UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[√] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 2005

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________ to __________

Commission File Number: 2-17039

NATIONAL WESTERN LIFE INSURANCE COMPANY

(Exact name of Registrant as specified in its charter)

COLORADO (State of Incorporation)	84-0467208 (I.R.S. Employer Identification Number)
850 EAST ANDERSON LANE AUSTIN, TEXAS 78752-1602 (Address of Principal Executive Offices)	(512) 836-1010 (Telephone Number)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes [√] No [ ]

Indicate by a check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [√] No [ ]

As of May 4, 2005, the number of shares of Registrant's common stock outstanding was: Class A - 3,396,565 and Class B - 200,000.

NATIONAL WESTERN LIFE INSURANCE COMPANY

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

ASSETS		(Unaudited) March 31, 2005	December 31, 2004
Investments:			
Securities held to maturity, at amortized cost	$	3,343,463	3,274,134
Securities available for sale, at fair value		1,663,104	1,635,247
Mortgage loans, net of allowances for possible losses ($0 and $368)		117,315	124,712
Policy loans		87,558	88,448
Derivatives		33,555	42,156
Other long-term investments		45,428	45,702
Total investments		5,290,423	5,210,399
Cash and short-term investments		24,501	50,194
Deferred policy acquisition costs		603,754	582,218
Deferred sales inducements		66,935	62,240
Accrued investment income		60,350	58,272
Other assets		30,549	28,362
	$	6,076,512	5,991,685

Note: The condensed consolidated balance sheet at December 31, 2004, has been derived from the audited consolidated financial statements as of that date.

See accompanying notes to condensed consolidated financial statements.

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

LIABILITIES AND STOCKHOLDERS' EQUITY		(Unaudited) March 31, 2005	December 31, 2004
LIABILITIES:			
Future policy benefits:			
Traditional life and annuity contracts	$	140,023	141,049
Universal life and annuity contracts		4,956,117	4,885,809
Other policyholder liabilities		82,936	75,237
Federal income tax liability:			
Current		5,157	4,303
Deferred		35,599	38,754
Other liabilities		40,707	37,861
Total liabilities		5,260,539	5,183,013
COMMITMENTS AND CONTINGENCIES (Note 5 and 7)			
STOCKHOLDERS' EQUITY:			
Common stock:			
Class A - $1 par value; 7,500,000 shares authorized; 3,392,470 and 3,384,215 issued and outstanding in 2005 and 2004		3,392	3,384
Class B - $1 par value; 200,000 shares authorized, issued, and outstanding in 2005 and 2004		200	200
Additional paid-in capital		34,839	33,834
Accumulated other comprehensive income		15,505	25,419
Retained earnings		762,037	745,835
Total stockholders' equity		815,973	808,672
	$	6,076,512	5,991,685

Note: The condensed consolidated balance sheet at December 31, 2004, has been derived from the audited consolidated financial statements as of that date.

See accompanying notes to condensed consolidated financial statements.

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
For the Three Months Ended March 31, 2005 and 2004
(Unaudited)
(In thousands, except per share amounts)

		2005	2004
Premiums and other revenue:			
Traditional life and annuity premiums	$	3,481	3,388
Universal life and annuity contract revenues		23,948	21,005
Net investment income		62,746	72,481
Other income		2,233	2,131
Realized gains on investments		968	1,459
Total premiums and other revenue		93,376	100,464
Benefits and expenses:			
Life and other policy benefits		11,228	9,404
Amortization of deferred policy acquisition costs		19,074	20,720
Universal life and annuity contract interest		27,355	37,679
Other operating expenses		11,043	10,435
Total benefits and expenses		68,700	78,238
Earnings before Federal income taxes and cumulative effect of change in accounting principle		24,676	22,226
Provision for Federal income taxes:			
Current		6,292	2,778
Deferred		2,182	4,832
Total Federal income taxes		8,474	7,610
Earnings before cumulative effect of change in accounting principle		16,202	14,616
Cumulative effect of change in accounting principle, net of $29,452 of Federal income taxes		-	54,697
Net earnings	$	16,202	69,313
Basic Earnings Per Share:			
Earnings before cumulative effect of change in accounting principle	$	4.51	4.11
Cumulative effect of change in accounting principle		-	15.39
Net earnings	$	4.51	19.50
Diluted Earnings Per Share:			
Earnings before cumulative effect of change in accounting principle	$	4.47	4.06
Cumulative effect of change in accounting principle		-	15.21
Net earnings	$	4.47	19.27

See accompanying notes to condensed consolidated financial statements.

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Three Months Ended March 31, 2005 and 2004
(Unaudited)
(In thousands)

	2005	2004
Net earnings	$ 16,202	69,313
Other comprehensive income (loss), net of effects of deferred policy acquisition costs and taxes:		
Unrealized gains (losses) on securities:		
Unrealized holding gains (losses) arising during period	(9,857)	6,967
Reclassification adjustment for losses (gains) included in net earnings	(229)	53
Amortization of net unrealized losses related to transferred securities	3	62
Net unrealized gains (losses) on securities	(10,083)	7,082
Foreign currency translation adjustments	169	(66)
Other comprehensive income (loss)	(9,914)	7,016
Comprehensive income	$ 6,288	76,329

See accompanying notes to condensed consolidated financial statements.

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Three Months Ended March 31, 2005 and 2004
(Unaudited)
(In thousands)

	2005	2004
Common stock:		
Balance at beginning of year	$ 3,584	3,547
Shares exercised under stock option plan	8	8
Balance at end of period	3,592	3,555
Additional paid-in capital:		
Balance at beginning of year	33,834	29,192
Shares exercised under stock option plan, net of tax benefits	750	799
Stock option expense	255	100
Balance at end of period	34,839	30,091
Accumulated other comprehensive income:		
Unrealized gains on securities:		
Balance at beginning of year	25,032	22,467
Change in unrealized gains during period	(10,083)	7,082
Balance at end of period	14,949	29,549
Foreign currency translation adjustments:		
Balance at beginning of year	3,170	3,297
Change in translation adjustments during period	169	(66)
Balance at end of period	3,339	3,231
Minimum pension liability adjustment:		
Balance at beginning of year	(2,783)	(2,311)
Change in minimum pension liability adjustment during period	-	-
Balance at end of period	(2,783)	(2,311)
Accumulated other comprehensive income at end of period	15,505	30,469
Retained earnings:		
Balance at beginning of year	745,835	623,666
Net earnings	16,202	69,313
Balance at end of period	762,037	692,979
Total stockholders' equity	$ 815,973	757,094

See accompanying notes to condensed consolidated financial statements.

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three Months Ended March 31, 2005 and 2004
(Unaudited)
(In thousands)

		2005	2004
Cash flows from operating activities:			
Net earnings	$	16,202	69,313
Adjustments to reconcile net earnings to net cash from operating activities:			
Universal life and annuity contract interest		27,355	37,679
Surrender charges and other policy revenues		(6,917)	(5,369)
Realized gains on investments		(968)	(1,459)
Accrual and amortization of investment income		(529)	(1,985)
Depreciation and amortization		416	420
Decrease in value of derivatives		9,938	5,242
Increase in deferred policy acquisition and sales inducement costs		(6,543)	(18,834)
Increase in accrued investment income		(2,078)	(2,146)
Increase in other assets		(2,163)	(445)
Decrease in liabilities for future policy benefits		(931)	(724)
Increase (decrease) in other policyholder liabilities		7,699	(658)
Increase in Federal income tax liability		3,458	31,905
Decrease in other liabilities		(105)	(10,316)
Payments pertaining to lawsuit settlement		-	(2,917)
Cumulative effect of change in accounting principle, before taxes		-	(84,149)
Other		429	79
Net cash provided by operating activities		45,263	15,636
Cash flows from investing activities:			
Proceeds from sales of:			
Securities held to maturity		-	-
Securities available for sale		2,285	3,544
Other investments		5,835	6,279
Proceeds from maturities and redemptions of:			
Securities held to maturity		110,594	111,041
Securities available for sale		5,093	16,831
Purchases of:			
Securities held to maturity		(179,361)	(264,264)
Securities available for sale		(64,422)	(65,496)
Other investments		(7,101)	(6,254)
Principal payments on mortgage loans		9,107	5,001
Cost of mortgage loans acquired		(1,291)	(3,830)
Decrease in policy loans		890	1,250
Other		(254)	(393)
Net cash used in investing activities		(118,625)	(196,291)

(Continued on next page)

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED
For the Three Months Ended March 31, 2005 and 2004
(Unaudited)
(In thousands)

		2005	2004
Cash flows from financing activities:			
Deposits to account balances for universal life and annuity contracts	$	158,325	275,953
Return of account balances on universal life and annuity contracts		(111,060)	(105,725)
Issuance of common stock under stock option plan		420	523
Net cash provided by financing activities		47,685	170,751
Effect of foreign exchange		(16)	14
Net decrease in cash and short-term investments		(25,693)	(9,890)
Cash and short-term investments at beginning of year		50,194	68,210
Cash and short-term investments at end of period	$	24,501	58,320

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

		2005	2004
Cash paid during the quarter for:			
Interest	$	10	10
Income taxes		5,100	4,700

See accompanying notes to condensed consolidated financial statements.

(1) CONSOLIDATION AND BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for annual financial statements. In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments necessary to present fairly the financial position of the Company as of March 31, 2005, and the results of its operations and its cash flows for the three months ended March 31, 2005 and 2004. The results of operations for the three months ended March 31, 2005 and 2004 are not necessarily indicative of the results to be expected for the full year. For further information, refer to the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2004 accessible free of charge through the Company's internet site at www.nationalwesternlife.com or the Securities and Exchange Commission internet site at www.sec.gov.

The accompanying condensed consolidated financial statements include the accounts of National Western Life Insurance Company and its wholly-owned subsidiaries ("Company"), The Westcap Corporation, NWL Investments, Inc., NWL Services, Inc., and NWL Financial, Inc. All significant intercorporate transactions and accounts have been eliminated in consolidation.

Certain reclassifications have been made to the prior periods to conform to the reporting categories used in 2005.

(2) CHANGES IN ACCOUNTING PRINCIPLES

In July 2003, the American Institute of Certified Public Accountants issued Statement of Position 03-1, *Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts* ("SOP 03-1"). SOP 03-1 provides guidance relating to the reporting by insurance enterprises for certain contracts and insurance specific accounting issues and is effective for financial statements for fiscal years beginning after December 15, 2003. In the first quarter of 2004, the Company adopted the reserving method for its two-tier annuity products, which were issued from 1984 until 1992, in accordance with the SOP 03-1 guidance. The new reserving method under SOP 03-1 requires that the Company hold a reserve equal to the cash surrender value and establish an additional liability for expected annuitizations. The Company previously maintained reserves for two-tier annuities at the account balance value which is substantially higher than the cash value reserve. This reserving change resulted in an adjustment decreasing reserves, less deferred acquisition costs written off, by $54.7 million, net of taxes. The amount is reflected as a change in accounting principle as of January 1, 2004. Components of the accounting change are detailed below.

Accounting change related to two-tier annuities:		Amounts (In thousands)
Reduction in reserve for future policy benefits	$	119,205
Write off of deferred acquisition costs		(35,056)
Total change, pre-tax		84,149
Federal income taxes		(29,452)
Cumulative effect of change in accounting for two-tier annuities, net of tax	$	54,697

At March 31, 2005, the Company held a reserve relating to two-tier annuities in the amount of $21.9 million as an additional liability relating to annuitization benefits. The expected annuitizations were determined based upon actual experience relating to this block of business, which is relatively seasoned and the policies are no longer issued by the Company. The issuance of this SOP did not impact the Company's accounting relating to sales inducements.

In March 2004, the Emerging Issues Task Force ("EITF") reached a final consensus on Issue 03-1*, The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments*. This Issue establishes impairment models for determining whether to record impairment losses associated with investments in certain equity and debt securities and requires expanded disclosures related to securities with unrealized losses. It also requires income to be accrued on a level-yield basis following an impairment of debt securities, where reasonable estimates of the timing and amount of future cash flows can be made. The Company's current policy has generally been to record income only as cash is received following an impairment of a debt security. The application of this Issue was required for reporting periods beginning after June 15, 2004. In September 2004, the Financial Accounting Standard Board ("FASB") approved FASB Staff Position EITF 03-1-1, which defers the effective date for the recognition and measurement guidance contained in EITF 03-1 until certain issues are resolved. The Company is not able to assess the impact of the adoption of EITF 03-1 until final guidance is issued. The Company has adopted the disclosure provisions which are currently in effect.

In December 2004, the FASB issued Statement No. 123(R), *Share-Based Payment* which is a revision of Statement No. 123. Statement No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. The Company currently uses the Black-Scholes-Merton option pricing model to estimate the value of employee stock options and expect to continue to use this acceptable option pricing model upon adoption of Statement No. 123(R). Statement No. 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow rather than as an operating cash flow, as currently required. The original effective date set by the FASB was to begin with the first fiscal quarter after June 15, 2005. The Securities and Exchange Commission announced on April, 14, 2005 a six month postponement of FAS 123(R) which requires companies to apply the accounting standard beginning with the first fiscal year after June 15, 2005. The adoption of Statement No. 123(R) is not expected to have a material impact on the consolidated financial statements of the Company.

(3) STOCKHOLDERS' EQUITY

The Company is restricted by state insurance laws as to dividend amounts which may be paid to stockholders without prior approval from the Colorado Division of Insurance. The Company paid no cash dividends on common stock during the three months ended March 31, 2005 and 2004, as it follows a policy of retaining any earnings in order to finance the development of business and to meet regulatory requirements for capital.

(4) EARNINGS PER SHARE

Basic earnings per share of common stock are computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted earnings per share assumes the issuance of common shares applicable to stock options. Refer to Exhibit 11 of this report for further information concerning the computation of earnings per share.

(5) PENSION AND OTHER POSTRETIREMENT PLANS

(A) Defined Benefit Pension Plans

The Company sponsors a qualified defined benefit pension plan covering substantially all employees. The plan provides benefits based on the participants' years of service and compensation. The Company makes annual contributions to the plan that complies with the minimum funding provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). The following summarizes the components of net periodic benefit cost.

	Three Months Ended March 31,	
	2005	2004
	(In thousands)	
Service cost	$ 148	121
Interest cost	231	219
Expected return on plan assets	(209)	(172)
Amortization of prior service cost	1	(5)
Amortization of net loss	71	69
Net periodic benefit cost	$ 242	232

As previously disclosed in its financial statements for the year ended December 31, 2004, the Company expects to contribute $1.6 million to the plan in 2005. Contributions of $0.1 million have been made through March 31, 2005.

The Company also sponsors a nonqualified defined benefit plan primarily for senior officers. The plan provides benefits based on the participants' years of service and compensation. The pension obligations and administrative responsibilities of the plan are maintained by a pension administration firm, which is a subsidiary of American National Insurance Company ("ANICO"). ANICO has guaranteed the payment of pension obligations under the plan. However, the Company has a contingent liability with respect to the pension plan should these entities be unable to meet their obligations under the existing agreements. Also, the Company has a contingent liability with respect to the plan in the event that a plan participant continues employment with the Company beyond age seventy, the aggregate average annual participant salary increases exceed 10% per year, or any additional employees become eligible to participate in the plan. If any of these conditions are met, the Company would be responsible for any additional pension obligations resulting from these items.

Amendments were made to the plan to allow an additional employee to participate and to change the benefit formula for the Chairman of the Company. Any additional obligations are a liability to the Company. The following summarizes the components of net periodic benefit costs.

	Three Months Ended March 31,	
	2005	2004
	(In thousands)	
Service cost	$ 105	98
Interest cost	45	34
Amortization of prior service cost	73	73
Amortization of net loss	1	-
Net periodic benefit cost	$ 224	205

As previously disclosed in its financial statements for the year ended December 31, 2004, the Company expects to contribute $0.3 million to the plan in 2005. No contributions have been made in 2005 to date.

(B) Defined Benefit Postretirement Plans

The Company sponsors two health care plans that were amended in 2004 to provide postretirement benefits to certain fully-vested individuals. The following summarizes the components of net periodic benefit cost for the three months ended March 31, 2005.

	Amounts (In thousands)
Interest cost	$ 24
Amortization of prior service cost	26
Net periodic benefit cost	$ 50

As previously disclosed in its financial statements for the year ended December 31, 2004, the Company expects to contribute minimal amounts to the plan in 2005.

(6) SEGMENT AND OTHER OPERATING INFORMATION

Under Statement of Financial Accounting Standards ("SFAS") No. 131, *Disclosures About Segments of an Enterprise and Related Information*, the Company defines its reportable operating segments as domestic life insurance, international life insurance, and annuities. These segments are organized based on product types and geographic marketing areas. A summary of segment information for the quarters ended March 31, 2005 and 2004 is provided below.

Selected Segment Information:

		Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
				(In thousands)		
March 31, 2005:						
Selected Balance Sheet Items:						
Deferred policy acquisition costs and sales inducements	$	46,415	149,468	474,806	-	670,689
Total segment assets		361,894	579,268	5,037,413	81,570	6,060,145
Future policy benefits		302,500	411,413	4,382,227	-	5,096,140
Other policyholder liabilities		11,170	11,515	60,251	-	82,936
Three Months Ended March 31, 2005:						
Condensed Income Statements:						
Premiums and contract revenues	$	6,081	17,037	4,311	-	27,429
Net investment income		4,978	5,338	51,671	759	62,746
Other income		8	14	87	2,124	2,233
Total revenues		11,067	22,389	56,069	2,883	92,408
Policy benefits		4,660	5,983	585	-	11,228
Amortization of deferred policy acquisition costs		1,218	4,914	12,942	-	19,074
Universal life and investment annuity contract interest		2,181	3,612	21,562	-	27,355
Other operating expenses		2,200	3,329	3,637	1,877	11,043
Federal income taxes		277	1,562	5,950	346	8,135
Total expenses		10,536	19,400	44,676	2,223	76,835
Segment earnings	$	531	2,989	11,393	660	15,573

		Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
				(In thousands)		
March 31, 2004:						
Selected Balance Sheet Items:						
Deferred policy acquisition costs and sales inducements	$	50,384	131,574	396,626	-	578,584
Total segment assets		366,027	531,948	4,494,521	78,036	5,470,532
Future policy benefits		299,855	376,639	3,893,769	-	4,570,263
Other policyholder liabilities		10,454	10,196	41,191	-	61,841
Three Months Ended March 31, 2004:						
Condensed Income Statements:						
Premiums and contract revenues	$	5,573	16,125	2,695	-	24,393
Net investment income		5,027	5,641	61,166	647	72,481
Other income		3	-	55	2,073	2,131
Total revenues		10,603	21,766	63,916	2,720	99,005
Policy benefits		4,123	4,786	495	-	9,404
Amortization of deferred policy acquisition costs		1,255	6,376	13,089	-	20,720
Universal life and investment annuity contract interest		2,216	4,429	31,034	-	37,679
Other operating expenses		2,264	3,065	3,326	1,780	10,435
Federal income taxes		255	1,063	5,460	321	7,099
Total expenses		10,113	19,719	53,404	2,101	85,337
Segment earnings	$	490	2,047	10,512	619	13,668

Reconciliations of segment information to the Company's condensed consolidated financial statements are provided below.

		Three Months Ended March 31,	
		2005	2004
		(In thousands)	
Premiums and Other Revenue:			
Premiums and contract revenues	$	27,429	24,393
Net investment income		62,746	72,481
Other income		2,233	2,131
Realized gains on investments		968	1,459
Total consolidated premiums and other revenue	$	93,376	100,464

		Three Months Ended March 31,	
		2005	2004
		(In thousands)	
Federal Income Taxes:			
Total segment Federal income taxes	$	8,135	7,099
Taxes on realized gains on investments		339	511
Taxes on cumulative effect of change in accounting principle		-	29,452
Total consolidated Federal income taxes	$	8,474	37,062

		Three Months Ended March 31,	
		2005	2004
		(In thousands)	
Net Earnings:			
Total segment earnings	$	15,573	13,668
Realized gains on investments, net of taxes		629	948
Cumulative effect of change in accounting principle		-	54,697
Total consolidated net earnings	$	16,202	69,313

		March 31,	
		2005	2004
		(In thousands)	
Assets:			
Total segment assets	$	6,060,145	5,470,532
Other unallocated assets		16,367	16,462
Total consolidated assets	$	6,076,512	5,486,994

(7) LEGAL PROCEEDINGS

In the course of an audit of a charitable tax-exempt foundation, the Internal Revenue Service ("IRS") raised an issue under the special provisions of the Internal Revenue Code ("IRC") governing tax-exempt private foundations as to certain interest-bearing loans from the Company to another corporation in which the tax-exempt foundation owns stock. The issue is whether such transactions constitute indirect self-dealing by the foundation, the result of which would be excise taxes on the Company by virtue of its participation in such transactions. By letter to the Company dated August 21, 2003, the IRS proposed an initial excise tax liability in the total amount approximating one million dollars as a result of such transactions. The Company disagrees with the IRS analysis. The Company is contesting the matter and expects to prevail on the merits. On October 14, 2003, in response to the IRS letter, the Company requested that this issue instead be referred to the IRS National Office for technical advice. The IRS audit team agreed and the matter was referred in November of 2003 to the IRS National Office. Such technical advice when issued by the IRS National Office will be in the form of a memorandum analyzing the issue which will be binding on the IRS audit team.

The Company is involved or may become involved in various legal actions, in the normal course of business, in which claims for alleged economic and punitive damages have been or may be asserted, some for substantial amounts. Although there can be no assurances, at the present time, the Company does not anticipate that the ultimate liability arising from potential, pending or threatened legal actions, after consideration of amounts provided for in the Company's consolidated financial statements, will have a material adverse effect on the financial condition or operating results of the Company.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. Certain information contained herein or in other written or oral statements made by or on behalf of National Western Life Insurance Company or its subsidiaries is or may be viewed as forward-looking. Although the Company has used appropriate care in developing any such information, forward-looking information involves risks and uncertainties that could significantly impact actual results. These risks and uncertainties include, but are not limited to, matters described in the Company's filings with the Securities and Exchange Commission ("SEC") such as exposure to market risks, anticipated cash flows or operating performance, future capital needs, and statutory or regulatory related issues. However, National Western, as a matter of policy, does not make any specific projections as to future earnings, nor does it endorse any projections regarding future performance that may be made by others. Whether or not actual results differ materially from forward-looking statements may depend on numerous foreseeable and unforeseeable events or developments. Also, the Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future developments, or otherwise.

OVERVIEW

Insurance Operations - Domestic

The Company is currently licensed to do business in all states except for New York. Products marketed are annuities, universal life insurance, and traditional life insurance, which include both term and whole life products. The majority of domestic sales are the Company's annuities, which include single and flexible premium deferred annuities, single premium immediate annuities, and equity-indexed annuities. Most of these annuities can be sold as tax qualified or nonqualified products. At March 31, 2005, the Company maintained approximately 122,900 annuity policies in force.

National Western markets and distributes its domestic products primarily through independent national marketing organizations ("NMOs"). These NMOs assist the Company in recruiting, contracting, and managing independent agents. The Company currently has approximately 10,800 independent agents contracted. Roughly 25% of these contracted agents have submitted policy applications to the Company in the past twelve months.

Insurance Operations - International

The Company's international operations focus on foreign nationals in upper socioeconomic classes. Insurance products are issued primarily to residents of countries in Central and South America, the Caribbean, Eastern Europe and the Pacific Rim. Issuing policies to residents of countries in these different regions provides diversification that helps to minimize large fluctuations that could arise due to various economic, political, and competitive pressures that may occur from one country to another. Products issued to international residents are almost entirely universal life and traditional life insurance products. However, certain investment contracts are also available. At March 31, 2005, the Company had approximately 63,100 international life insurance policies in force representing approximately $11.4 billion in face amount of coverage.

International applications are submitted by independent contractor broker-agents. The Company has approximately 3,500 independent international brokers currently contracted, 49% of which have submitted policy applications to the Company in the past twelve months.

There are some inherent risks of accepting international applications which are not present within the domestic market that are reduced substantially by the Company in several ways. As previously described, the Company accepts applications from foreign nationals in upper socioeconomic classes who have substantial financial resources. This targeted customer base coupled with the Company's conservative underwriting practices have historically resulted in claims experience, due to natural causes, similar to that in the United States. The Company minimizes exposure to foreign currency risks by requiring payment of premiums, claims and other benefits almost entirely in United States dollars. Finally, the Company's nearly forty years of experience with the international products and its longstanding independent broker-agents relationships further serve to minimize risks.

SALES

Life Insurance

The following table sets forth information regarding the Company's life insurance sales activity as measured by annualized first year premiums. While the figures shown below are in accordance with industry practice and represent the amount of new business sold during the periods indicated, they are considered a non-GAAP financial measure. The Company believes sales are a measure of distribution productivity and are a leading indicator of future revenue trends. However, revenues are driven by sales in prior periods as well as in the current period and therefore, a reconciliation of sales to revenues is not meaningful or determinable.

		Three Months Ended March 31,	
		2005	2004
		(In thousands)	
International:			
Universal life	$	1,262	1,988
Traditional life		748	499
Equity-indexed life		3,622	3,797
		5,632	6,284
Domestic:			
Universal life		753	389
Traditional life		89	91
		842	480
Totals	$	6,474	6,764

Life insurance sales as measured by annualized first year premiums decreased 4% in the first quarter of 2005 as compared to the first quarter of 2004. International life insurance sales in the first quarter of 2005 trailed the pace of the first quarter of 2004 primarily due to a special incentive in 2004 for agents to have business issued during the first quarter in order to qualify for an invitation to the Company's annual sales conference. A similar incentive did not apply in the first quarter of 2005. New business submitted to the Company during the first quarter was 15% greater in the first quarter of 2005 compared to the first quarter of 2004. Due to the higher face amounts of insurance requested from residents outside of the United States, there is substantially more medical and other background information required for assessing underwriting risks. The gathering of this information, underwriting the risk based upon the information received and accepting the application typically takes one to two months prior to issuing a policy. Consequently, the amount of new business submitted is monitored as an indicator for future sales activity.

Applications submitted from residents of South America and the Pacific Rim historically have comprised the majority of the Company's international life insurance sales. Over the past few years, effort has been directed toward the sale of a traditional endowment form of life insurance product for residents of Eastern European countries. While applications have been received from residents of these countries, sales are still in a developmental phase. Applications from residents of international countries also vary from period to period based upon changes in the socio-economic climates of these countries. Historically, the Company has experienced a simultaneous combination of rising and declining sales in various countries. However, the appeal of dollar-denominated life insurance products circumvents many of the local and national difficulties.

Domestic operations have generally focused more heavily on annuity sales than on life insurance sales. The Company spent the greater part of 2003 and 2004 revamping its domestic life operations by changing the way it contracts distribution for life business, eliminating products and distribution that have not contributed significantly to earnings, and creating new and competitive products. A new single premium universal life ("SPUL") product was launched at the end of 2003 accounting for the majority of the increase in domestic universal life insurance sales in the first quarter of 2005 over the same period in 2004. With the introduction of the SPUL product and the discontinued marketing of smaller premium and volume life insurance policies, the Company has seen an increase in the average amount of policy coverage purchased from $89,000 in the first quarter of 2004 to $108,000 in the first quarter of 2005.

The following table sets forth information regarding the Company's life insurance in force for each date presented.

	Insurance In Force as of March 31, 2005	2004
	($ in thousands)	
Universal life:		
Number of policies	82,400	86,410
Face amounts	$ 8,247,020	8,575,230
Traditional life:		
Number of policies	56,700	59,050
Face amounts	$ 1,668,470	1,524,100
Equity-indexed life:		
Number of policies	12,350	8,060
Face amounts	$ 2,491,810	1,565,840
Rider face amounts	$ 1,447,720	1,341,700
Total life insurance:		
Number of policies	151,450	153,520
Face amounts	$ 13,855,020	13,006,870

While the total number of policies in force declined slightly year over year, the face amount of insurance coverage in force increased by approximately $850 million. This reflects the Company's changing business mix toward international life sales and a change in emphasis domestically toward larger policies. The international life products typically have larger average face amounts of coverage per policy due to the higher net worth of the individuals purchasing these products. The average face amount of coverage for international life product sales in the first quarter of 2005 was approximately $233,000 while the average face amount of coverage for domestic life product sales was roughly $108,000. The domestic life insurance in force is comprised substantially of discontinued policies having lower face amounts of coverage. These policies are lapsing at a rate faster than the larger policy face amounts currently written are being added to the block of business.

Annuities

The following table sets forth information regarding the Company's annuity sales activity as measured by single and annualized first year premiums. Similar to life insurance sales, these figures are considered a non-GAAP financial measure but are shown in accordance with industry practice and depict the Company's sales productivity.

	Three Months Ended March 31, 2005	2004
	(In thousands)	
Equity-indexed annuities	$ 76,175	157,068
Other deferred annuities	64,407	102,484
Immediate annuities	7,666	14,663
Total	$ 148,284	274,215

Annuity sales for the first three months of 2005 were 46% lower than the comparable period in 2004. The first quarter 2004 annuity sales represented the tail end of the explosion in fixed annuity sales that began in 2003 when the Company achieved nearly $1.2 billion in sales. Annuity sales for the remainder of 2004 trended lower due to a combination of investors returning to alternative investment vehicles along with the Company managing its targeted levels of risk and statutory capital and surplus and finished the year at $895 million. Annuity sales in the fourth quarter of 2004 were $159 million.

The sizable increase in annuity sales volume in 2003 and 2004 required a greater level of asset/liability analysis. The Company has monitored its asset/liability matching within the self-constraints of desired capital levels. Despite the significant increase in new business the company's capital level remains substantially above industry averages and regulator targets.

The mix of annuity sales in 2004 and 2005 changed from that of 2003. With a stronger performance in the equity market, sales of equity-indexed annuity products became more prevalent beginning in 2004 and have continued thus far in 2005. Contributing to the increase in sales of these products was the introduction of a new series of equity-indexed annuity products featuring a different indexing mechanism (monthly cap) to complement the existing equity-indexed annuity products which utilize a monthly average annual reset feature. For all equity-indexed products, the Company purchases over the counter options to fully hedge the equity return feature. The options are purchased concurrent with the issuance of the annuity contracts in order to minimize any form of timing risk. All of the index return during the indexing period (if the underlying index increases) is credited to the contract holders electing the equity feature at the beginning of the contract year. The Company does not deliberately mismatch or under hedge for the equity feature of these products.

The following table sets forth information regarding annuities in force for each date presented.

	Annuities In Force as of March 31,	
	2005	2004
	($ in thousands)	
Equity-indexed annuities		
Number of policies	24,400	18,260
GAAP annuity reserves	$ 1,409,160	1,036,502
Other deferred annuities		
Number of policies	86,130	86,700
GAAP annuity reserves	$ 2,729,980	2,620,670
Immediate annuities		
Number of policies	12,380	12,340
GAAP annuity reserves	$ 240,080	233,147
Total annuities		
Number of policies	122,910	117,300
GAAP annuity reserves	$ 4,379,220	3,890,319

RESULTS OF OPERATIONS

The Company's consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). In addition, the Company regularly evaluates operating performance using non-GAAP financial measures which exclude or segregate derivatives and realized investment gains and losses from operating revenues and earnings. Similar measures are commonly used in the insurance industry in order to assess profitability and results from ongoing operations. The Company believes that the presentation of these non-GAAP financial measures enhances the understanding of the Company's results of operations by highlighting the results from ongoing operations and the underlying profitability factors of the Company's business. The Company excludes or segregates derivatives and realized investment gains and losses because such items are often the result of events which may or may not be at the Company's discretion and the fluctuating effects of these items could distort trends in the underlying profitability of the Company's business. Therefore, in the following sections discussing consolidated operations and segment operations appropriate reconciliations have been included to report information management considers useful in enhancing an understanding of the Company's operations to reportable GAAP balances reflected in the consolidated financial statements.

Consolidated Operations

Revenues. The following details Company revenues.

		Three Months Ended March 31, 2005	2004
		(In thousands)	
Traditional life and annuity premiums	$	3,481	3,388
Universal life and annuity contract revenues		23,948	21,005
Net investment income (excluding derivatives)		76,668	71,095
Other income		2,233	2,131
Operating revenues		106,330	97,619
Derivative gains (losses)		(13,922)	1,386
Realized gains on investments		968	1,459
Total revenues	$	93,376	100,464

Traditional life insurance premiums for products such as whole life and term life are recognized as revenues over the premium-paying period. These are product lines that the Company has not marketed as aggressively as interest sensitive products, particularly in its international life insurance operations.

Revenues for universal life and annuity contract revenues consist of policy charges for the cost of insurance, administration charges, and surrender charges assessed against policyholder account balances. Product sales have remained consistent from 2004 to 2005 with the block of business in force, particularly international universal life products, growing steadily. This contributes to higher revenues in the form of cost of insurance charges which were $15.5 million in the first quarter of 2005 compared to $14.7 million for the quarter ended March 31, 2004. Surrender charges assessed against policyholder account balances upon withdrawal increased to $6.1 million in the first quarter of 2005 versus $4.7 million in 2004.

A detail of net investment income is provided below.

		Three Months Ended March 31, 2005	2004
		(In thousands)	
Gross investment income:			
Debt securities	$	71,643	65,384
Mortgage loans		2,642	3,192
Policy loans		1,588	1,627
Other investment income		1,513	1,476
Total investment income		77,386	71,679
Investment expenses		718	584
Net investment income (excluding derivatives)		76,668	71,095
Derivative gains (losses)		(13,922)	1,386
Net investment income	$	62,746	72,481

Net investable cash flow is primarily invested in investment grade debt securities, which represent 93% of the total investment income at March 31, 2005 compared to 91% for the same period in 2004. Investment income generated from mortgage loans has decreased 17% from March 31, 2004 to March 31, 2005 due to the decline in the mortgage loan portfolio caused by the low interest rate environment over the past several years. Interest rates have fallen below the Company's minimum rate required for mortgage loan funding and the current environment has also enduced pre-payment of loans. Despite the drop in interest rate levels, the Company still generated higher overall net investment earnings, excluding derivatives, due to higher levels of invested assets. Derivative gains and losses fluctuate with the performance of the S&P 500® Composite Stock Price Index ("S&P 500 Index®").

Net investment income performance is summarized as follows:

		Three Months Ended March 31,	
		2005	2004
		(In thousands except percentages)	
Excluding derivatives:			
Net investment income	$	76,668	71,095
Average invested assets, at amortized cost	$	5,084,414	4,471,931
Annual yield on average invested assets		6.03%	6.36%
Including derivatives:			
Net investment income	$	62,746	72,481
Average invested assets, at amortized cost	$	5,150,114	4,512,468
Annual yield on average invested assets		4.87%	6.43%

The yield on average invested assets has declined from 6.36% in 2004 to 6.03% in 2005, excluding derivatives. This drop in yield is due to the overall interest rate declines in the market which result in the Company obtaining lower yields on new invested funds. Net investment income performance is analyzed excluding the derivative income which is a common practice in the insurance industry in order to assess underlying profitability and results from ongoing operations.

Other income primarily pertains to the Company's operations involving a nursing home. Revenues associated with this operation were $2.1 million for the three months ended March 31, 2005 and 2004.

Index options are derivative financial instruments used to fully hedge the equity return component of the Company's equity-indexed products. Any gains or losses from the sale or expiration of the options, as well as period-to-period changes in fair values, are reflected as a component of net investment income. However, increases or decreases in income from these options are substantially offset by corresponding increases or decreases in amounts credited to equity-indexed policyholders.

		March 31, 2005	December 31, 2004	March 31, 2004	December 31, 2003
S&P 500 Index® performance:					
Period closing value	$	1,181	1,212	1,126	1,112
Daily average value	$	1,193	1,131	1,132	965
Derivative gains (losses)	$	(13,922)		1,386	

Index options are intended to act as hedges to match closely the returns on the S&P 500 Index®. With an increase or decline in this index, the index option values likewise increase or decline. While investment income from index options was lower reflecting a loss at March 31, 2005, the contract interest expense for the Company's equity-indexed products was also lower.

Realized investment gains of $0.9 million and $1.5 million were recorded in the first quarters of 2005 and 2004, respectively. The net gains recorded during 2005 primarily reflect a release of a prior year impairment of a mortgage loan sold for a gain of $0.4 million and realized gains on sales of bonds for $0.7 million reduced by a realized loss from an additional impairment on one bond issuer of $0.2 million due to a reduction in market value as of the reporting date. The gains recorded during 2004 are primarily from the release of a valuation allowance relating to a mortgage loan no longer impaired and the recognition of a realized gain on the sale of real estate. No impairment writedowns were recorded in the first quarter of 2004.

Benefits and Expenses. The following details benefits and expenses.

		Three Months Ended March 31,	
		2005	2004
		(In thousands)	
Life and other policy benefits	$	11,228	9,404
Amortization of deferred policy acquisition costs		19,074	20,720
Universal life and annuity contract interest		27,355	37,679
Other operating expenses		11,043	10,435
Totals	$	68,700	78,238

Death claims increased from $7.2 million during the first quarter of 2004 to $9.8 million for the quarter ended March 31, 2005. While death claim amounts are subject to variation from period to period, the Company's mortality experience has generally been consistent with its product pricing assumptions.

Life insurance companies are required to defer certain expenses associated with acquiring new business. The majority of these acquisition expenses consist of commissions paid to agents, underwriting costs, and certain marketing expenses and sales inducements. The Company defers sales inducements in the form of first year interest bonuses on annuity and universal life products that are directly related to the production of new business. These charges are deferred and amortized using the same methodology and assumptions used to amortize other capitalized acquisition costs and the amortization is included in contract interest. Recognition of these deferred policy acquisition costs in the financial statements occurs over future periods in relation to the emergence of profits priced into the products sold. This emergence of profits is based upon assumptions regarding premium payment patterns, mortality, persistency, investment performance, and expense patterns. Companies are required to review these assumptions periodically to ascertain whether actual experience has deviated significantly from that assumed. If it is determined that a significant deviation has occurred, the emergence of profits pattern is to be "unlocked" and reset based upon the actual experience. While the Company is required to evaluate its emergence of profits continually, management believes that the current amortization patterns of deferred policy acquisition costs are reflective of actual experience.

Amortization of deferred policy acquisition costs decreased to $19.1 million in the first quarter of 2005 compared to $20.7 million in 2004. The decrease in 2005 amortization is due to decreased gross profits in the quarter ended March 31, 2005 compared to March 31, 2004 relative to mortality experience as noted above. Amortization reflects the substantial increase in the Company's block of business over the past couple of years and amortization of annuity sales inducements. The increase in international life sales has caused an increase in life insurance in force since 2001 from $10.0 billion to $13.9 billion at March 31, 2005. In addition, annuity sales activity has increased the number of active annuity contracts from approximately 103,000 at March 31, 2003, to 122,900 at March 31, 2005. Deferred acquisition costs associated with this growth in business are being amortized currently in conjunction with the emergence of profits from these blocks of policies.

The Company closely monitors its credited interest rates on interest sensitive policies, taking into consideration such factors as profitability goals, policyholder benefits, product marketability, and economic market conditions. As long-term interest rates change, the Company's credited interest rates are often adjusted accordingly, taking into consideration the factors as described above. The difference between yields earned over policy credited rates is often referred to as the "interest spread". Raising policy credited rates can typically have more of an immediate impact than higher market rates on the Company's investment portfolio yield, making it more difficult to maintain the current interest spread.

The Company's approximated average credited rates are as follows:

	March 31,		March 31,	
	2005	2004	2005	2004
	(Excluding derivative products)		(Including derivative products)	
Annuity	3.61%	3.86%	1.98%	3.22%
Interest sensitive life	4.57%	4.87%	4.04%	4.98%

Contract interest also includes the performance of the equity-index component of the Company's derivative products. As previously noted, the recent market performance of these equity-index features impacts contract interest expenses while also impacting the Company's investment income given the hedge nature of the options purchased for these products.

Other operating expenses consist of general administrative expenses, licenses and fees, and commissions not subject to deferral. Like revenues from other income, nursing home operation expenses are included in other operating expenses in the amount of $1.9 million and $1.8 million for the first quarters of 2005 and 2004, respectively.

Federal Income Taxes. Federal income taxes on earnings from continuing operations reflect effective tax rates of 34.3% and 34.2% for the first quarter of 2005 and 2004, respectively, which are lower than the expected Federal rate of 35%. The effective tax rate is lower than the Federal rate of 35% primarily due to tax-exempt investment income related to municipal securities and dividends-received deductions on income from stocks.

Segment Operations

Summary of Segment Earnings

A summary of segment earnings for the quarters ended March 31, 2005 and 2004 is provided below. The segment earnings exclude realized gains and losses on investments, net of taxes.

		Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
				(In thousands)		
Segment earnings:						
March 31, 2005	$	531	2,989	11,393	660	15,573
March 31, 2004	$	490	2,047	10,512	619	13,668

Domestic Life Insurance Operations

A comparative analysis of results of operations for the Company's domestic life insurance segment is detailed below.

	Three Months Ended March 31,	
	2005	2004
	(In thousands)	
Premiums and other revenue:		
Premiums and contract revenues	$ 6,081	5,573
Net investment income	4,978	5,027
Other income	8	3
Total premiums and other revenue	11,067	10,603
Benefits and expenses:		
Life and other policy benefits	4,660	4,123
Amortization of deferred policy acquisition costs	1,218	1,255
Universal life insurance contract interest	2,181	2,216
Other operating expenses	2,200	2,264
Total benefits and expenses	10,259	9,858
Segment earnings before Federal income taxes	808	745
Provision for Federal income taxes	277	255
Segment earnings	$ 531	490

Revenues from domestic life insurance operations include life insurance premiums on traditional type products and revenues from universal life insurance. Revenues from traditional products are simply premiums collected, while revenues from universal life insurance consist of policy charges for the cost of insurance, policy administration fees, and surrender charges assessed during the period. A comparative detail of premiums and contract revenues is provided below.

	Three Months Ended March 31,	
	2005	2004
	(In thousands)	
Universal life insurance revenues	$ 4,587	4,064
Traditional life insurance premiums	1,763	1,864
Reinsurance premiums	(269)	(355)
Totals	$ 6,081	5,573

Segment earnings reflect a gain of $0.5 million as of March 31, 2005 and 2004. The Company's U.S. operations have historically emphasized annuity product sales over life product sales. The Company has strived to increase domestic life product sales and to continue to attract new sources of distribution. Recent efforts have resulted in the number of independent agents contracted increasing from 9,700 at March 31, 2004 to approximately 10,800 at March 31, 2005. Contrary to these efforts, the face amount of domestic life insurance in force has declined from $2.6 billion at March 31, 2004, to $2.5 billion at March 31, 2005. The decline in inforce is due to policies lapsing at a faster rate than new policies are being written.

Premiums collected on universal life products are not reflected as revenues in the Company's statements of earnings in accordance with GAAP. Actual universal life premiums collected are detailed below.

	Three Months Ended March 31,	
	2005	2004
	(In thousands)	
Universal life insurance:		
First year and single premiums	$ 3,866	1,617
Renewal premiums	3,764	3,778
Totals	$ 7,630	5,395

International Life Insurance Operations

A comparative analysis of results of operations for the Company's international life insurance segment is detailed below.

	Three Months Ended March 31,	
	2005	2004
	(In thousands)	
Premiums and other revenue:		
Premiums and contract revenues	$ 17,037	16,125
Net investment income	5,338	5,641
Other income	14	-
Total premiums and other revenue	22,389	21,766
Benefits and expenses:		
Life and other policy benefits	5,983	4,786
Amortization of deferred policy acquisition costs	4,914	6,376
Universal life insurance contract interest	3,612	4,429
Other operating expenses	3,329	3,065
Total benefits and expenses	17,838	18,656
Segment earnings before Federal income taxes	4,551	3,110
Provision for Federal income taxes	1,562	1,063
Segment earnings	$ 2,989	2,047

As with domestic operations, revenues from the international life insurance segment include both premiums on traditional type products and revenues from universal life insurance. A comparative detail of premiums and contract revenues is provided below.

	Three Months Ended March 31,	
	2005	2004
	(In thousands)	
Universal life insurance revenues	$ 17,401	16,389
Traditional life insurance premiums	2,061	1,806
Reinsurance premiums	(2,425)	(2,070)
Totals	$ 17,037	16,125

International operations have emphasized universal life policies over traditional life insurance products. Premiums collected on universal life products are not reflected as revenues in the Company's statements of earnings in accordance with GAAP. Actual universal life premiums collected are detailed below.

		Three Months Ended March 31,	
		2005	2004
		(In thousands)	
Universal life insurance:			
First year and single premiums	$	7,506	7,715
Renewal premiums		15,263	12,970
Totals	$	22,769	20,685

The Company's international life operations have been a significant part of the Company's business which is based upon a long standing reputation in the international market. The Company reported increased sales of equity-indexed universal life products for international life operations with premiums approximating $9.4 million and $6.9 million for the first quarter of 2005 and 2004, respectively. The first quarter of 2005 reflected higher claims compared to the first quarter of 2004, however, policy benefits are prone to variation from reporting period to reporting period. Higher amortization of deferred policy acquisition costs in the first quarter of 2004 compared to 2005, was due to increased gross profits resulting from capital gains, reduced credited rates and higher cost of insurance charges.

A detail of net investment income for international life insurance operations is provided below.

		Three Months Ended March 31,	
		2005	2004
		(In thousands)	
Net investment income (excluding derivatives)	$	5,820	5,691
Derivative losses		(495)	(50)
Net investment income	$	5,325	5,641

Net investment income excluding derivatives increased slightly for the first three months in 2005 compared to 2004 in conjunction with greater investment balances associated with the Company's growth in business.

As the international life insurance in force continues to grow, the Company anticipates operating earnings to similarly increase. The amount of international life insurance in force has grown from $10.4 billion at March 31, 2004, to $11.3 billion at December 31, 2004 and $11.4 billion at March 31, 2005.

Annuity Operations

The Company's annuity operations are almost exclusively in the United States. Although some of the Company's investment contracts are available to international residents, current sales are small relative to total annuity sales. A comparative analysis of results of operations for the Company's annuity segment is detailed below.

		Three Months Ended March 31,	
		2005	2004
		(In thousands)	
Premiums and other revenue:			
Premiums and contract revenues	$	4,311	2,695
Net investment income		51,671	61,166
Other income		87	55
Total premiums and other revenue		56,069	63,916
Benefits and expenses:			
Life and other policy benefits		585	495
Amortization of deferred policy acquisition costs		12,942	13,089
Annuity contract interest		21,562	31,034
Other operating expenses		3,637	3,326
Total benefits and expenses		38,726	47,944
Segment earnings before Federal income taxes		17,343	15,972
Provision for Federal income taxes		5,950	5,460
Segment earnings	$	11,393	10,512

Revenues from annuity operations include primarily surrender charges and recognition of deferred revenues relating to immediate or payout annuities. A comparative detail of the components of premiums and annuity contract revenues is provided below.

		Three Months Ended March 31,	
		2005	2004
		(In thousands)	
Surrender charges	$	3,487	1,972
Payout annuity and other revenues		816	715
Traditional annuity premiums		8	8
Totals	$	4,311	2,695

Surrender charges reported in the first quarter of 2005 were $3.5 million compared to $2.0 million reported for the same period in 2004. The Company's earnings are dependent upon annuity contracts persisting or remaining in force. While premium and contract revenues decline with a reduction in surrender charges, the Company's investment earnings benefit as more policies remain in force.

Deposits collected on annuity contracts are not reflected as revenues in the Company's statements of earnings in accordance with GAAP. Actual annuity deposits collected for the three months ended March 31, 2005 and 2004 are detailed below.

		Three Months Ended March 31,	
		2005	2004
		(In thousands)	
Equity-indexed annuities	$	74,849	157,039
Other deferred annuities		59,797	88,950
Immediate annuities		6,519	10,685
Totals	$	141,165	256,674

Sales of equity-indexed annuities decreased 52% comparing March 31, 2004 quarter end to the first quarter of 2005. Equity-indexed product sales typically follow the stock market in that sales are higher when confidence is high in the stock market and low if the stock market is showing poor performance. Since the Company does not offer variable products or mutual funds, these equity-indexed products provide an interest crediting alternative to the Company's existing fixed annuity products.

Other deferred annuity deposits decreased during the quarter ended March 31, 2005 versus March 31, 2004 with $59.8 million collected as compared to $89.0 million, respectively, mainly due to the popularity of equity-indexed products. As a selling inducement, many of the deferred products include a first year interest bonus in addition to a base interest rate. These bonus rates are deferred in conjunction with other capitalized policy acquisition costs. The amount deferred and amortized over future periods amounted to approximately $4.1 million and $8.4 million during the first quarter of 2005 and 2004, respectively.

A detail of net investment income for annuity operations is provided below.

		Three Months Ended March 31,	
		2005	2004
		(In thousands)	
Net investment income (excluding derivatives)	$	65,098	59,690
Derivative gains (losses)		(13,427)	1,476
Net investment income	$	51,671	61,166

Net investment income excluding derivatives increased from $59.7 million to $65.0 million for the three months ended March 31, 2004 and 2005, respectively. Derivative gains and losses fluctuate from period to period based on the S&P 500 Index® performance.

The Company is required to periodically adjust deferred policy acquisition amortization factors for actual experience that varies from assumptions. Higher amortization in the first quarter of 2004 was due in part to increased gross profits over the current quarter ending March 31, 2005. Such increased gross profits in 2004 resulted from greater spreads on interest sensitive annuity products, higher capital gains, as well as reductions in credited rates. Equity-indexed annuity spreads also increased in 2004 due to the positive performance of the S&P 500 Index®.

Annuity contract interest includes the equity component return associated with the Company's equity-indexed annuities. The detail of equity-indexed annuity contract interest compared to contract interest for all other annuities is as follows:

	Three Months Ended March 31, 2005	2004
	(In thousands)	
Equity-indexed annuities	$ (4,603)	5,450
All other annuities	28,728	32,722
Gross contract interest	24,125	38,172
Bonus interest deferred and capitalized	(4,069)	(8,432)
Bonus interest amortization	1,506	1,294
Total contract interest	$ 21,562	31,034

Other operating expenses were $3.6 million and $3.3 million during the quarter ended March 31, 2005 and 2004, respectively.

Other Operations

National Western's primary business encompasses its domestic and international life insurance operations and its annuity operations. However, National Western also has small real estate, nursing home, and other investment operations through its wholly owned subsidiaries. Nursing home operations generated $0.2 million and $0.3 million of operating earnings in the first quarters of 2005 and 2004, respectively.

INVESTMENTS

General

The Company's investment philosophy emphasizes the prudent handling of policyowners' and stockholders' funds to achieve security of principal, to obtain the maximum possible yield while maintaining security of principal, and to maintain liquidity in a measure consistent with current and long-term requirements of the Company.

The Company's overall conservative investment philosophy is reflected in the allocation of its investments, which is detailed below as of March 31, 2005 and December 31, 2004. The Company emphasizes investment grade debt securities, with smaller holdings in mortgage loans and policy loans.

	Composition of Investments March 31, 2005		December 31, 2004	
	Amount (In thousands)	%	Amount (In thousands)	%
Debt securities	$ 4,986,687	94.3	$ 4,889,330	93.8
Mortgage loans	117,315	2.2	124,712	2.4
Policy loans	87,558	1.7	88,448	1.7
Derivatives	33,555	0.6	42,156	0.8
Equity securities	19,880	0.4	20,051	0.4
Real estate	17,137	0.3	17,224	0.3
Other	28,291	0.5	28,478	0.6
Totals	$ 5,290,423	100.0	$ 5,210,399	100.0

Debt and Equity Securities

The Company maintains a diversified portfolio which consists primarily of corporate, mortgage-backed, and public utilities fixed income securities. Investments in mortgage-backed securities include primarily U.S. government agency pass-through securities and collateralized mortgage obligations ("CMO"). As of March 31, 2005 and December 31, 2004, the Company's debt securities portfolio consisted of the following:

	Composition of Debt Securities			
	March 31, 2005		December 31, 2004	
	Amount (In thousands)	%	Amount (In thousands)	%
Corporate	$ 2,234,356	44.8	$ 2,208,003	45.2
Mortgage-backed securities	1,608,646	32.3	1,548,937	31.7
Public utilities	644,741	12.9	627,706	12.8
U.S. government/agencies	226,507	4.5	219,845	4.5
Asset-backed securities	199,172	4.0	210,976	4.3
States & political subdivisions	42,036	0.9	42,335	0.9
Foreign governments	31,229	0.6	31,528	0.6
Totals	$ 4,986,687	100.0	$ 4,889,330	100.0

The Company's investment guidelines prescribe limitations by type and based on quality of each security and all holdings were within these threshold limits at March 31, 2005. The Company has expanded its holdings of U.S. government and private mortgage-backed securities over the past several years given attractive yields and spreads. Because the Company's holdings of mortgage-backed securities are subject to prepayment and extension risk, the Company has substantially reduced these risks by investing primarily in collateralized mortgage obligations, which have more predictable cash flow patterns than pass-through securities. These securities, known as planned amortization class I ("PAC I") and sequential tranches are designed to amortize in a more predictable manner than other CMO classes or pass-throughs. Using this strategy, the Company can more effectively manage and reduce prepayment and extension risks, thereby helping to maintain the appropriate matching of the Company's assets and liabilities.

In addition to diversification, an important aspect of the Company's investment approach is managing the credit quality of its investments in debt securities. As of March 31, 2005, 97.3% of the Company's debt and equity securities were investment grade quality. Thorough credit analysis is performed on potential corporate investments including examination of a company's credit and industry outlook, financial ratios and trends, and event risks. This emphasis is reflected in the high average credit rating of the Company's portfolio. In the table below, investments in debt securities are classified according to credit ratings by Standard and Poor's ("S&P®"), or other nationally recognized statistical rating organizations if securities were not rated by S&P®.

	March 31, 2005		December 31, 2004	
	Amount (In thousands)	%	Amount (In thousands)	%
AAA and U.S. government	$ 2,111,955	42.3	$ 2,028,055	41.5
AA	198,651	4.0	179,397	3.7
A	1,356,655	27.2	1,383,176	28.3
BBB	1,186,300	23.8	1,160,772	23.7
BB and other below investment grade	133,126	2.7	137,930	2.8
Totals	$ 4,986,687	100.0	$ 4,889,330	100.0

The Company does not purchase below investment grade securities. Investments held in debt securities below investment grade are the result of subsequent downgrades of the securities. During the first quarter of 2005, the Company's percentage of below investment grade securities decreased as a result of a sale of one security which resulted in a realized gain and the fluctuation in market pricing. The Company's holdings of below investment grade securities are a relatively small percentage of total invested assets. These holdings are summarized below.

	Below Investment Grade Debt Securities			
	Amortized Cost	Carrying Value	Estimated Fair Value	% of Invested Assets
	(In thousands except percentages)			
March 31, 2005	$ 130,816	133,126	132,207	2.5%
December 31, 2004	$ 132,617	137,930	137,503	2.6%
December 31, 2003	$ 162,237	165,298	164,531	3.6%

Impairment writedowns were recognized in the first quarter of 2005 in accordance with GAAP resulting in a realized loss of $0.2 million before taxes. This impairment resulted from an additional writedown relating to one airline issue. No impairment writedowns were necessary during the first quarter of 2004.

The Company is closely monitoring its other below investment grade holdings by reviewing investment performance indicators including information such as issuer operating performance, debt ratings, analyst reports and other economic factors that may affect these specific investments. While additional losses are not currently anticipated based on the existing status and condition of these securities, continued credit deterioration of some securities is possible, which may result in further writedowns. In addition, the future adoption of pending guidance from EITF Issue No. 03-1 could result in the recognition of additional other-than-temporary impairments based upon the ultimate guidance in this standard. No estimates or judgements can be made at his time; however, the Company is monitoring the progress relative to this proposed accounting standard. Holdings in below investment grade securities by category are summarized below.

Below Investment Grade Debt Securities as of March 31, 2005

Category	Amortized Cost	Carrying Value	Fair Value
		(In thousands)	
Utilities/Energy	$ 40,326	41,202	41,495
Retail	23,442	24,313	24,313
Manufacturing	16,308	16,309	16,309
Transportation	13,972	14,400	14,400
CBOs/Asset-backed	10,115	11,205	9,733
Telecommunication	9,991	9,350	9,350
Healthcare	8,997	9,125	9,125
Other	7,665	7,222	7,482
Totals	$ 130,816	133,126	132,207

The Company is required to classify its investments in debt and equity securities into one of three categories: (a) trading securities, (b) securities available for sale, or (c) securities held to maturity. The Company purchases securities with the intent to hold to maturity and accordingly does not maintain a portfolio of trading securities. Of the remaining two categories, available for sale and held to maturity, the Company makes a determination based on various factors including the type and quality of the particular security and how it will be incorporated into the Company's overall asset/liability management strategy. As shown in the table below, at March 31, 2005, approximately 33% of the Company's total debt and equity securities, based on fair values, were classified as securities available for sale. These holdings provide the Company flexibility to react to market opportunities and conditions and to practice active management within the portfolio to provide adequate liquidity to meet policyholder obligations and other cash needs.

		Fair Value	Amortized Cost	Unrealized Gains
			(In thousands)	
Securities held to maturity:				
Debt securities	$	3,384,127	3,343,463	40,664
Securities available for sale:				
Debt securities		1,643,224	1,615,201	28,023
Equity securities		19,880	12,684	7,196
Totals	$	5,047,231	4,971,348	75,883

Proceeds from sales of securities available for sale totaled $2.3 million and $3.5 million during the first quarter of 2005 and 2004, respectively, which resulted in a realized gain of $0.4 million and realized losses of $0.1 million. No sales were made from the held to maturity portfolio in the first quarter of 2005 or 2004.

Mortgage Loans and Real Estate

In general, the Company originates loans on high quality, income-producing properties such as shopping centers, freestanding retail stores, office buildings, industrial and sales or service facilities, selected apartment buildings, hotels, and health care facilities. The location of these loans is typically in major metropolitan areas that offer a potential for property value appreciation. Credit and default risk is minimized through strict underwriting guidelines and diversification of underlying property types and geographic locations. In addition to being secured by the property, mortgage loans with leases on the underlying property are often guaranteed by the lessee. This approach has proven to result in higher quality mortgage loans with fewer defaults.

The Company's direct investments in real estate are not a significant portion of its total investment portfolio as many of these investments were acquired through mortgage loan foreclosures. The Company also participates in several real estate joint ventures and limited partnerships that invest primarily in income-producing retail properties. These investments have enhanced the Company's overall investment portfolio returns.

The Company held net investments in mortgage loans totaling $117.3 million and $124.7 million at March 31, 2005 and December 31, 2004, respectively. The diversification of the portfolio by geographic region and by property type was as follows:

	March 31, 2005		December 31, 2004	
Geographic Region:	Amount (In thousands)	%	Amount (In thousands)	%
West South Central	$ 67,357	57.4	$ 74,765	59.9
Mountain	18,803	16.0	19,020	15.3
Pacific	11,800	10.1	11,954	9.6
South Atlantic	5,991	5.1	5,284	4.2
East South Central	3,021	2.6	3,686	3.0
All other	10,343	8.8	10,003	8.0
Totals	$ 117,315	100.0	$ 124,712	100.0

	March 31, 2005		December 31, 2004	
Property Type:	Amount (In thousands)	%	Amount (In thousands)	%
Retail	$ 82,553	70.3	$ 87,941	70.5
Office	22,744	19.4	24,740	19.8
Land/Lots	7,119	6.1	7,017	5.6
Hotel/Motel	4,860	4.1	4,974	4.0
All other	39	0.1	40	0.1
Totals	$ 117,315	100.0	$ 124,712	100.0

The Company does not recognize interest income on impaired loans which is deemed to be uncollectible. There was no interest income unrecognized for the three months ended March 31, 2005 and 2004. As of December 31, 2004, the allowance for possible losses on mortgage loans was $0.4 million. During the first quarter of 2005, this allowance was released due to the sale of the impaired loan for which the allowance had been established.

The Company's real estate investments totaled approximately $17.1 million and $17.2 million at March 31, 2005 and December 31, 2004, respectively, and consist primarily of income-producing properties which are being operated by a wholly owned subsidiary of the Company. The Company recognized operating income on these properties of approximately $0.5 million for the three months ended March 31, 2005 and 2004. The Company monitors the condition and market values of these properties on a regular basis and makes repairs and capital improvements to keep the properties in good condition. There were no writedowns in the first quarters of 2005 or 2004 associated with these properties.

Market Risk

Market risk is the risk of change in market values of financial instruments due to changes in interest rates, currency exchange rates, commodity prices, or equity prices. The most significant market risk exposure for National Western is interest rate risk. The fair values of fixed income debt securities correlate to external market interest rate conditions. Because interest rates are fixed on almost all of the Company's debt securities, market values typically increase when market interest rates decline, and decrease when market interest rates rise. However, market values may fluctuate for other reasons, such as changing economic conditions or increasing event-risk concerns.

The correlation between fair values and interest rates for debt securities is reflected in the tables below.

		March 31, 2005	December 31, 2004
		(In thousands except percentages)	
Debt securities - fair value	$	5,027,351	4,982,308
Debt securities - amortized cost	$	4,958,664	4,829,091
Fair value as a percentage of amortized cost		101.39%	103.17%
Unrealized gains	$	68,687	153,217
Ten-year U.S. Treasury bond - increase in yield for the quarter		0.26%	0.10%

		Unrealized Gain Balance		
		At March 31, 2005	At December 31, 2004	Change in Unrealized Gains
			(In thousands)	
Debt securities held to maturity	$	40,664	92,978	(52,314)
Debt securities available for sale		28,023	60,239	(32,216)
Totals	$	68,687	153,217	(84,530)

Changes in interest rates typically have a significant impact on the fair values of the Company's debt securities. Market interest rates of the ten-year U.S. Treasury bond increased approximately 26 basis points from year-end 2004 driving down the unrealized gain to $68.7 million on a portfolio of approximately $5.0 billion. The Company would expect similar results in the future from any significant upward or downward movement in market rates. However, since the majority of the Company's debt securities are classified as held to maturity, which are recorded at amortized cost, changes in fair values have relatively small effects on the Company's consolidated balance sheet.

The Company manages interest rate risk through on-going cash flow testing required for insurance regulatory purposes. Computer models are used to perform cash flow testing under various commonly used stress test interest rate scenarios to determine if existing assets would be sufficient to meet projected liability outflows. Sensitivity analysis allows the Company to measure the potential gain or loss in fair value of its interest-sensitive instruments and to protect its economic value and achieve a predictable spread between what is earned on invested assets and what is paid on liabilities. The Company seeks to minimize the impact of interest risk through surrender charges that are imposed to discourage policy surrenders. Interest rate changes can be anticipated in the computer models and the corresponding risk addressed by management actions affecting asset and liability instruments. However, potential changes in the values of financial instruments indicated by hypothetical interest rate changes will likely be different from actual changes experienced, and the differences could be significant.

The Company performed detailed sensitivity analysis as of December 31, 2004, for its interest rate-sensitive assets and liabilities. The changes in market values of the Company's debt securities in the first quarter of 2005 were reasonable given the expected range of results of this analysis.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Liquidity requirements are met primarily by funds provided from operations. Premium deposits and revenues, investment income, and investment maturities are the primary sources of funds while investment purchases, policy benefits, and operating expenses are the primary uses of funds. Although the Company historically has not been put in the position of liquidating invested assets to provide cash flow, its investments consist primarily of marketable debt securities that could be readily converted to cash for liquidity needs. The Company may also borrow up to $40 million on its bank line of credit for short-term cash needs.

A primary liquidity concern for life insurers is the risk of an extraordinary level of early policyholder withdrawals. The Company includes provisions within its annuity and universal life insurance policies, such as surrender charges, that help limit and discourage early withdrawals.

The actual amounts paid by product line in connection with surrenders and withdrawals for the quarters ended March 31 are noted in the table below.

		Three Months Ended March 31,	
		2005	2004
		(In thousands)	
Product Line:			
Traditional Life	$	1,346	1,894
Universal Life		7,507	6,222
Annuities		72,378	70,127
Total	$	81,231	78,243

The above contractual withdrawals, as well as the level of surrenders experienced, were consistent with the Company's assumptions in asset-liability management, and the associated cash outflows did not have an adverse impact on overall liquidity. Individual life insurance policies are less susceptible to withdrawal than annuity reserves and deposit liabilities because policyholders may incur surrender charges and undergo a new underwriting process in order to obtain a new insurance policy. Cash flow projections and tests under various market interest rate scenarios are also performed to assist in evaluating liquidity needs and adequacy. The Company currently expects available liquidity sources and future cash flows to be more than adequate to meet the demand for funds.

In the past, cash flows from the Company's insurance operations have been sufficient to meet current needs. Cash flows from operating activities were $45 million and $16 million for the three months ended March 31, 2005 and 2004, respectively. The Company also has significant cash flows from both scheduled and unscheduled investment security maturities, redemptions, and prepayments. These cash flows totaled $116 million and $128 million for the three months ended March 31, 2005 and 2004, respectively. These cash flow items could be reduced if interest rates rise. Net cash inflows from the Company's universal life and investment annuity deposit product operations totaled $47 million and $170 million during the three months ended March 31, 2005 and 2004, respectively.

Capital Resources

The Company relies on stockholders' equity for its capital resources as there is no long-term debt outstanding and the Company does not anticipate the need for any long-term debt in the near future. There are also no current or anticipated material commitments for capital expenditures in 2005.

CHANGES IN ACCOUNTING PRINCIPLES AND CRITICAL ACCOUNTING POLICIES

Changes in Accounting Principles

Refer to Note 2 of the Notes to Condensed Consolidated Financial Statements.

Critical Accounting Policies

Accounting policies discussed below are those considered critical to an understanding of the Company's financial statements.

Impairment of Investment Securities. The Company's accounting policy requires that a decline in the value of a security below its amortized cost basis be evaluated to determine if the decline is other-than-temporary. The primary factors considered in evaluating whether a decline in value for fixed income and equity securities is other-than-temporary include: (a) the length of time and the extent to which the fair value has been less than cost, (b) the financial conditions and near-term prospects of the issuer, (c) whether the debtor is current on contractually obligated principal and interest payments, and (d) the intent and ability of the Company to retain the investment for a period of time sufficient to allow for any anticipated recovery. In addition, certain securitized financial assets with contractual cash flows are evaluated periodically by the Company to update the estimated cash flows over the life of the security. If the Company determines that the fair value of the securitized financial asset is less than its carrying amount and there has been a decrease in the present value of the estimated cash flows since the previous estimate, then an other-than-temporary impairment charge is recognized. When a security is deemed to be impaired a charge is recorded as net realized losses equal to the difference between the fair value and amortized cost basis of the security. Once an impairment charge has been recorded, the fair value of the impaired investment becomes its new cost basis and the Company continues to review the other-than-temporarily impaired security for appropriate valuation on an ongoing basis. Under accounting principles generally accepted in the United States of America, the Company is not permitted to increase the basis of impaired securities for subsequent recoveries in value.

Deferred Acquisition Costs ("DAC"). The Company is required to defer certain policy acquisition costs and amortize them over future periods. These costs include commissions and certain other expenses that vary with and are primarily associated with acquiring new business. The deferred costs are recorded as an asset commonly referred to as deferred policy acquisition costs. The DAC asset balance is subsequently charged to income over the lives of the underlying contracts in relation to the anticipated emergence of revenue or profits. Actual revenue or profits can vary from Company estimates resulting in increases or decreases in the rate of amortization. The Company regularly evaluates to determine if actual experience or other evidence suggests that earlier estimates should be revised. Assumptions considered significant include surrender and lapse rates, mortality, expense levels, investment performance, and estimated interest spread. Should actual experience dictate that the Company change its assumptions regarding the emergence of future revenues or profits (commonly referred to as "unlocking"), the Company would record a charge or credit to bring its DAC balance to the level it would have been if using the new assumptions from the inception date of each policy.

DAC is also subject to periodic recoverability and loss recognition testing. These tests ensure that the present value of future contract-related cash flows will support the capitalized DAC balance to be amortized in the future. The present value of these cash flows, less the benefit reserve, is compared with the unamortized DAC balance and if the DAC balance is greater, the deficiency is charged to expense as a component of amortization and the asset balance is reduced to the recoverable amount.

Deferred Sales Inducements. Costs related to sales inducements offered on sales to new customers, principally on investment type contracts and primarily in the form of additional credits to the customer's account value or enhancements to interest credited for a specified period, which are beyond amounts currently being credited to existing contracts, are deferred and recorded as other assets. All other sales inducements are expensed as incurred and included in interest credited to contract holders' funds. Deferred sales inducements are amortized to income using the same methodology and assumptions as DAC, and are included in interest credited to contract holders' funds. Deferred sales inducements are periodically reviewed for recoverability.

Future Policy Benefits. Because of the long-term nature of insurance contracts, the Company is liable for policy benefit payments many years into the future. The liability for future policy benefits represents estimates of the present value of the Company's expected benefit payments, net of the related present value of future net premium collections. For traditional life insurance contracts, this is determined by standard actuarial procedures, using assumptions as to mortality (life expectancy), morbidity (health expectancy), persistency, and interest rates, which are based on the Company's experience with similar products. The assumptions used are those considered to be appropriate at the time the policies are issued. An additional provision is made on most products to allow for possible adverse deviation from the assumptions assumed. For universal life and annuity products, the Company's liability is the amount of the contract's account balance. Account balances are also subject to minimum liability calculations as a result of minimum guaranteed interest rates in the policies. While management and Company actuaries have used their best judgment in determining the assumptions and in calculating the liability for future policy benefits, there is no assurance that the estimate of the liabilities reflected in the financial statements represents the Company's ultimate obligation. In addition, significantly different assumptions could result in materially different reported amounts.

Revenue Recognition. Premium income for the Company's traditional life insurance contracts is generally recognized as the premium becomes due from policyholders. For annuity and universal life contracts, the amounts collected from policyholders are considered deposits and are not included in revenue. For these contracts, fee income consists of policy charges for policy administration, cost of insurance charges and surrender charges assessed against policyholders' account balances which are recognized in the period the services are provided.

Investment activities of the Company are integral to its insurance operations. Since life insurance benefits may not be paid until many years into the future, the accumulation of cash flows from premium receipts are invested with income reported as revenue when earned. Anticipated yields on investments are reflected in premium rates, contract liabilities, and other product contract features. These anticipated yields are implied in the interest required on the Company's net insurance liabilities (future policy benefits less deferred acquisition costs) and contractual interest obligations in its insurance and annuity products. The Company benefits to the extent actual net investment income exceeds the required interest on net insurance liabilities and manages the rates it credits on its products to maintain the targeted excess or "spread" of investment earnings over interest credited. The Company will continue to be required to provide for future contractual obligations in the event of a decline in investment yield. For more information concerning revenue recognition, investment accounting, and interest sensitivity, please refer to Note 1, Summary of Significant Accounting Policies, and Note 3, Investments, in the Notes to Consolidated Financial Statements and the discussions under Investments in Item 7 of this report.

Pension Plans and Other Postretirement Benefits. The Company sponsors a qualified defined benefit pension plan covering substantially all full-time employees and a nonqualified defined benefit plan primarily for senior officers. In addition, the Company also has postretirement health care benefits for certain senior officers. In accordance with prescribed accounting standards, the Company annually reviews plan asssumptions.

The Company annually reviews its pension benefit plan assumptions which include the discount rate, the expected long-term rate of return on plan assets, and the compensation increase rate. The assumed discount rate is set based on the rates of return on high quality long-term fixed income investments currently available and expected to be available during the period to maturity of the pension benefits. The assumed long-term rate of return on plan assets is generally set at the rate expected to be earned based on long-term investment policy of the plans and the various classes of the invested funds. The compensation rate increase assumption is generally set at a rate consistent with current and expected long-term compensation and salary policy, including inflation. These assumptions involve uncertainties and judgment and therefore actual performance may not be reflective of the assumptions.

Other postretirement benefit assumptions include future events affecting retirement age, mortality, dependency status, per capita claims costs by age, health care trend rates, and discount rates. Per capita claims cost by age is the current cost of providing postretirement health care benefits for one year at each age from the youngest age to the oldest age at which plan participants are expected to receive benefits under the plan. Health care trend rates involve assumptions about the annual rate(s) of change in the cost of health care benefits currently provided by the plan, due to factors other than changes in the composition of the plan population by age and dependency status. These rates implicitly consider estimates of health care inflation, changes in utilization, technological advances and changes in health status of the participants. These assumptions involve uncertainties and judgment, and therefore actual performance may not be reflective of the assumptions.

Other significant accounting policies, although not involving the same level of measurement uncertainties as those discussed above but nonetheless important to an understanding of the financial statements, are described in the Company's annual report on Form 10-K for the year ended December 31, 2004.

REGULATORY AND OTHER ISSUES

Statutory Accounting Practices

Regulations that affect the Company and the insurance industry are often the result of efforts by the National Association of Insurance Commissioners ("NAIC"). The NAIC routinely publishes new regulations as model acts or laws which states subsequently adopt as part of their insurance regulations. Currently, the Company is not aware of any other NAIC regulatory matter material to its operations or reporting of financial results.

Risk-Based Capital Requirements

The NAIC established risk-based capital ("RBC") requirements to help state regulators monitor the financial strength and stability of life insurers by identifying those companies that may be inadequately capitalized. Under the NAIC's requirements, each insurer must maintain its total capital above a calculated threshold or take corrective measures to achieve the threshold. The threshold of adequate capital is based on a formula that takes into account the amount of risk each company faces on its products and investments. The RBC formula takes into consideration four major areas of risk which are: (i) asset risk which primarily focuses on the quality of investments; (ii) insurance risk which encompasses mortality and morbidity risk; (iii) interest rate risk which involves asset/liability matching issues; and (iv) other business risks. Statutory laws prohibit public dissemination of certain RBC information. However, the Company's current statutory capital and surplus is significantly in excess of the threshold RBC requirements.

Disclosure Matters

Recent business events have called into question company activities and transactions which are not regularly disclosed in an SEC registrant's Annual Report and are not readily apparent from the financial statements. These include the use of unconsolidated entities, off-balance sheet arrangements and other transactions not conducted at arm's-length. The Company's consolidated financial statements include all subsidiaries and related operations and the Company does not utilize relationships with unconsolidated entities that facilitate the transfer of or access to assets such as "structured finance" or "special purpose" entities. Accordingly, the Company does not rely on off-balance sheet arrangements for financing, liquidity, or market or credit risk support which would expose the Company to liabilities not reflected on the face of its consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

This information is included in Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, in the Investments in Debt and Equity Securities section.

ITEM 4. CONTROLS AND PROCEDURES

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Finanical Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective in recording, processing, summarizing, and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act.

Effective January 1, 2005, the Company initiated operations under a new securities accounting system that tracks and records all transactions relative to the debt and equity securities and derivative index options. The current Windows application system replaces a mainframe system. The Company followed internal implementation procedures including parallel testing and reviews to ensure the operating effectiveness of the new system. Overall controls and processing procedures have not changed significantly from the controls reviewed and tested as of December 31, 2004. There have been no other significant changes made in internal controls or in other factors that could significantly affect internal controls subsequent to the date of evaluation.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Refer to Note 7 "Legal Proceedings" of the accompanying financial statements included in this Form 10-Q.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit 10(av) **-** Bonus program by and between National Western Life Insurance Company and Executive Officers of National Western Life Insurance Company for the year ending December 31, 2005.

Exhibit 10(aw) **-** Bonus program by and between National Western Life Insurance Company and Domestic Marketing officers of National Western Life Insurance Company for the year ending December 31, 2005.

Exhibit 10(ax) **-** Bonus program by and between National Western Life Insurance Company and International Marketing Officers of National Western Life Insurance Company for the year ending December 31, 2005.

Exhibit 11 **-** Computation of Earnings Per Share (filed on page 54 of this report).

Exhibit 31(a) **-** Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 31(b) **-** Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32(a) **-** Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

On March 7, 2005, the Company filed a Current Report on Form 8-K dated March 7, 2005 under Items 2.02 and 9.01 thereof in connection with a news release reporting National Western Life Insurance Company's operating and financial results for the fourth quarter and full year of 2004. A copy of the news release was furnished with the Form 8-K.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NATIONAL WESTERN LIFE INSURANCE COMPANY
(Registrant)

Date: May 6, 2005

/S/ Ross R. Moody
Ross R. Moody
President, Chief Operating Officer,
and Director
(Authorized Officer)

Date: May 6, 2005

/S/ Brian M. Pribyl
Brian M. Pribyl
Senior Vice President,
Chief Financial & Administrative
Officer and Treasurer
(Principal Financial Officer)

Date: May 6, 2004

/S/ Kay E. Osbourn
Kay E. Osbourn
Vice President,
Controller and Assistant Treasurer
(Principal Accounting Officer)