

NATIONAL WESTERN LIFE INSURANCE CO  
Form 10-Q  
May 08, 2013

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

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2013  
o 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 R No £

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). : Yes R No £

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated file" in Rule 12b-2 of the Exchange Act.

Large accelerated filer £ Accelerated filer R Non-accelerated filer £

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No R

As of May 5, 2013, the number of shares of Registrant's common stock outstanding was: Class A – 3,434,763 and Class B - 200,000.

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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, 2013	December 31, 2012
Investments:		
Securities held to maturity, at amortized cost (fair value: \$6,588,874 and \$6,503,627)	\$6,078,141	5,962,120
Securities available for sale, at fair value (cost: \$2,656,308 and \$2,658,512)	2,904,202	2,826,001
Mortgage loans, net of allowance for possible losses (\$650 and \$650)	125,539	142,170
Policy loans	71,143	71,549
Derivatives, index options	130,967	57,890
Other long-term investments	39,136	41,439
Total investments	9,349,128	9,101,169
Cash and short-term investments	86,816	124,561
Deferred policy acquisition costs	709,329	705,397
Deferred sales inducements	154,673	152,844
Accrued investment income	96,355	92,665
Federal income tax receivable	—	5,655
Other assets	80,200	81,567
Total assets	\$10,476,501	10,263,858

See accompanying notes to condensed consolidated financial statements (unaudited).

Table of ContentsNATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	(Unaudited) March 31, 2013	December 31, 2012
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES:</b>		
Future policy benefits:		
Universal life and annuity contracts	\$8,587,555	8,430,545
Traditional life reserves	137,826	138,309
Other policyholder liabilities	155,482	148,561
Deferred Federal income tax liability	36,556	55,054
Federal income tax payable	19,861	—
Other liabilities	132,283	99,709
<b>Total liabilities</b>	<b>9,069,563</b>	<b>8,872,178</b>
<b>COMMITMENTS AND CONTINGENCIES (Note 8)</b>		
<b>STOCKHOLDERS' EQUITY:</b>		
Common stock:		
Class A - \$1 par value; 7,500,000 shares authorized; 3,434,763 issued and outstanding in 2013 and 2012	3,435	3,435
Class B - \$1 par value; 200,000 shares authorized, issued, and outstanding in 2013 and 2012	200	200
Additional paid-in capital	37,767	37,767
Accumulated other comprehensive income	75,412	76,786
Retained earnings	1,290,124	1,273,492
<b>Total stockholders' equity</b>	<b>1,406,938</b>	<b>1,391,680</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$10,476,501</b>	<b>10,263,858</b>

Note: The Condensed Consolidated Balance Sheet at December 31, 2012, has been derived from the audited Consolidated Financial Statements as of that date.

See accompanying notes to condensed consolidated financial statements (unaudited).

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CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

For the Three Months Ended March 31, 2013 and 2012

(Unaudited)

(In thousands, except per share amounts)

	2013	2012
Premiums and other revenues:		
Universal life and annuity contract charges	\$37,899	36,199
Traditional life premiums	3,864	4,083
Net investment income	180,814	149,558
Other revenues	6,142	5,655
Net realized investment gains (losses):		
Total other-than-temporary impairment (“OTTI”) gains (losses)	382	(277 )
Portion of OTTI (gains) losses recognized in other comprehensive income	(443	) 78
Net OTTI losses recognized in earnings	(61	) (199 )
Other net investment gains (losses)	2,374	1,366
Total net realized investment gains (losses)	2,313	1,167
 Total revenues	 231,032	 196,662
Benefits and expenses:		
Life and other policy benefits	12,690	13,678
Amortization of deferred policy acquisition costs	30,804	31,711
Universal life and annuity contract interest	140,300	101,543
Other operating expenses	21,924	20,018
 Total benefits and expenses	 205,718	 166,950
 Earnings before Federal income taxes	 25,314	 29,712
 Federal income taxes	 8,682	 9,971
 Net earnings	 \$16,632	 19,741
Basic earnings per share:		
Class A	\$4.71	5.58
Class B	\$2.35	2.79
Diluted earnings per share:		
Class A	\$4.70	5.58
Class B	\$2.35	2.79

See accompanying notes to condensed consolidated financial statements (unaudited).



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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three Months Ended March 31, 2013 and 2012

(Unaudited)

(In thousands)

	2013	2012
Net earnings	\$16,632	19,741
Other comprehensive income, net of effects of deferred costs and taxes:		
Unrealized gains (losses) on securities:		
Net unrealized holding gains arising during period	(1,125	) 7,752
Net unrealized liquidity gains (losses)	138	(24 )
Reclassification adjustment for net amounts included in net earnings	(1,359	) (1,040 )
Amortization of net unrealized (gains) losses related to transferred securities	—	1
Net unrealized gains (losses) on securities	(2,346	) 6,689
Foreign currency translation adjustments	590	386
Benefit plans:		
Amortization of net prior service cost and net gain (loss)	381	223
Other comprehensive income	(1,375	) 7,298
Comprehensive income	\$15,257	27,039

See accompanying notes to condensed consolidated financial statements (unaudited).



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CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the Three Months Ended March 31, 2013 and 2012

(Unaudited)

(In thousands)

	2013	2012	
Common stock:			
Balance at beginning of period	\$3,635	3,635	
Shares exercised under stock option plan	—	—	
Balance at end of period	3,635	3,635	
Additional paid-in capital:			
Balance at beginning of period	37,767	37,767	
Shares exercised under stock option plan	—	—	
Balance at end of period	37,767	37,767	
Accumulated other comprehensive income:			
Unrealized gains on non-impaired securities:			
Balance at beginning of period	91,972	69,116	
Change in unrealized gains during period, net of tax	(2,483	) 6,713	
Balance at end of period	89,489	75,829	
Unrealized losses on impaired held to maturity securities:			
Balance at beginning of period	(1,426	) (2,320	)
Amortization	—	6	
Other-than-temporary impairments, non-credit, net of tax	—	(51	)
Additional credit loss on previously impaired securities	25	—	
Change in shadow deferred policy acquisition costs	(17	) 21	
Balance at end of period	(1,418	) (2,344	)
Unrealized losses on impaired available for sale securities:			
Balance at beginning of period	(196	) (608	)
Other-than-temporary impairments, non-credit, net of tax	—		
Change in shadow deferred policy acquisition costs	(133	)	
Recoveries, net of tax	263	—	
Balance at end of period	(66	) (608	)



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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (continued)  
 For the Three Months Ended March 31, 2013 and 2012  
 (Unaudited)  
 (In thousands)

	2013	2012
Foreign currency translation adjustments:		
Balance at beginning of period	2,589	2,368
Change in translation adjustments during period	590	386
Balance at end of period	3,179	2,754
Benefit plan liability adjustment:		
Balance at beginning of period	(16,153	) (15,380
Amortization of net prior service cost and net gain, net of tax	381	223
Balance at end of period	(15,772	) (15,157
Accumulated other comprehensive income at end of period	75,412	60,474
Retained earnings:		
Balance at beginning of period	1,273,492	1,182,207
Net earnings	16,632	19,741
Stockholder dividends	—	—
Balance at end of period	1,290,124	1,201,948
Total stockholders' equity	\$1,406,938	\$1,303,824

See accompanying notes to condensed consolidated financial statements (unaudited).

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Months Ended March, 2013 and 2012

(Unaudited)

(In thousands)

	2013	2012
Cash flows from operating activities:		
Net earnings	\$ 16,632	19,741
Adjustments to reconcile net earnings to net cash from operating activities:		
Universal life and annuity contract interest	140,300	101,543
Surrender charges and other policy revenues	(3,605	) (3,500
Realized (gains) losses on investments	(2,313	) (1,167
Accrual and amortization of investment income	(447	) (708
Depreciation and amortization	1,406	1,417
(Increase) decrease in value of index options	(74,432	) (42,355
(Increase) decrease in deferred policy acquisition and sales inducement costs	(453	) 2,427
(Increase) decrease in accrued investment income	(4,933	) (4,200
(Increase) decrease in other assets	(500	) (4,734
Increase (decrease) in liabilities for future policy benefits	2,748	1,923
Increase (decrease) in other policyholder liabilities	6,921	(740
Increase (decrease) in Federal income taxes	8,281	3,298
Increase (decrease) in other liabilities	(7,324	) 2,932
Other, net	—	127
Net cash provided by operating activities	82,281	76,004
Cash flows from investing activities:		
Proceeds from sales of:		
Securities available for sale	609	418
Other investments	2,884	477
Proceeds from maturities and redemptions of:		
Securities held to maturity	403,974	384,604
Securities available for sale	66,052	79,767
Index options	14,980	260
Purchases of:		
Securities held to maturity	(509,924	) (406,536
Securities available for sale	(121,242	) (173,237
Index options	(12,169	) (10,672
Other investments	(15	) (1,503
Principal payments on mortgage loans	17,000	4,536
Cost of mortgage loans acquired	(253	) (390
Decrease (increase) in policy loans	406	318
Other, net	(2	) 3
Net cash used in investing activities	(137,700	) (121,955

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED

For the Three Months Ended March 31, 2013 and 2012

(Unaudited)

(In thousands)

	2013	2012
Cash flows from financing activities:		
Deposits to account balances for universal life and annuity contracts	231,749	212,423
Return of account balances on universal life and annuity contracts	(214,665)	(210,657)
Issuance of common stock under stock option plan	—	—
Net cash provided by financing activities	17,084	1,766
Effect of foreign exchange	590	386
Net increase (decrease) in cash and short-term investments	(37,745)	(43,799)
Cash and short-term investments at beginning of period	124,561	119,290
Cash and short-term investments at end of period	\$86,816	\$75,491
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	\$20	\$10
Income taxes	\$2,484	\$6,539
Noncash operating activities:		
Deferral of sales inducements	\$714	\$1,314

See accompanying notes to condensed consolidated financial statements (unaudited).

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

(1) CONSOLIDATION AND BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("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 National Western Life Insurance Company and its subsidiaries ("Company" or "National Western") as of March 31, 2013, and the results of its operations and its cash flows three months ended March 31, 2013. The results of operations for the three months ended March 31, 2013 and 2012 are not necessarily indicative of the results to be expected for the full year. It is recommended that these condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012 accessible free of charge through the Company's internet site at [www.nationalwesternlife.com](http://www.nationalwesternlife.com) or the Securities and Exchange Commission internet site at [www.sec.gov](http://www.sec.gov). The condensed consolidated balance sheet at December 31, 2012 has been derived from the audited consolidated financial statements as of that date.

The accompanying unaudited condensed consolidated financial statements include the accounts of National Western Life Insurance Company and its wholly-owned subsidiaries: The Westcap Corporation, NWL Investments, Inc., NWL Services, Inc., NWL Financial, Inc., NWLSM, Inc. and Regent Care San Marcos Holdings, LLC. All significant intercorporate transactions and accounts have been eliminated in consolidation.

The preparation of financial statements in accordance with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Significant estimates in the accompanying condensed consolidated financial statements include (1) liabilities for future policy benefits, (2) valuation of derivative instruments, (3) recoverability and amortization of deferred policy acquisition costs, (4) valuation allowances for deferred tax assets, (5) other-than-temporary impairment losses on debt securities, (6) commitments and contingencies, and (7) valuation allowances for mortgage loans and real estate.

Certain amounts in the prior year condensed consolidated financial statements have been reclassified to conform to the current year presentation.

(2) NEW ACCOUNTING PRONOUNCEMENTS

During February 2013, the FASB issued new guidance related to the presentation of amounts reclassified out of accumulated other comprehensive income. The new guidance requires disclosure on the statement of income amounts reclassified. As the Company already reports reclassifications on its Income Statement and Statement of Comprehensive Income the new guidance will not have a significant impact on the Company's consolidated financial statements and results of operations.

During October 2010, the Financial Accounting Standards Board ("FASB") issued new guidance affecting insurance companies that incur costs in the acquisition of new and renewal insurance contracts. The guidance addresses the

diversity in practice regarding the interpretation for which costs relating to the acquisition of new or renewal business qualifies for deferral. The new guidance specifies the acquisition costs which are capitalizable and those which must be expensed. The effective date is for interim and annual periods ending after December 15, 2011. The adoption of this guidance was effective January 1, 2012. See Note 1, Summary of Significant Accounting Policies, of the accompanying consolidated financial statements for additional disclosures.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the American Institute of Certified Public Accounts ("AICPA"), and the SEC did not, or are not believed by management to, have a material impact on the Company's present or future condensed consolidated financial statements.



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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (UNAUDITED)

(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 restrictions are based on the greater of statutory earnings from operations excluding capital gains or 10% of statutory capital and surplus of the Company. The maximum dividend payment which may be made without prior approval in 2013 is \$100.5 million. The Company did not declare or pay cash dividends on common stock during the three months ended March 31, 2013 and 2012.

(4) EARNINGS PER SHARE

Basic earnings per share of common stock are computed by dividing net income by the weighted-average basic common shares outstanding during the period. Diluted earnings per share assumes the issuance of common shares applicable to stock options in the denominator.

	Three Months Ended March 31,			
	2013		2012	
	Class A	Class B	Class A	Class B
	(In thousands except per share amounts)			
Numerator for Basic and Diluted Earnings Per Share:				
Net income	\$16,632		19,741	