	167,929
Benefits and expenses:			
Life	37,296	34,050	31,212
Other	3,585	2,530	2,563
Decrease in liabilities for future policy benefits	(9,811)	(4,356)	(4,962)
Amortization of deferred policy acquisition costs	9,263	13,620	8,398
Universal life and investment annuity contract interest	128,150	101,487	74,373
Other insurance operating expenses	36,455	26,069	25,624
Brokerage operating expenses	22,816	18,077	22,076
Total benefits and expenses	227,754	191,477	159,284
Earnings (loss) from continuing operations before Federal income tax	(1,956)	1,083	8,645
Provision (benefit) for Federal income tax:			
Current	3,676	(347)	946
Deferred	(2,577)	293	1,856
Total Federal income tax expense (benefit)	1,099	(54)	2,802
Earnings (loss) from continuing operations	(3,055)	1,137	5,843

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See accompanying notes to consolidated financial statements.

Consolidated Statements Of Operations, (cont.)

(In thousands except per share data)

	Years Ended December 31,		
	1990	1989	1988 [redacted]
Discontinued operations:			
Loss from operations of discontinued subsidiary (net of applicable Federal income tax benefit of $434, $418, and $122)	$ (713)	(528)	[redacted]
Estimated loss on disposal of discontinued operations (net of applicable Federal income tax benefit of $396)	(982)	0	
Loss from discontinued operations	(1,695)	(528)	[redacted]
Net earnings (loss)	$ (4,750)	609	5
Earnings (loss) per share of common stock:			
Earnings (loss) from continuing operations	$ (0.88)	0.33	
Loss from discontinued operations	(0.49)	(0.15)	([redacted]
Net earnings (loss)	$ (1.37)	0.18	

See accompanying notes to consolidated financial statements.

Consolidated Statements Of Stockholders' Equity

(In thousands)

	Years Ended December 31,		
	1990	1989	1988
Common stock:			
Balance at beginning and end of year	$ 3,478	3,478	3,478
Additional paid-in capital:			
Balance at beginning and end of year	24,065	24,065	24,065
Net unrealized losses on investments in equity securities:			
Balance at beginning of year	(362)	(1,248)	(1,233)
Decrease (increase) in unrealized losses on investments in equity securities during the year	(264)	886	(15)
Balance at end of year	(626)	(362)	(1,248)
Retained earnings:			
Balance at beginning of year, as restated	73,991	73,382	67,968
Consolidation adjustment (Note 1)	0	0	(174)
Net earnings (loss)	(4,750)	609	5,588
Balance at end of year	69,241	73,991	73,382
Total stockholders' equity	$ 96,158	101,172	99,677

See accompanying notes to consolidated financial statements.

Consolidated Statements Of Cash Flows

(In thousands)

	Years Ended December 31,		
	1990	1989	1988
Cash flows from operating activities:			
Net earnings (loss)	$ (4,750)	609	5
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Universal life and investment annuity contract interest	128,150	101,487	74
Surrender charges	(14,137)	(7,413)	(6
Realized capital losses on investments	17,071	3,028	4
Loss resulting from lawsuit	8,000	0	
Net amortization of discounts on investments	(3,165)	(3,479)	(2
Provision for loss on disposal of discontinued operations	1,378	0	
Depreciation and amortization	881	998	
Decrease (increase) in insurance receivables and other assets	(897)	(1,488)	2
Decrease (increase) in brokerage receivables	17,269	(25,782)	20
Increase in accrued investment income	(1,863)	(2,959)	(1
Increase in deferred policy acquisition costs	(41,979)	(42,188)	(31
Decrease in liability for future policy benefits.	(9,811)	(4,356)	(4
Decrease in all other policyholder liabilities	(5,818)	(480)	(1
Increase (decrease) in Federal income taxes payable	(1,578)	214	1
Increase in other liabilities	14,599	10,511	
Increase (decrease) in brokerage payables	(10,291)	24,899	(19
Net increase (decrease) in repurchase agreements less related liabilities	20,557	(2,211)	2
Net decrease (increase) in trading securities	(63,427)	(13,344)	13
Other, net	(416)	(369)	
Net cash provided by operating activities	49,773	37,677	57
Cash flows from investing activities:			
Proceeds from sales of bond investments	228,497	71,628	18
Proceeds from maturities of bond investments	65,824	41,323	24
Proceeds from sale of other investments	6,110	7,244	14
Purchase of investments	(629,068)	(349,870)	(254
Principal payments on mortgage loans	8,989	3,086	4
Cost of mortgage loans acquired	(22,348)	(28,578)	(11
Net increase in policy loans	(12,437)	(22,903)	(15
Purchases of property and equipment	(729)	(175)	
Proceeds from sale of property and equipment	59	17	
Decrease (increase) in assets of discontinued operations	1,396	14,580	(37
Increase (decrease) in liabilities of discontinued operations	(1,889)	(12,958)	32
Net cash used in investing activities	(355,596)	(276,606)	(224

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See accompanying notes to consolidated financial statements.

Consolidated Statements Of Cash Flows, (cont.)

(In thousands)

	Years Ended December 31,		
	1990	1989	1988
Cash flows from financing activities:			
Net increase (decrease) in short-term borrowings	$ 36,144	14,680	(22,916)
Deposits to account balances for universal life and investment annuity contracts	341,713	389,828	253,775
Return of account balances on universal life and investment annuity contracts	(131,849)	(93,657)	(65,811)
Net cash used in financing activities	246,008	310,851	165,048
Net increase (decrease) in cash and cash equivalents	(59,815)	71,922	(2,330)
Cash and cash equivalents at beginning of year	90,496	18,574	20,904
Cash and cash equivalents at end of year	$ 30,681	90,496	18,574

Supplemental disclosures of cash flow information:

Cash paid during 1990, 1989, and 1988 for interest (net of amount capitalized) was $4,536, $4,997, and $3,063, respectively. Cash paid during 1990, 1989, and 1988 for income taxes was $1,316, $1,468, and $1,053, respectively.

Non-cash investing activities:

The Company foreclosed on mortgage loans and collateral loans in 1990, 1989, and 1988 in the principal amounts of $3,756, $8,503, and $11,192, respectively. In 1990, the $3,756 principal amount was transferred to other long-term investments on the consolidated balance sheet. 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.

Disclosure of accounting policy:

For purposes of the statements of cash flows, the Company considers all short-term investments with a maturity at date of purchase of three months or less to be cash equivalents.

See accompanying notes to consolidated financial statements.

Notes To Consolidated Financial Statements

Years Ended December 31, 1990, 1989, And 1988

(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). The Westcap Mortgage Company, a wholly-owned subsidiary of The Westcap Corporation, has been reflected as discontinued operations in the accompanying financial statements. All significant intercorporate transactions and accounts have been eliminated in consolidation.

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. The Company accounts for universal life and investment annuity contracts based on the provisions of 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. The basic effect of the statement as regards certain long-duration contracts is that deposits for universal life and investment annuity contracts are not reflected as revenues.

2. 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. For traditional products, 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. For universal life and investment annuity contracts, these costs are amortized in relation to the present value of expected gross profits on these policies.

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

	1990	1989	1988
		(In thousands)	
Costs deferred:			
Agents' Commissions	$ 47,521	52,470	37,479
Other	3,721	3,338	2,745
	$ 51,242	55,808	40,224
Amounts amortized	$ 9,263	13,620	8,398
First-year and single premium revenues	$ 3,147	2,809	3,430
Renewal premium revenues	$ 19,748	23,111	25,310
Universal life and investment annuity deposits	$ 361,353	405,389	266,234

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 requiremer as included in the annual statements filed with the Colorado Insurance Commission, to the respective amount reported in the accompanying consolidated financial statements are as follows:

	Net Earnings (Loss) for the Years Ended December 31,		
	1990	1989	1988
		(In thousands)	
Per annual statement to insurance department	$ 1,239	5,257	10,
Subsidiary earnings (loss) before deferred Federal income tax	98	(1,500)	
Consolidated statutory net gain from operations	1,337	3,757	10,
Adjustments:			
Deferral of policy acquisition costs	41,979	42,188	31,
Adjustment of future policy benefits	(34,155)	(43,355)	(31,
Amortization of investment in Trust	(267)	(265)	(2
Deferred Federal income taxes	2,577	(293)	(1,8
Valuation allowances and permanent impairment write-downs on investments	(8,888)	(1,489)	(3,5
Operating loss related to lawsuit	(8,000)	0	
Other, net	667	66	(1
Amounts per consolidated financial statements	$ (4,750)	609	5,

	Stockholders' Equity as of December 31,		
	1990	1989	1988
		(In thousands)	
Per annual statement to insurance department	$ 63,680	49,021	41,
Adjustments:			
Difference in valuation of investment in the Libbie Shearn Moody Trust, net of amortization	(19,817)	(4,592)	(4,
Deferral of policy acquisition costs, net of amortization	265,363	223,384	181,
Adjustment of future policy benefits	(194,649)	(160,492)	(117,
Deferred Federal income taxes	(18,985)	(21,578)	(21,
Adjustment to report preferred stocks at market value	(227)	(240)	(
Transfer of Mandatory Securities Valuation Reserve to appropriated retained earnings	5,111	19,555	21,
Reinstatement of non-admitted assets	3,233	2,945	4,
Valuation allowances on investments	(9,425)	(8,100)	(6,
Other, net	1,874	1,269	
Amounts per consolidated financial statements	$ 96,158	101,172	99,

(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, 1990, were $343 and $969, 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. Additionally, during 1990 the Company sold certain securities in conjunction with the purchase of higher rated securities with similar investment yields as part of a strategy to upgrade the overall quality of the bond portfolio.

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. Policy loans are stated at their aggregate unpaid balances. Real estate acquired by foreclosure is stated at the lower of the unpaid loan balance at the date of foreclosure or fair market value of the property.

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 financing 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.

(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 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) Classification—Certain reclassifications have been made to the prior years to conform to the reporting categories used in 1990.

(2) BROKERAGE SUBSIDIARY

The Westcap Corporation and subsidiaries (Westcap), a wholly-owned brokerage firm, has been consolidated i accompanying financial statements. The Westcap Mortgage Company, a wholly-owned subsidiary of The Westcap Cor tion, has been reflected as discontinued operations in the accompanying financial statements. Westcap is subject to th capital rules adopted and administered by the Securities and Exchange Commission. These capital rules may re retained earnings as to the payment of dividends if certain financial ratios are not met. A summary of the most r audited financial information is as follows:

		September 30,	
	1990	1989	198
		(In thousands)	
Assets:			
Cash	$ 236	164	
Receivable from customers and brokers	20,989	38,258	12
Trading securities	92,459	29,032	15
Other assets	61,530	42,196	81
	$ 175,214	109,650	110
Liabilities:			
Short-term borrowings	65,946	29,802	15
Payable to customers and brokers	19,683	29,974	5
Other liabilities	79,624	39,214	77
Stockholders' equity	9,961	10,660	12
	$ 175,214	109,650	110
Revenues	$ 25,681	16,453	23
Net income (loss)	$ 32	(1,534)	

(3) DEPOSITS WITH REGULATORY AUTHORITIES

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

	1990	198
	(In thousands)	
Bonds, at amortized cost	$ 73,465	79
Certificates of deposit	$ 210	

(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 $33,826,000 at December 31, 1990, and stockholders' equity in that amount was available for dividends subject to the tax effects of distributions from the "policyholders' surplus account."

(5) INVESTMENTS

The major components of net investment income are as follows:

	Years Ended December 31,		
	1990	1989	1988
		(In thousands)	
Investment income:			
Interest on bonds	$ 133,316	106,481	82,952
Interest on mortgage loans	11,877	10,232	8,514
Interest on policy loans	11,204	9,651	7,877
Other investment income	5,910	5,801	3,578
Total investment income	162,307	132,165	102,921
Investment expenses	2,369	2,422	2,587
Net investment income	$ 159,938	129,743	100,334

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

	December 31,	
Type of Investment	1990	1989
	(In thousands)	
Bonds	$ 1,355	1,891
Stocks	$ 603	731
Mortgage loans	$ 129	2,721
Other long-term investments	$ 3,671	2,161

As of December 31, 1990, mortgage loans totaling $2,918,522 were on a nonaccrual status. During 1990, 1989, and 1988, reduction in interest income associated with nonaccrual loans was as follows:

	December 31,		
	1990	1989	1988
		(In thousands)	
Interest at contract rate	$ 300	1,013	980
Interest income recognized	0	0	0
Interest income not accrued	$ 300	1,013	980

At December 31, 1990 and 1989, the Company had approximately $72,196,000 and $64,343,000 of mortgage loans, net of loss provisions, in which the underlying collateral was located in Texas. This represents a concentration of 62% and 61%, respectively, of total mortgage loans in Texas-based properties. With regard to the origination of mortgage loans, it is the Company's policy for mortgage loans not to exceed 80% of the appraised values of the underlying collateral.

The Company held in its bond portfolio high-yield debt securities, net of loss provisions, of approximately $63,156,000 and $114,625,000 at December 31, 1990 and 1989, respectively. This represents approximately 4.3% and 9.8% of the total bond portfolio. These high-yield debt securities often have common characteristics in that they are usually unsecured and are often subordinated to other creditors of the borrower or issuer. Additionally, the issuers of the high-yield debt securities usually have high levels of indebtedness and are more sensitive to adverse economic conditions.

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, 1990:			
Bonds	$ (15,310)	(17,358)	(32,668)
Stocks	14	(264)	(250)
Other	(1,775)	0	(1,775)
Total	$ (17,071)	(17,622)	(34,693)
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
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)

The table below presents amortized cost and estimated market values of fixed maturities and short-term investments at December 31, 1990:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
		(In thousands)		
U.S. Treasury securities and obligations of U.S. government corporations and agencies (including U.S. mortgage-backed securities)	$ 472,249	8,003	(820)	479,432
Obligations of states and political subdivisions	17,493	261	(12)	17,742
Debt securities issued by foreign governments	7,425	75	(78)	7,422
Corporate securities	708,352	4,683	(35,198)	677,837
Mortgage-backed securities	300,073	3,046	(3,243)	299,876
Total	$ 1,505,592	16,068	(39,351)	1,482,309

The amortized cost and estimated market values of fixed maturities and short-term investments at December 31, 1990, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Market Value
	(In thousands)	
Due in one year or less	$ 29,212	29,189
Due after one year through five years	147,294	142,890
Due after five years through ten years	433,286	411,374
Due after ten years	127,679	124,021
	737,471	707,474
Mortgage-backed securities	768,121	774,835
Total	$ 1,505,592	1,482,309

Proceeds from sales of investments in fixed maturities and short-term investments during 1990 were $228,497,000. Gross gains of $5,198,000 and gross losses of $9,091,000 were realized on those sales.

(6) 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, 1990, 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, 1990, are entitled to receive dividends equivalent to less than 1% of dividends paid to holders of the Cornpany'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, 1990, no retained earnings were so allocated.

Participating business constitutes approximately 2% and 2% of the Company's life insurance in force, 11% and 12% of the life insurance policies in force, and 2% and 3% of the premium revenues and universal life deposits for the years ended December 31, 1990 and 1989, respectively.

(7) 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 $780,000,000 and $708,000,000 is ceded on a yearly renewable term basis, $796,000 and $826,000 is ceded on a modified coinsurance basis, and $65,000,000 and $76,000,000 is ceded on a coinsurance basis at December 31, 1990 and 1989, respectively. In accordance with the reinsurance contracts, credits in the amounts of approximately $13,800,000, $8,300,000, and $3,200,000 were taken against the liability for future policy benefits at December 31, 1990, 1989, and 1988, respectively. Premium revenues were reduced by $4,305,000, $3,957,000, and $3,233,000 for reinsurance premiums ceded during the years ended December 31, 1990, 1989, and 1988, respectively. Benefits were reduced by $5,215,000, $2,018,000, and $1,706,000 for reinsurance recoverable during the years ended December 31, 1990, 1989, and 1988, respectively. The Company does not have significant assumed business. 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.

(8) 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, 1990, 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, 1990, 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,		
	1990	1989	1988
		(In thousands)	
Policy acquisition costs expensed for tax purposes and deferred for financial accounting purposes	$ 14,021	14,503	10,980
Excess of the increase in the liability for future policy benefits for tax purposes over the increase for financial statement purposes	(11,527)	(14,430)	(10,653)
Use of tax operating loss deduction	0	0	3,013
Investment income recognized for tax purposes and deferred for financial accounting purposes	(446)	(497)	(468)
Accretion of bond discount recognized for financial accounting purposes and deferred for tax purposes	(738)	540	598
Difference in tax accounting and financial accounting for asset valuation allowances	(5,632)	(564)	(1,236)
Amounts expensed for financial accounting not currently tax deductible	(199)	300	(340)
Realized capital losses not utilized	1,885	0	0
Other	59	441	(38)
Deferred tax expense (benefit) per accompanying financial statements	$ (2,577)	293	1,856

The provisions for Federal income taxes vary from amounts computed by applying the statutory income tax rate to earnings from continuing operations before Federal income taxes. The reasons for the differences, and the tax effects thereof, are as follows:

	Years Ended December 31,		
	1990	1989	1988
		(In thousands)	
Income tax expense (benefit) at the statutory rate	$ (665)	368	2,939
Dividends received deduction	(209)	(198)	(207)
Amortization of life interest in the Libbie Shearn Moody Trust	91	90	89
Rate difference on operating loss carry-back	0	(222)	0
Realized capital losses not utilized	1,885	0	0
Other	(3)	(92)	(19)
Provision (benefit) for Federal income taxes per accompanying financial statements	$ 1,099	(54)	2,802

At December 31, 1990, the Company has a capital loss carry-forward for financial statement purposes of approximately $5,544,000.

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, 1988, 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, 1990, there will be no significant impact on stockholders' equity.

(9) 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 3,477,842, 3,477,862 and 3,477,862, for the years ended December 31, 1990, 1989, and 1988, respectively.

(10) 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,	
	1990	1989
	(In thousands)	
Original valuation of life interest at February 26, 1960	$ 13,793	13,793
Less accumulated amortization	(7,210)	(6,943)
Net asset value of life interest in Trust	$ 6,583	6,850

In 1989, the Company was 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 was reinsured through agreements with unaffiliated insurance companies. These policies were surrendered during 1990 and the Company issued new term insurance policies, which accumulate no cash value, in the amount of $27,000,000. The Company is the beneficiary of these new policies which are also reinsured through agreements with unaffiliated insurance companies. The previous policies were surrendered and new policies were issued in conjunction with a revaluation of the Trust for statutory accounting purposes.

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

	Years Ended December 31,		
	1990	1989	1988
		(In thousands)	
Income distributions	$ 2,158	2,016	1,820
Add (deduct):			
Amortization	(267)	(265)	(262)
Reinsurance premiums	(19)	(109)	(100)
Increase (decrease) in surrender value of life insurance policies	(41)	3	35
Loss on surrender of life insurance policies	(266)	0	0
Net income from life interest in the Trust	$ 1,565	1,645	1,493

The accompanying statements also reflect liabilities for future policy benefits related to these policies in the amounts of $44,000 and $1,270,000 at December 31, 1990 and 1989, 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.

(11) 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.

Pension costs (credits) included the following components:

	1990	1989	1988
		(In thousands)	
Service cost-benefits earned during the period	$ 290	287	150
Interest cost on projected benefit obligations	401	368	306
Actual return on plan assets	(591)	(85)	(221)
Net amortization and deferral	181	(321)	(204)
Net pension cost	$ 281	249	31

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

	December 31,	
	1990	1989
	(In thousands)	
Actuarial present value of benefit obligations:		
Accumulated benefit obligations, including vested benefits of $5,033,000 and $3,845,000, respectively	$ (5,108)	(3,903)
Projected benefit obligations for service rendered to date	$ (5,736)	(4,932)
Plan assets at fair market value primarily consisting of cash equivalents and fixed income securities	4,961	4,568
Projected benefit obligations in excess of plan assets	(775)	(364)
Unrecognized net transitional obligation (asset) at January 1, 1987, being recognized over employees' average remaining service of 15 years	(594)	(649)
Unrecognized net losses (gains) from past experience different from that assumed	1,082	1,007
Accrued pension cost	$ (287)	(6)

The discount rate used in determining the actuarial present value of the projected benefit obligation was 8.0% and 8.5% for 1990 and 1989, respectively. The projected increase in future compensation levels was based on a rate of 6.5% for 1990 and 1989. The projected long-term rate of return on plan assets was 8.5% for 1990 and 1989.

In December, 1990, the FASB issued FAS No. 106, "Employers' Accounting for Post Retirement Benefits Other than Pensions." FAS No. 106 establishes accounting standards for employers' accounting for, primarily, post retirement health care benefits. The statement is effective for fiscal years beginning after December 15, 1992. Since the Company currently pays no such benefits, implementation is expected to have no impact on the results of operations of the Company.

(12) 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, 1990 and 1989 (the subsidiary's fiscal year end), had a market value of approximately $71,840,000 and $36,689,000, respectively. The average interest rate on the borrowings for the years ended September 30, 1990 and 1989, was 9.51% and 10.55%, respectively.

(13) COMMITMENTS AND CONTINGENCIES

The Company was a defendant in a lawsuit seeking recovery of certain values of life insurance policies pledged as collateral for debentures which at December 31, 1989, had a book value of $8,000,000, but a market value of zero due to the insolvency of the issuer. In 1991 a court ruled that the collateral assignment was not enforceable. As a result, the Company recorded a loss of $8,000,000 in 1990. This loss has been reflected in other insurance operating expenses in the accompanying financial statements. The Company is currently considering an appeal of the court ruling.

The Company is also a defendant in a lawsuit alleging various violations by the Company of the Employee Retirement Income Security Act of 1974. The alleged violations stem from the establishment of an employee benefit pension plan (the Plan) and the Company's sale of group annuity contracts to the Plan. The suit seeks several claims including restoration of all assets wrongfully paid and punitive damages in an unspecified amount. The Company has vigorously defended the case and, absent a settlement, expects to continue to do so. Absent an agreed settlement, the likelihood of a damage award by the court against the Company is probable. However, the Company would likely appeal an unfavorable judgment, and the Company is unable to estimate the amount or range of any potential loss should the final outcome of these proceedings be unfavorable to the Company.

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 the trade date. Revenues and expenses related to such contracts are recorded on settlement date. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movements in securities' values and interest rates. As of September 30, 1990 (the subsidiary's fiscal year end), unsettled forward purchase and sale contracts approximated $210,299,000 and $265,904,000, 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.

(14) FOREIGN SALES

Total premium revenues and universal life deposits related to life insurance written in foreign countries, primarily Central and South America, was approximately $49,200,000, $41,900,000, and $37,400,000 for the years ended December 31, 1990, 1989, and 1988, respectively.

(15) 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%, 81%, and 67% of total premium revenues and total universal life and investment annuity contract deposits for 1990, 1989, and 1988, respectively.

(16) SEGMENT INFORMATION

Information concerning the Company's two industry segments follows:

	Life Insurance Business	Brokerage Business	Eliminations	Consolidated Amounts
		(In thousands)		
Gross revenues:				
1990	$ 200,347	25,681	(230)	225,798
1989	176,337	16,453	(230)	192,560
1988	144,435	23,686	(192)	167,929
Net earnings (loss):				
1990	(4,782)	32	0	(4,750)
1989	2,143	(1,534)	0	609
1988	4,856	732	0	5,588
Identifiable assets:				
1990	2,125,048	175,214	(11,981)	2,288,281
1989	1,811,191	109,650	(12,660)	1,908,181
1988	1,414,497	110,307	(14,214)	1,510,590

(17) 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)			
1990:				
Revenues	$ 56,347	55,199	57,881	56,371
Earnings (loss) from continuing operations	1,426	781	2,315	(7,577)
Earnings (loss) from discontinued operations	16	(146)	(249)	(1,316)
Net earnings (loss)	1,442	635	2,066	(8,893)
Per share:				
Earnings (loss) from continuing operations	0.41	0.22	0.66	(2.17)
Earnings (loss) from discontinued operations	0.01	(0.04)	(0.07)	(0.39)
Net earnings (loss)	0.42	0.18	0.59	(2.56)
1989:				
Revenues	$ 42,509	43,168	50,418	56,465
Earnings (loss) from continuing operations	(1,889)	(132)	1,519	1,639
Earnings (loss) from discontinued operations	22	4	(68)	(486)
Net earnings (loss)	(1,867)	(128)	1,451	1,153
Per share:				
Earnings (loss) from continuing operations	(0.54)	(0.04)	0.43	0.48
Earnings (loss) from discontinued operations	0.01	0.00	(0.02)	(0.14)
Net earnings (loss)	(0.53)	(0.04)	0.41	0.34

The above quarterly financial data has been restated to reflect the results of operations of Westcap Mortgage Company as discontinued operations.

The fourth quarter net loss in 1990 reflects the following significant items:

(A) An operating loss of $8,000,000 resulting from a lawsuit (see footnote 13),

(B) A write-down of approximately $1,400,000 related to discontinued operations of Westcap Mortgage Company (see footnote 18), and

(C) Realized losses of approximately $3,577,000 resulting from write-downs of bonds and increases in allowances for possible losses for real estate acquired by foreclosure and mortgage loans.

(18) DISCONTINUED OPERATIONS

On December 10, 1990, the Board of Directors of Westcap Mortgage Company (Westcap Mortgage), a subsidiary of The Westcap Corporation (Westcap), approved a plan for the complete dissolution and liquidation of Westcap Mortgage. Management plans to sell the assets of Westcap Mortgage in an orderly manner. The disposal is expected to be completed by August, 1991. In connection with this plan of liquidation, Westcap Mortgage recorded a write-down of approximately $1,400,000 to value assets at estimated fair value and to reflect estimated losses on disposition, including estimated future costs and operating results from the segment through the date of complete liquidation. As a result of the plan and in accordance with generally accepted accounting principles, the assets and liabilities of Westcap Mortgage as of September 30, 1990 and 1989 (the subsidiary's fiscal year end), have been reclassified on the consolidated balance sheets from the historic classification to separately identify them as assets and liabilities of the discontinued operations. The assets of the discontinued operations as of September 30, 1990 and 1989, consist primarily of first mortgage loans held for sale and loan administration contracts, and the liabilities of the discontinued operations consist primarily of notes payable to banks.

Revenues of Westcap Mortgage totalled $4,128,000, $3,600,000 and $1,092,000 for the years ended September 30, 1990, 1989 and 1988, respectively. Expenses of Westcap Mortgage totalled $4,841,000, $4,128,000 and $1,347,000 for the years ended September 30, 1990, 1989 and 1988, respectively. The consolidated financial statements reflect the loss from operations of the discontinued subsidiary for the year ended September 30, 1990, and the estimated loss on liquidation of the subsidiary separately in the accompanying consolidated financial statements, net of related Federal income tax benefits computed at statutory rates.

At September 30, 1990 and 1989, Westcap Mortgage had $11,357,000 and $15,351,000, respectively, outstanding under a revolving loan agreement. The loan is collateralized by mortgage loans with market values of approximately $11,904,000 and $16,020,000 at September 30, 1990 and 1989, respectively. The loan is guaranteed by Westcap and matures January 31, 1991. The loan agreement contains various covenants, one of which requires capital maintenance minimums to be maintained by Westcap Mortgage. Westcap Mortgage was not in compliance with this covenant after the above-mentioned write-down; however, the lending bank has agreed to extend the term of the loan a sufficient time period for Westcap Mortgage to effect the orderly disposal of assets in accordance with the plan of liquidation. Management believes the loan will be repaid from liquidation of the loans collateralizing the indebtedness and therefore Westcap's guarantee will not be called on to liquidate the loan. Should Westcap be required to fulfill its guarantee, it will do so.

In accordance with its normal business operations, Westcap Mortgage is required to meet minimum net worth requirements established by the Government National Mortgage Association and Department of Housing and Urban Development. Westcap Mortgage was in compliance with these requirements at September 30, 1990 and 1989.

Westcap Mortgage had commitments to sell loans to investors totalling approximately $33,301,000 and $19,370,000 at September 30, 1990 and 1989, respectively. Westcap Mortgage held approximately $14,064,000 and $18,007,000 of loans in inventory at September 30, 1990 and 1989, to satisfy the commitments. In addition, Westcap Mortgage had issued commitments to purchase and originate approximately $25,045,000 and $6,268,000 of mortgage loans at September 30, 1990 and 1989, respectively. The resulting gains and losses associated with fulfilling the outstanding commitments at September 30, 1990, as well as estimated results from open commitments as of December 10, 1990, have been reflected as a component of loss on disposal of discontinued operations.

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, 1990 and 1989, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1990. 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, 1990 and 1989, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1990, in conformity with generally accepted accounting principles.

Austin, Texas
March 20, 1991

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,				
	1990	1989	1988	1987	1986
	(Amounts in Thousands except Per Share Statistics)				
Premium income	$ 22,895	25,920	28,740	30,902	257,663
Universal life and investment annuity contract revenues	33,777	22,974	18,994	14,903	0
Net investment income	159,938	129,743	100,334	81,176	62,137
Brokerage revenues	25,681	16,453	23,686	25,501	37,982
Other income	578	498	504	232	745
Realized losses on investments	(17,071)	(3,028)	(4,329)	(1,546)	0
Total income	225,798	192,560	167,929	151,168	358,527
Policyholder benefits	(159,220)	(133,711)	(103,186)	(86,367)	(256,362)
Commissions and other insurance expenses	(45,718)	(39,689)	(34,022)	(29,030)	(56,113)
Brokerage expenses	(22,816)	(18,077)	(22,076)	(23,876)	(30,086)
Total expenses	(227,754)	(191,477)	(159,284)	(139,273)	(342,561)
Benefit (Provision) for Federal income taxes	(1,099)	54	(2,802)	(4,434)	(6,172)
Earnings (loss) from continuing operations	(3,055)	1,137	5,843	7,461	9,794
Loss from discontinued operations	(1,695)	(528)	(255)	0	0
Realized gains on investments	0	0	0	0	2,937
Net earnings (loss)	$ (4,750)	609	5,588	7,461	12,731
Per Share:					
Earnings (loss) from continuing operations	$ (0.88)	0.33	1.68	2.15	2.81
Loss from discontinued operations	(0.49)	(0.15)	(0.07)	0.00	0.00
Realized gains on investments	0.00	0.00	0.00	0.00	0.85
Net earnings (loss)	$ (1.37)	0.18	1.61	2.15	3.66
Total assets	$ 2,288,281	1,908,181	1,510,590	1,272,128	989,495
Total liabilities	$ 2,192,123	1,807,009	1,410,913	1,177,850	901,791
Stockholders' equity	$ 96,158	101,172	99,677	94,278	87,704

NOTE: Statement of Financial Accounting Standards (FAS) No. 97 was implemented in 1989, with restatement for 1988 and 1987. The year 1986 has 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, 1989, and 1990 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 twelve 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	
	1990	1989	1988	1989-90	1988-89
Premium revenues	10.1%	13.5%	17.1%	(11.7)%	(9.8)%
Universal life and investment annuity contract revenues	15.0	11.9	11.3	47.0	21.0
Net investment income	70.8	67.4	59.8	23.3	29.3
Brokerage revenues	11.4	8.5	14.1	56.1	(30.5)
Other income	0.3	0.3	0.3	16.1	(1.2)
Realized investment losses	(7.6)	(1.6)	(2.6)	463.8	(30.0)
Total revenues	100.0	100.0	100.0	17.3	14.7
Policyholder benefits	(13.8)	(16.8)	(17.1)	(3.6)	11.8
Universal life and investment annuity contract interest	(56.8)	(52.7)	(44.3)	26.3	36.5
Commissions and other expenses	(20.2)	(20.6)	(20.3)	15.2	16.7
Brokerage expenses	(10.1)	(9.4)	(13.1)	26.2	(18.1)
Provision for Federal income taxes	(0.5)	0.1	(1.7)	2,135.2	(101.9)
Loss from discontinued operations	(0.7)	(0.3)	(0.2)	221.0	107.1
Net earnings (loss)	(2.1)%	0.3%	3.3%	(880.0)%	(89.1)%

Investment In Debt Securities

It had been the Company's investment policy since 1984 to invest a small amount of funds in high-yield debt securities. These high-yield debt securities are commonly referred to as junk bonds and have different inherent risks than other debt securities held by the Company. The risk of loss upon default by the issuer is significantly greater for these high-yield debt securities in that they are usually unsecured and are often subordinated to other creditors of the borrower or issuer. Additionally, the issuers of the high-yield debt securities usually have high levels of indebtedness and are more sensitive to adverse economic conditions such as recessions or increasing interest rates.

The Company's investment policy has also included investing some amounts in non-investment grade debt securities. Debt securities are classified as either investment grade or non-investment grade based on published ratings. High-yield debt securities can be either classification but are often of non-investment grade quality due to the risks described above. The following table reflects the Company's holdings of high-yield and non-investment grade debt securities, net of loss provisions, at December 31, 1990 and 1989.

	December 31, 1990		
	Amortized Cost	Market Value	% of Bond Portfolio
		(In thousands)	
High-yield debt securities:			
Investment grade	$ 3,645	3,707	0.3%
Non-investment grade	59,511	45,613	4.0%
	63,156	49,320	4.3%
Other non-investment grade debt securities	61,749	55,465	4.1%
Totals	$ 124,905	104,785	8.4%

	December 31, 1989		
	Amortized Cost	Market Value	% of Bond Portfolio
		(In thousands)	
High-yield debt securities:			
Investment grade	$ 70,679	69,047	6.0%
Non-investment grade	43,946	37,862	3.8%
	114,625	106,909	9.8%
Other non-investment grade debt securities	47,167	41,727	4.1%
Totals	$ 161,792	148,636	13.9%

During 1990 the Company had a change in bond portfolio managers. With this change and the continued deterioration of the non-investment grade and high-yield debt securities market, the Company decided to make some changes in its portfolio management strategy. While the Company's overall strategy still includes the general intent and ability to hold bonds to maturity, there is also a goal to upgrade the quality of the bond portfolio. Accordingly, the Company has limited any new bond purchases to only investment grade securities and has disallowed the purchase of any securities considered to be high-yield or junk bonds. In addition, if favorable market conditions exist with respect to certain securities, the Company may take the opportunity to sell the security or group of securities. This is done in conjunction with a purchase of a higher rated security or group of securities with similar overall investment yields. A significant portion of the bond sales in 1990 were a result of this strategy.

At December 31, 1990, the market value of the Company's bond portfolio was approximately $1.457 billion compared to a book value of $1.480 billion. This reflects a net unrealized loss of approximately $23 million on the bond portfolio which was caused primarily by adverse overall economic conditions during the latter part of 1990. While the total net unrealized loss represents a significant amount in relation to the Company's net worth and regulatory capital requirements, the overriding goal of the Company's portfolio management strategy is the intent and ability to hold bonds to maturity. Accordingly, the Company does not anticipate realization of a significant amount of this net unrealized loss.

Investment in Mortgage Loans and Real Estate

At December 31, 1990 and 1989, the Company had, net of loss provisions, approximately $72,196,000 and $64,343,000, respectively, in mortgage loans and approximately $10,250,000 and $10,403,000, respectively, in real estate held for investment in which the property or underlying collateral was located in Texas. This represents a concentration of 62% and 61%, respectively, of total mortgage loans in Texas-based properties. All of the real estate held for investment is in Texas-based properties. High investment concentrations such as these in limited geographic areas can increase the risks associated with holding such investments should the economy or market conditions deteriorate in the area. The impact on the Company's financial position could be reductions in investment income and increases in realized losses on investments as well as negative effects on liquidity and the availability of capital resources.

With the downturn in the economy and real estate market in Texas in the mid 1980's, some of these Texas-based mortgage loans, as well as mortgage loans in other states, were identified by the Company as at-risk loans. As a result, over the past several years, realized losses on investments as well as reduced investment income was recognized on these mortgage loans. With the timely identification of these at-risk loans, the Company has taken appropriate action over the past several years to record these mortgage loans at their net realizable value which includes allowances for possible losses of $3,075,000 and $2,300,000 at December 31, 1990 and 1989, respectively. The Company does not anticipate significant increases in the allowances for possible losses in the near future.

Although 100% of the Company's real estate held for investment is in Texas, these holdings are less than one percent of the Company's entire investment portfolio at December 31, 1990 and 1989, and are not considered a sizable at-risk concentration. Also, unlike the mortgage loans described above, there has been no negative impact on the financial condition of the Company as a result of this real estate held for investment and none is anticipated in the near future.

At December 31, 1990 and 1989, the Company had approximately $12,050,000 and $9,798,000, respectively, of mortgage loans with restructured terms. Due to these restructured terms, there was a reduction in investment income for the years ended December 31, 1990 and 1989, of approximately $529,000 and $314,000, respectively, as compared to the income that would have been recognized under the original terms. The Company anticipates similar future reductions in investment income related to these particular loans.

The Company has real estate acquired by foreclosure, net of allowances for possible losses, of approximately $15,608,000 and $15,034,000 at December 31, 1990 and 1989, respectively. These real estate holdings consist primarily of income-producing properties which are being operated by the Company until the decision is made for their sale under proper market conditions. The Company recognized operating losses on these properties of approximately $87,000 and $768,000 for the years ended December 31, 1990 and 1989, respectively. The Company anticipates that these properties will continue to produce small operating losses until either the properties are sold or there is a significant improvement in the Texas economy and real estate market. As with the mortgage loans described above, the Company has taken appropriate steps over the past several years to record these foreclosed properties at their net realizable value and, therefore, the Company does not anticipate significant increases in the allowances for possible losses in the near future.

The Company has made repairs and capital improvements to keep the foreclosed properties in good condition and will continue this maintenance as needed. However, the amounts expended for this maintenance have not had a significant impact on the Company's liquidity and capital resources, and such maintenance is not foreseen to have a significant impact in the future.

Discontinued Subsidiary Operations

The Westcap Mortgage Company (Westcap Mortgage) has experienced deteriorating operating results over the past several years. This performance has been caused primarily by depressed real estate market conditions and intense industry competition. With no foreseen improvement in market conditions and operating results, the Company approved a plan on December 10, 1990, for the complete dissolution and liquidation of Westcap Mortgage. The Company plans to sell the assets of Westcap Mortgage in an orderly manner, with disposal expected to be completed by August, 1991. In connection with this plan of liquidation, Westcap Mortgage recorded a write-down of approximately $982,000, net of tax, to value assets at estimated fair value and to reflect estimated losses on disposition, including estimated future costs and operating results from the segment through the date of complete liquidation. The consolidated financial statements also include the loss from operations of Westcap Mortgage of approximately $713,000, net of tax, for the year ended December 31, 1990.

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 $19.0 million in 1988 to $33.8 million in 1990. There is every indication that the trend toward increasing production in this market will continue.

Investment Income: Net cash flow resulting from increasing life and annuity production has increased total invested assets to $1.9 billion at the end of 1990, compared to $1.6 billion in 1989 and $1.3 billion in 1988. The increases in invested assets produced net investment income of $159.9 million in 1990, compared to $129.7 million in 1989 and $100.3 million in 1988. This growth trend is expected to continue as life and annuity production continues to increase. The increase in investment income is mainly attributable to the growth in invested assets. During 1990 net investment income increased 23% on an increase of 23% in invested assets. High-yield debt securities were not a material factor in these increases, as investments in high-yield debt securities decreased by 45% during 1990. High-yield debt securities accounted for less than 5% of the bond portfolio and approximately 10% of income from the bond portfolio and 8% of total investment income in 1990.

Brokerage Revenues: These revenues were derived from the Company's wholly-owned subsidiary, The Westcap Corporation. Revenues for 1990, 1989, and 1988 were $25.7 million, $16.5 million, and $23.7 million, respectively. The decrease in 1989 was 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 $45.7 million, $39.7 million, and $34.0 million for 1990, 1989, and 1988, respectively. These expenses were relatively constant as related to total revenues in 1988. The 1989 expenses include 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. The 1990 expenses include an $8,000,000 loss resulting from a lawsuit. The Company was a defendant in a lawsuit seeking recovery of certain values of life insurance policies pledged as collateral for debentures which at December 31, 1989, had a book value of $8,000,000, but a market value of zero due to the insolvency of the issuer. In 1991 a court ruled that the collateral assignment was not enforceable. As a result, the Company recorded a loss of $8,000,000 in 1990.

Brokerage Expenses: Expenses for 1990, 1989, and 1988 were $22.8 million, $18.1 million, and $22.1 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 $17.1 million, $3.0 million, and $4.3 million for the years 1990, 1989, and 1988, respectively. The losses in the three years include write-downs on Texas real estate or mortgage loans of $1,325,000, $1,324,000, and $2,777,000, 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 $9,627,000, $727,000, and $781,000 in 1990, 1989, and 1988, respectively.

The large loss in 1990 for permanent impairment on bonds consists of realized losses related to high-yield and non-investment grade debt securities in which the issuers were in poor financial condition or bankrupt. As a result, many of the securities were in or near default, prompting the recognition of a realized loss, as the securities were deemed permanently impaired.

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 1990 or 1989. There are no present material commitments for capital expenditures in 1991, and the Company does not anticipate incurring any such commitments through the balance of 1991.

Financial Accounting Standards (FAS) Board Statements

In December, 1987, FAS No. 96, "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 15, 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.

In December, 1990, the FASB issued FAS No. 106, "Employers' Accounting for Post Retirement Benefits Other than Pensions." FAS No. 106 establishes accounting standards for employers' accounting for, primarily, post retirement health care benefits. The statement is effective for fiscal years beginning after December 15, 1992. Since the Company currently pays no such benefits, implementation is expected to have no impact on the results of the operations of the Company.

Common Stock Prices

Quarter	Ending	High	Low
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
3-31	1990	11-3/8	8-5/8
6-30	1990	9-7/8	8-1/8
9-30	1990	9-1/8	6-3/4
12-31	1990	7-3/4	5-1/2

Statutory Balance Sheets

(In thousands)

	(Unaudited) December 31, 1990	1989
ASSETS		
Bonds	$ 1,489,281	1,169,403
Preferred stocks	5,387	8,239
Common stocks	8,984	8,589
Mortgage loans	115,874	107,443
Real estate	25,341	29,142
Policy loans	147,781	135,344
Collateral loans	227	249
Income interest in Libbie Shearn Moody Trust	26,400	11,442
Cash on hand and in banks	4,910	5,765
Short-term investments	25,491	84,525
Premiums deferred and uncollected	6,585	7,277
Investment income due and accrued	29,591	27,913
Other assets	3,655	6,859
	$ 1,889,507	1,602,190
LIABILITIES, SURPLUS, AND OTHER FUNDS		
Aggregate reserve for life policies	$ 1,762,611	1,483,752
Aggregate reserve for accident and health policies	273	274
Supplementary contracts without life contingencies	940	854
Life claims	5,349	4,612
Accident and health claims	173	165
Policyholders' dividend, coupon, and endowment accumulations	8,109	8,610
Policyholders' dividend liability	213	245
Other liabilities to policyholders	739	6,855
Commissions, expenses, and taxes due or accrued	7,585	5,071
Other liabilities	34,724	23,176
Mandatory Securities Valuation Reserve	5,111	19,555
Total liabilities	1,825,827	1,553,169
Capital paid up	3,478	3,478
Paid-in and contributed surplus	26,377	12,751
Unassigned surplus	33,825	32,792
Total capital and surplus	63,680	49,021
	$ 1,889,507	1,602,190

Statutory Statements of Operations

(In thousands)

	(Unaudited) Years Ended December 31, 1990	1989
Premiums and annuity considerations	$ 405,053	446,764
Considerations for supplementary contracts, dividend, coupon, and endowment accumulations	418	613
Net investment income	159,036	129,488
Other income	6,713	5,312
Total income	571,220	582,177
Death claims	17,340	15,990
Accident and health claims	430	738
Surrender benefits	147,757	106,954
Coupons and endowments to policyholders	386	463
Payments on supplementary contracts, dividend, coupon, and endowment accumulations	1,253	1,253
Other policy benefits	33,501	25,488
Increase in life and accident and health reserves	278,859	341,332
Decrease in other reserves	(415)	(266)
Commissions	65,479	69,368
General expenses, taxes, and other expenses	13,775	12,006
Decrease in loading	244	406
Total benefits and expenses	558,609	573,732
Net gain before dividends and Federal income taxes	12,611	8,445
Dividends to policyholders	204	226
Net gain before Federal income taxes	12,407	8,219
Federal income taxes	3,886	1,340
Net gain from operations before realized capital losses	8,521	6,879
Realized capital losses	(7,282)	(1,622)
Net income	$ 1,239	5,257

Statutory Statements of Capital and Surplus

(In thousands)

	(Unaudited) Years Ended December 31,	
	1990	1989
Balance at beginning of year	$ 49,021	41,626
Additions (deductions):		
Net income	1,239	5,257
Change in unrealized capital losses	(14,841)	(1,703)
Change in non-admitted assets and related items	(246)	1,553
Change in Mandatory Securities Valuation Reserve	14,444	2,258
Other increases (decreases)	14,063	30
Balance at end of year	$ 63,680	49,021

Directors

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

William P. Tedrow
President, Chief Operating
Officer, National Western
Life Insurance Company
NWL Director—1990 to present

Arthur O. Dummer
Chief Executive Officer
The Donner Company
Salt Lake City, Utah
NWL Director—1980 to present

Harry L. Edwards
Retired,
Austin, Texas
NWL Director—1969 to present

E. Douglas McLeod
Director of Development
Moody Foundation
Galveston, Texas
NWL Director—1979 to present

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

Frances A. Moody
Student, Southern
Methodist University
Dallas, Texas
NWL Director—1990 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

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Chairman of the Board
Chief Executive Officer

William P. Tedrow, CLU, ChFC, CPCU
President
Chief Operating Officer

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

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

Richard L. Boswell, FSA, MAAA
Senior Vice President
Actuary

Robert L. Busby, III, CPA, FLMI, CLU, ChFC
Senior Vice President
Chief Financial Officer
Treasurer

Robert C. Davis
Senior Vice President
Chief Investment Officer

Richard M. Edwards
Senior Vice President
International Marketing

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

Charles D. Milos, Jr.
Senior Vice President
Investment Analyst

Harold L. Ponder
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Risk Selection

Larry D. White, FLMI
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Policyowner Services

Dr. Jose M. Galano
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Premium Accounting

Jo Nell Morris, FLMI
Assistant Vice President
Policyowner Services

Donna L. Richardson, FLMI
Assistant Vice President
Agent Contracting &
Licensing

Margaret M. Simpson
Assistant Secretary

Mary L. Smith
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Hans W. Weber
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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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