NATIONAL WESTERN LIFE INSURANCE CO
Form 10-Q
November 12, 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 September 30, 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 November 12, 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) September 30, 2013	December 31, 2012
Investments:		
Securities held to maturity, at amortized cost (fair value: $6,574,186 and $6,503,627)	$6,345,116	5,962,120
Securities available for sale, at fair value (cost: $2,618,250 and $2,568,512)	2,752,530	2,826,001
Mortgage loans, net of allowance for possible losses ($650 and $650)	117,091	142,170
Policy loans	68,307	71,549
Derivatives, index options	119,276	57,890
Other long-term investments	31,372	41,439
Total investments	9,433,692	9,101,169
Cash and short-term investments	94,458	124,561
Deferred policy acquisition costs	768,309	705,397
Deferred sales inducements	168,206	152,844
Accrued investment income	96,847	92,665
Federal income tax receivable	8,068	5,655
Other assets	98,888	81,567
Total assets	$10,668,468	10,263,858

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

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

LIABILITIES AND STOCKHOLDERS' EQUITY	(Unaudited) September 30, 2013	December 31, 2012
LIABILITIES:		
Future policy benefits:		
Universal life and annuity contracts	$8,797,076	8,430,545
Traditional life reserves	137,209	138,309
Other policyholder liabilities	159,822	148,561
Deferred Federal income tax liability	22,501	55,054
Federal income tax payable	—	—
Other liabilities	130,022	99,709
Total liabilities	9,246,630	8,872,178
COMMITMENTS AND CONTINGENCIES (Note 8)		
STOCKHOLDERS' EQUITY:		
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	39,812	76,786
Retained earnings	1,340,624	1,273,492
Total stockholders' equity	1,421,838	1,391,680
Total liabilities and stockholders' equity	$10,668,468	10,263,858

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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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
For the Three Months Ended September 30, 2013 and 2012
(Unaudited)
(In thousands, except per share amounts)

	2013	2012
Premiums and other revenues:		
Universal life and annuity contract charges	$33,523	36,924
Traditional life premiums	4,159	4,124
Net investment income	141,403	139,074
Other revenues	5,822	5,923
Net realized investment gains (losses):		
Total other-than-temporary impairment (“OTTI”) gains (losses)	214	1,250
Portion of OTTI (gains) losses recognized in other comprehensive income	(227)	(1,761)
Net OTTI losses recognized in earnings	(13)	(511)
Other net investment gains (losses)	3,298	5,451
Total net realized investment gains (losses)	3,285	4,940
Total revenues	188,192	190,985
Benefits and expenses:		
Life and other policy benefits	16,941	12,323
Amortization of deferred policy acquisition costs	24,244	28,403
Universal life and annuity contract interest	87,486	89,386
Other operating expenses	22,675	22,143
Total benefits and expenses	151,346	152,255
Earnings before Federal income taxes	36,846	38,730
Federal income taxes	12,064	14,408
Net earnings	$24,782	24,322
Basic earnings per share:		
Class A	$7.01	6.88
Class B	$3.51	3.44
Diluted earnings per share:		
Class A	$7.00	6.88
Class B	$3.51	3.44

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

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
For the Nine Months Ended September 30, 2013 and 2012
(Unaudited)
(In thousands, except per share amounts)

	2013	2012
Premiums and other revenues:		
Universal life and annuity contract charges	$111,785	109,776
Traditional life premiums	13,241	13,111
Net investment income	451,904	366,813
Other revenues	17,954	17,444
Net realized investment gains (losses):		
Total other-than-temporary impairment (“OTTI”) gains (losses)	524	788
Portion of OTTI (gains) losses recognized in other comprehensive income	(776)	(1,918)
Net OTTI losses recognized in earnings	(252)	(1,130)
Other net investment gains (losses)	7,451	9,242
Total net realized investment gains (losses)	7,199	8,112
Total revenues	602,083	515,256
Benefits and expenses:		
Life and other policy benefits	48,081	39,858
Amortization of deferred policy acquisition costs	83,900	91,463
Universal life and annuity contract interest	299,224	216,933
Other operating expenses	69,442	64,613
Total benefits and expenses	500,647	412,867
Earnings before Federal income taxes	101,436	102,389
Federal income taxes	33,031	35,080
Net earnings	$68,405	67,309
Basic earnings per share:		
Class A	$19.35	19.04
Class B	$9.68	9.52
Diluted earnings per share:		
Class A	$19.32	19.04
Class B	$9.68	9.52

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

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Three Months Ended September 30, 2013 and 2012
(Unaudited)
(In thousands)

	2013	2012
Net earnings	$24,782	24,322
Other comprehensive income, net of effects of deferred costs and taxes:		
Unrealized gains (losses) on securities:		
Net unrealized holding gains (losses) arising during period	(1,833)	15,202
Net unrealized liquidity gains (losses)	(92)	(3)
Reclassification adjustment for net amounts included in net earnings	(261)	(1,175)
Amortization of net unrealized (gains) losses related to transferred securities	—	(1)
Net unrealized gains (losses) on securities	(2,186)	14,023
Foreign currency translation adjustments	(38)	22
Benefit plans:		
Amortization of net prior service cost and net gain (loss)	373	(19)
Other comprehensive income	(1,851)	14,026
Comprehensive income	$22,931	38,348

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

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Nine Months Ended September 30, 2013 and 2012
(Unaudited)
(In thousands)

	2013	2012
Net earnings	$68,405	67,309
Other comprehensive income, net of effects of deferred costs and taxes:		
Unrealized gains (losses) on securities:		
Net unrealized holding gains (losses) arising during period	(36,065)	28,578
Net unrealized liquidity gains (losses)	66	134
Reclassification adjustment for net amounts included in net earnings	(2,657)	(3,873)
Amortization of net unrealized (gains) losses related to transferred securities	—	—
Net unrealized gains (losses) on securities	(38,656)	24,839
Foreign currency translation adjustments	555	307
Benefit plans:		
Amortization of net prior service cost and net gain	1,127	429
Other comprehensive income	(36,974)	25,575
Comprehensive income	$31,431	92,884

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

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Nine Months Ended September 30, 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	(38,860)	24,705
Balance at end of period	53,112	93,821
Unrealized losses on impaired held to maturity securities:		
Balance at beginning of period	(1,426)	(2,320)
Amortization	77	21
Other-than-temporary impairments, non-credit, net of tax	90	316
Additional credit loss on previously impaired securities	—	360
Change in shadow deferred policy acquisition costs	(149)	(178)
Balance at end of period	(1,408)	(1,801)
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	(188)	(955)
Recoveries, net of tax	374	570
Balance at end of period	(10)	(993)

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (continued)
For the Nine Months Ended September 30, 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	555	307
Balance at end of period	3,144	2,675
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	1,127	429
Balance at end of period	(15,026)	(14,951)
Accumulated other comprehensive income at end of period	39,812	78,751
Retained earnings:		
Balance at beginning of period	1,273,492	1,182,207
Net earnings	68,405	67,309
Stockholder dividends	(1,273)	(1,273)
Balance at end of period	1,340,624	1,248,243
Total stockholders' equity	$1,421,838	$1,368,396

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

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2013 and 2012
(Unaudited)
(In thousands)

	2013	2012
Cash flows from operating activities:		
Net earnings	$68,405	67,309
Adjustments to reconcile net earnings to net cash from operating activities:		
Universal life and annuity contract interest	299,224	216,933
Surrender charges and other policy revenues	(10,450)	(10,854)
Realized (gains) losses on investments	(7,199)	(8,112)
Accrual and amortization of investment income	(2,040)	(1,740)
Depreciation and amortization	3,742	4,246
(Increase) decrease in value of index options	(126,739)	(42,328)
(Increase) decrease in deferred policy acquisition and sales inducement costs	(15,433)	(3,604)
(Increase) decrease in accrued investment income	(3,792)	(5,852)
(Increase) decrease in other assets	(20,271)	(6,088)
Increase (decrease) in liabilities for future policy benefits	8,960	8,335
Increase (decrease) in other policyholder liabilities	11,261	1,417
Increase (decrease) in Federal income taxes	(14,151)	(14,391)
Increase (decrease) in other liabilities	2,390	18,416
Other, net	—	—
Net cash provided by operating activities	193,907	223,687
Cash flows from investing activities:		
Proceeds from sales of:		
Securities held to maturity	1,980	—
Securities available for sale	10,246	7,539
Other investments	10,520	8,646
Proceeds from maturities and redemptions of:		
Securities held to maturity	1,028,476	1,021,666
Securities available for sale	191,833	252,464
Index options	109,816	25,225
Purchases of:		
Securities held to maturity	(1,380,732)	(1,208,044)
Securities available for sale	(247,375)	(388,228)
Index options	(45,629)	(42,184)
Other investments	(15)	(5,036)
Principal payments on mortgage loans	30,649	38,783
Cost of mortgage loans acquired	(5,271)	(16,728)
Decrease (increase) in policy loans	3,242	829
Other, net	(2)	(2)
Net cash used in investing activities	(292,262)	(305,070)

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS, (continued)
For the Nine Months Ended September 30, 2013 and 2012
(Unaudited)
(In thousands)

	2013	2012
Cash flows from financing activities:		
Deposits to account balances for universal life and annuity contracts	732,745	715,037
Return of account balances on universal life and annuity contracts	(665,048)	(625,306)
Issuance of common stock under stock option plan	—	—
Net cash provided by financing activities	67,697	89,731
Effect of foreign exchange	555	307
Net increase (decrease) in cash and short-term investments	(30,103)	8,655
Cash and short-term investments at beginning of period	124,561	119,290
Cash and short-term investments at end of period	$94,458	$127,945
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$40	$30
Income taxes	$48,658	$49,540
Noncash operating activities:		
Deferral of sales inducements	$1,261	$2,965

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 September 30, 2013, and the results of its operations and its cash flows for the three and nine months ended September 30, 2013 and 2012. The results of operations for the nine months ended September 30, 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 or the Securities and Exchange Commission internet site at 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 Financial Accounting Standards Board ("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 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 was for interim and annual periods ended after December 15, 2011. The adoption of this guidance was effective January 1, 2012 for the Company. 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 Pubic Accountants ("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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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 declare a cash dividend on August 16, 2013 payable December 4, 2013 to stockholders on record as of October 31, 2013. The dividends declared were $0.36 per common share to Class A stockholders and $0.18 per common share to Class B stockholders. A dividend in the same amounts per share on Class A and Class B common stock was declared in August and paid in December of 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 September 30,			
	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	$24,782		24,322	
Dividends - Class A shares	(1,237)		(1,237)	
Dividends - Class B shares	(36)		(36)	
Undistributed income	$23,509		23,049	
Allocation of net income:				
Dividends	$1,237	36	1,237	36
Allocation of undistributed income	22,844	665	22,397	652
Net income	$24,081	701	23,634	688
Denominator:				
Basic earnings per share - weighted-average shares	3,435	200	3,435	200
Effect of dilutive stock options	4	—	—	—
Diluted earnings per share - adjusted weighted-average shares for assumed conversions	3,439	200	3,435	200
Basic Earnings Per Share	$7.01	3.51	6.88	3.44
Diluted Earnings Per Share	$7.00	3.51	6.88	3.44

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

	Nine Months Ended September 30,			
	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	$68,405		67,309	
Dividends - Class A shares	(1,237)		(1,237)	
Dividends - Class B shares	(36)		(36)	
Undistributed income	$67,132		66,036	
Allocation of net income:				
Dividends	$1,237	36	1,237	36
Allocation of undistributed income	65,233	1,899	64,168	1,868
Net income	$66,470	1,935	65,405	1,904
Denominator:				
Basic earnings per share - weighted-average shares	3,435	200	3,435	200
Effect of dilutive stock options	5	—	—	—
Diluted earnings per share - adjusted weighted-average shares for assumed conversions	3,440	200	3,435	200
Basic Earnings Per Share	$19.35	9.68	19.04	9.52
Diluted Earnings Per Share	$19.32	9.68	19.04	9.52

(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"). On October 19, 2007, the Company's Board of Directors approved an amendment to freeze the Pension Plan as of December 31, 2007. The freeze ceased future benefit accruals to all participants and closed the plan to any new participants. In addition, all participants became immediately 100% vested in their accrued benefits as of that date. Going forward, future pension expense is projected to be minimal. Fair values of plan assets and liabilities are measured as of the prior December 31 for each respective year. The following table summarizes the components of net periodic benefit cost.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Service cost	$48	44	142	131
Interest cost	218	232	654	696
Expected return on plan assets	(284)	(268)	(850)	(803)
Amortization of prior service cost	1	1	3	3
Amortization of net loss	203	196	609	589
Net periodic benefit cost	$186	205	558	616

The service costs shown in the above table represent plan expenses expected to be paid out of plan assets. Under clarification provided by the Pension Protection Act, plan expenses paid from plan assets are to be included in the plan's service cost component.

The Company's minimum required contribution for the 2013 plan year is $0.7 million of which it expects to contribute approximately $0.4 million during 2013 with the remainder to be contributed in 2014. In addition, the Company had a remaining contribution payable for the 2012 plan year of $0.1 million which it paid during the first quarter of 2013. As of September 30, 2013, the Company had contributed a total of $0.3 million to the plan for the 2013 and 2012 plan years.

The Company also sponsors a non-qualified 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 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. As previously mentioned, these additional obligations are a liability to the Company. Effective December 31, 2004, this plan was frozen with respect to the continued accrual of benefits of the Chairman and the President of the Company in order to comply with law changes under the American Jobs Creation Act of 2004 ("Act").

Effective July 1, 2005, the Company established a second non-qualified defined benefit plan for the benefit of the Chairman of the Company. This plan is intended to provide for post-2004 benefit accruals that mirror and supplement the pre-2005 benefit accruals under the previously discussed non-qualified defined benefit plan, while complying with the requirements of the Act.

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(UNAUDITED)

Effective November 1, 2005, the Company established a third non-qualified defined benefit plan for the benefit of the President of the Company. This plan is intended to provide for post-2004 benefit accruals that supplement the pre-2005 benefit accruals under the first non-qualified defined benefit plan as previously discussed, while complying with the requirements of the Act.

The following table summarizes the components of net periodic benefit costs for the Chairman and President non-qualified defined benefit plans.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Service cost	$44	42	133	126
Interest cost	201	228	601	684
Amortization of prior service cost	15	14	44	44
Amortization of net loss	293	286	880	857
Net periodic benefit cost	$553	570	1,658	1,711

The Company expects to contribute $2.0 million to these plans in 2013. As of September 30, 2013, the Company has contributed $1.3 million to the plans.

(B) Defined Benefit Postretirement Healthcare Plans

The Company sponsors two healthcare plans to provide postretirement benefits to certain fully-vested individuals. The following table summarizes the components of net periodic benefit costs.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Interest cost	$29	32	88	97
Amortization of prior service cost	26	25	77	77
Amortization of net loss	9	11	25	31
Net periodic benefit cost	$64	68	190	205

The Company expects to contribute minimal amounts to the plan in 2013.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
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(6) SEGMENT AND OTHER OPERATING 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 September 30, 2013 and September 30, 2012 is provided below.

Selected Segment Information:

	Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
			(In thousands)		
September 30, 2013					
Selected Condensed Consolidated Balance Sheet Items:					
Deferred policy acquisition costs and sales inducements	$50,067	235,922	650,526	—	936,515
Total segment assets	559,824	1,161,517	8,487,915	253,097	10,462,353
Future policy benefits	485,754	899,090	7,549,441	—	8,934,285
Other policyholder liabilities	13,177	16,778	129,867	—	159,822
Three Months Ended September 30, 2013					
Condensed Consolidated Income Statements:					
Premiums and contract revenues	$3,944	28,865	4,873	—	37,682
Net investment income	6,928	10,957	118,521	4,997	141,403
Other revenues	12	60	22	5,728	5,822
Total revenues	10,884	39,882	123,416	10,725	184,907
Life and other policy benefits	4,003	11,040	1,898	—	16,941
Amortization of deferred acquisition costs	1,015	3,287	19,942	—	24,244
Universal life and annuity contract interest	2,261	8,525	76,700	—	87,486
Other operating expenses	2,782	5,987	8,565	5,341	22,675
Federal income taxes (benefit)	268	3,596	5,298	1,751	10,913
Total expenses	10,329	32,435	112,403	7,092	162,259
Segment earnings (loss)	$555	7,447	11,013	3,633	22,648

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	Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
			(In thousands)		
Nine months ended September 30, 2013					
Condensed Consolidated Income Statements:					
Premiums and contract revenues	$22,967	87,061	14,998	—	125,026
Net investment income	22,943	43,224	371,704	14,033	451,904
Other revenues	21	211	52	17,670	17,954
Total revenues	45,931	130,496	386,754	31,703	594,884
Life and other policy benefits	8,129	17,910	22,042	—	48,081
Amortization of deferred acquisition costs	5,260	17,000	61,640	—	83,900
Universal life and annuity contract interest	17,320	39,760	242,144	—	299,224
Other operating expenses	11,496	18,820	23,117	16,009	69,442
Federal income taxes (benefit)	1,206	11,982	12,242	5,081	30,511
Total expenses	43,411	105,472	361,185	21,090	531,158
Segment earnings (loss)	$2,520	25,024	25,569	10,613	63,726

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Selected Segment Information:

	Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
			(In thousands)		
September 30, 2012					
Selected Condensed Consolidated Balance Sheet Items:					
Deferred policy acquisition costs and sales inducements	$38,052	224,814	586,356	—	849,222
Total segment assets	450,649	1,111,039	8,302,668	239,259	10,103,615
Future policy benefits	380,752	821,178	7,265,670	—	8,467,600
Other policyholder liabilities	13,401	11,536	127,788	—	152,725
Three Months Ended September 30, 2012					
Condensed Consolidated Income Statements:					
Premiums and contract revenues	$7,680	28,453	4,915	—	41,048
Net investment income	6,037	12,255	115,781	5,001	139,074
Other revenues	(46)	32	213	5,724	5,923
Total revenues	13,671	40,740	120,909	10,725	186,045
Life and other policy benefits	4,482	4,827	3,014	—	12,323
Amortization of deferred acquisition costs	437	2,083	25,883	—	28,403
Universal life and annuity contract interest	2,976	9,602	76,808	—	89,386
Other operating expenses	3,313	7,069	7,332	4,429	22,143
Federal income taxes (benefit)	865	6,271	3,215	2,328	12,679
Total expenses	12,073	29,852	116,252	6,757	164,934
Segment earnings (loss)	$1,598	10,888	4,657	3,968	21,111

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	Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
			(In thousands)		
Nine months ended September 30, 2012					
Condensed Consolidated Income Statements:					
Premiums and contract revenues	$22,499	83,999	16,389	—	122,887
Net investment income	15,846	34,967	302,045	13,955	366,813
Other revenues	6	378	14	17,046	17,444
Total revenues	38,351	119,344	318,448	31,001	507,144
Life and other policy benefits	7,750	14,622	17,486	—	39,858
Amortization of deferred acquisition costs	4,896	15,448	71,119	—	91,463
Universal life and annuity contract interest	11,419	30,845	174,669	—	216,933
Other operating expenses	10,659	19,605	19,104	15,245	64,613
Federal income taxes (benefit)	1,241	13,277	12,335	5,388	32,241
Total expenses	35,965	93,797	294,713	20,633	445,108
Segment earnings (loss)	$2,386	25,547	23,735	10,368	62,036

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Premiums and Other Revenues:				
Premiums and contract revenues	$37,682	41,048	125,026	122,887
Net investment income	141,403	139,074	451,904	366,813
Other revenues	5,822	5,923	17,954	17,444
Realized gains (losses) on investments	3,285	4,940	7,199	8,112
Total condensed consolidated premiums and other revenues	$188,192	190,985	602,083	515,256

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Federal Income Taxes:				
Total segment Federal income taxes	$10,913	12,679	30,511	32,241
Taxes on realized gains (losses) on investments	1,151	1,729	2,520	2,839
Total condensed consolidated Federal income taxes	$12,064	14,408	33,031	35,080

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Net Earnings:				
Total segment earnings	$22,648	21,111	63,726	62,036
Realized gains (losses) on investments, net of taxes	2,134	3,211	4,679	5,273
Total condensed consolidated net earnings	$24,782	24,322	68,405	67,309

	September 30, 2013	2012
	(In thousands)	
Assets:		
Total segment assets	$10,462,353	10,103,615
Other unallocated assets	206,115	62,479
Total condensed consolidated assets	$10,668,468	10,166,094

(7) SHARE-BASED PAYMENTS

The Company had a stock and incentive plan ("1995 Plan") which provided for the grant of any or all of the following types of awards to eligible employees: (1) stock options, including incentive stock options and nonqualified stock options; (2) stock appreciation rights, in tandem with stock options or freestanding; (3) restricted stock; and, (4) performance awards. The 1995 Plan began on April 21, 1995, and was amended on June 25, 2004 to extend the termination date to April 20, 2010. The number of shares of Class A, $1.00 par value, common stock which were allowed to be issued under the 1995 Plan, or as to which stock appreciation rights or other awards were allowed to be granted, could not exceed 300,000. Effective June 20, 2008, the Company's shareholders approved a 2008 Incentive Plan (“2008 Plan”). The 2008 Plan is substantially similar to the 1995 Plan and authorized an additional number of Class A, $1.00 par value, common stock shares eligible for issue not to exceed 300,000. These shares may be authorized and unissued shares. The Company has issued only nonqualified stock options and stock appreciation rights under these plans.

All of the employees of the Company and its subsidiaries are eligible to participate in the current 2008 Plan (as well as previously in the expired 1995 Plan). In addition, directors of the Company are eligible to receive the same types of awards as employees except that they are not eligible to receive incentive stock options. Company directors, including members of the Compensation and Stock Option Committee, are eligible for nondiscretionary stock options. The directors' grants vest 20% annually following one full year of service to the Company from the date of grant. The employees' grants vest 20% annually following three full years of service to the Company from the date of grant. All grants issued expire after ten years. No awards were issued during the first nine months of 2013 or 2012.

Effective during March 2006, the Company adopted and implemented a limited stock buy-back program with respect to the 1995 Plan which provides option holders the additional alternative of selling shares acquired through the exercise of options directly back to the Company. Option holders may elect to sell such acquired shares back to the Company at any time within ninety (90) days after the exercise of options at the prevailing market price as of the date of notice of election. The buy-back program did not alter the terms and conditions of the 1995 Plan; however, the program necessitated a change in accounting from the equity classification to the liability classification.

In August 2008, the Company implemented another limited stock buy-back program, substantially similar to the 2006 program, for shares issued under the 2008 Plan.

The Company uses the current fair value method to measure compensation cost. As of September 30, 2013 and 2012, the liability balance was $4.6 million and $2.0 million, respectively. A summary of shares available for grant and stock option activity is detailed below.

		Options Outstanding	
	Shares Available For Grant	Shares	Weighted-Average Exercise Price
Stock Options:			
Balance at January 1, 2013	291,000	82,468	$186.19
Exercised	—	(41,650)	150.00
Forfeited	—	(400)	255.13
Expired	—	—	—
Stock options granted	—	—	—
Balance at September 30, 2013	291,000	40,418	$222.80

	Stock Appreciation Rights Outstanding	
	Awards	Weighted-Average Exercise Price
Stock Appreciation Rights:		
Balance at January 1, 2013	66,461	$125.03
Exercised	(1,950)	114.64
Forfeited	(650)	205.75
Granted	—	—
Balance at September 30, 2013	63,861	$124.52

Stock options and stock appreciation rights (SARs) shown as forfeited in the above tables represent vested and unvested awards not exercised by plan participants prior to their termination from the Company. Forfeited stock options during the three and nine months ended September 30, 2013 were awarded under the 1995 Plan. As the 1995 Plan terminated during calendar year 2010, the forfeited shares are not shown as being added back to the "Shares Available For Grant" balance.

The total intrinsic value of options exercised was $2.1 million and $0.1 million for the nine months ended September 30, 2013 and 2012, respectively. The total share-based liabilities paid were $2.1 million and $0.1 million for the nine months ended September 30, 2013 and 2012, respectively. The total fair value of shares vested during the nine months ended September 30, 2013 and 2012 was $0.4 million and $0.4 million, respectively. For the quarters ended September 30, 2013 and 2012, the total cash received from the exercise of options under the Plans was $0 and $0, respectively.

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The following table summarizes information about stock options and SARs outstanding at September 30, 2013.

	Options/SARs Outstanding		
	Number Outstanding	Weighted-Average Remaining Contractual Life	Options Exercisable
Exercise prices:			
$150.00	8,400	0.7 years	8,400
255.13	23,018	4.5 years	13,912
208.05	9,000	4.7 years	9,000
236.00	250	4.9 years	150
114.64	30,093	5.4 years	14,558
132.56	33,518	8.2 years	2,050
Totals	104,279		48,070
Aggregate intrinsic value (in thousands)	$5,377		$1,845

The aggregate intrinsic value in the table above is based on the closing stock price of $201.77 per share on September 30, 2013.

In estimating the fair value of the options outstanding at September 30, 2013 and December 31, 2012, the Company employed the Black-Scholes option pricing model with assumptions as detailed below.

	September 30, 2013		December 31, 2012	
Expected term of options	1 to 8 years		0 to 9 years	
Expected volatility:				
Range	21.65% to 33.65%		19.54% to 34.93%	
Weighted-average	25.62	%	25.96	%
Expected dividend yield	0.18	%	0.23	%
Risk-free rate:				
Range	0.46% to 2.39%		0.39% to 1.49%	
Weighted-average	1.12	%	0.84	%

The Company reviewed the contractual term relative to the options as well as perceived future behavior patterns of exercise. Volatility is based on the Company’s historical volatility over the expected term of the option’s expected exercise date.

The pre-tax compensation cost recognized in the financial statements related to the two plans defined above was $4.0 million and $0.4 million for the nine months ended September 30, 2013 and 2012, respectively. The related tax expense recognized was $1.4 million and $0.1 million for the nine months ended September 30, 2013 and 2012, respectively.

As of September 30, 2013, the total compensation cost related to nonvested options not yet recognized was $1.9 million. This amount is expected to be recognized over a weighted-average period of 1.8 years. The Company recognizes compensation cost over the graded vesting periods.

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(8) COMMITMENTS AND CONTINGENCIES

(A) Legal Proceedings

In the normal course of business, the Company is involved or may become involved in various legal actions in which claims for alleged economic and punitive damages have been or may be asserted, some for substantial amounts. In recent years, carriers offering life insurance and annuity products have faced litigation, including class action lawsuits, alleging improper product design, improper sales practices, and similar claims. The Company has been a defendant over the past several years in two such class action lawsuits. Given the uncertainty involved in these types of actions, the ability to make a reliable evaluation of the likelihood of an unfavorable outcome or an estimate of the amount of or range of potential loss is endemic to the particular circumstances and evolving developments of each individual matter on its own merits.

The Company is currently a defendant in a class action lawsuit pending as of June 12, 2006, in the U.S. District Court for the Southern District of California. The case is titled In Re National Western Life Insurance Deferred Annuities Litigation. The complaint asserts claims for RICO violations, Financial Elder Abuse, Violation of Cal. Bus. & Prof. Code 17200, et seq, Violation of Cal. Bus. & Prof. Code 17500, et seq, Breach of Fiduciary Duty, Aiding and Abetting Breach of Fiduciary Duty, Fraudulent Concealment, Cal. Civ. Code 1710, et seq, Breach of the Duty of Good Faith and Fair Dealing, and Unjust Enrichment and Imposition of Constructive Trust. On July 12, 2010 the Court certified a nationwide class of policyholders under the RICO allegation and a California class under all of the remaining causes of action except breach of fiduciary duty. The parties entered into a Settlement and Release Agreement in August of 2013 ("Settlement") which was preliminarily approved by the Court on August 30th. Notice of the Settlement was sent to all class members on September 20, 2013 and the Company is currently administering the class notice and claim form process. The Fairness Hearing is set for February 7, 2014. If the Settlement Agreement and Plaintiffs' Request for Attorneys' Fees and Costs are approved by the Court, the Company has agreed to pay the Court-approved amount of attorneys’ fees and costs, make certain payment to surrendered and annualized policyholders, and has agreed to provide bonuses on annuitization for active policyholders who choose a 10-year or a 20-year certain and life settlement option. At September 30, 2013, the Company had reserved $3.5 million for the matter.

In addition to the class action lawsuit described above, the Company was the named defendant in the case of Sheila Newman vs. National Western Life Insurance Company, which alleged mishandling of policyholder funds by an agent. On February 3, 2010, the 415th Judicial District Court of Parker County in Weatherford, Texas, entered a Final Judgment against the Company of approximately $208,000 including actual damages of $113,000 and amounts for attorney's fees, and prejudgment interest on the actual damages. In addition, the Final Judgment included $150 million for exemplary damages. The Company vigorously defended this case and appealed the Final Judgment to the Court of Appeals Second District of Texas in Fort Worth. The Court of Appeals on August 11, 2011, reversed the trial court judgment in its entirety and rendered a take nothing verdict in favor of National Western. Plaintiffs (Appellees) filed a motion for a rehearing which the Court ruled on October 13, 2011, that the trial court's judgment was still reversed and judgment was still entered that Newman take nothing, all in favor of National Western. The Plaintiffs (Appellees) filed a Motion for Reconsideration En Banc which the Court of Appeals denied on October 27, 2011. The Plaintiffs (Appellees) then filed a Motion for Rehearing of the Court's amended decision, which the Court of Appeals denied on December 22, 2011. On March 21, 2012, Plaintiffs (Appellees) filed a petition for review with the Texas Supreme Court and the Company filed its response on April 20, 2012. The Supreme Court asked the parties for briefs on the issues before deciding on whether to hear the case and both parties submitted their briefs. On February 14, 2013, the Supreme Court denied the Plaintiffs petition for review. On April 3, 2013, Plaintiff filed a Motion for Rehearing. The Supreme Court denied Plaintiff's Motion for Rehearing on June 7, 2013. As a result, this case is now over.

On October 26, 2011 the Brazilian Superintendence of Private Insurance (“SUSEP”) attempted to serve the Company with a subpoena regarding an administrative proceeding initiated by SUSEP in which it alleged that the Company was operating as an insurance company in Brazil without due authorization. The Company has been informed that SUSEP is attempting to impose a penal fine of approximately $6.0 billion on the Company. SUSEP has unsuccessfully attempted to serve the Company with notice regarding this matter. The Company does not transact business in Brazil and has no officers, employees, property, or assets in Brazil. The Company and its legal advisors believe that SUSEP has no jurisdiction over the Company, that SUSEP's attempts at service of process have been invalid, and that any penal fine would be unenforceable. For the reasons described above, the Company does not believe that this matter meets the definition of a material pending legal proceeding as such term is defined in Item 103 of Regulation S-K but has included the foregoing description solely due to the purported amount of the fine sought.

Although there can be no assurances, at the present time, the Company does not anticipate that the ultimate liability arising from such other potential, pending, or threatened legal actions will have a material adverse effect on the financial condition or operating results of the Company.

(B) Financial Instruments

In order to meet the financing needs of its customers in the normal course of business, the Company is a party to financial instruments with off-balance sheet risk. These financial instruments are commitments to extend credit which involve elements of credit and interest rate risk in excess of the amounts recognized in the consolidated balance sheet.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amounts, assuming that the amounts are fully advanced and that collateral or other security is of no value. Commitments to extend credit are legally binding agreements to lend to a customer that generally have fixed expiration dates or other termination clauses and may require payment of a fee. Commitments do not necessarily represent future liquidity requirements, as some could expire without being drawn upon. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The Company controls the credit risk of these transactions through credit approvals, limits, and monitoring procedures.

The Company had $2.8 million of commitments to extend credit relating to mortgage loans at September 30, 2013. The Company evaluates each customer's creditworthiness on a case-by-case basis.

(9) INVESTMENTS

(A) Investment Gains and Losses

The table below presents realized investment gains and losses, excluding impairment losses, for the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Available for sale debt securities:				
Realized gains on disposal	$415	1,847	3,739	6,054
Realized losses on disposal	(3)	—	(3)	—
Held to maturity debt securities:				
Realized gains on disposal	2,831	1,102	3,221	1,262
Realized losses on disposal	—	(267)	(72)	(680)
Equity securities realized gains (losses)	—	113	511	109
Real estate gains (losses)	55	2,644	55	2,485
Mortgage loans write-downs	—	—	—	—
Other	—	12	—	12
Totals	$3,298	5,451	7,451	9,242

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The Company uses the specific identification method in computing realized gains and losses. Approximately 67.7% of the gains on bonds are due to calls of securities rather than sales. This includes calls out of the Company's available for sale portfolio of debt securities.

The table below presents net impairment losses recognized in earnings for the periods indicated.

	Three Months Ended September 30, 2013	2012	Nine Months Ended September 30, 2013	2012
	(In thousands)			
Total other-than-temporary impairment gains (losses) on debt securities	$214	1,267	538	858
Portion of loss (gain) recognized in comprehensive income	(227)	(1,761)	(776)	(1,918)
Net impairment losses on debt securities recognized in earnings	(13)	(494)	(238)	(1,060)
Equity securities impairments	—	(17)	(14)	(70)
Totals	$(13)	(511)	(252)	(1,130)

The table below presents a roll forward of credit losses on securities for which the Company also recorded non-credit other-than-temporary impairments in other comprehensive loss.

	Three months ended September 30, 2013	Nine months ended September 30, 2013	Twelve Months Ended December 31, 2012
		(In thousands)	
Beginning balance, cumulative credit losses related to other-than-temporary impairments	$2,472	2,247	1,122
Reductions for securities sold during current period	(17)	(17)	(118)
Additions for credit losses not previously recognized in other-than-temporary impairments	13	238	1,243
Ending balance, cumulative credit losses related to other-than-temporary impairments	$2,468	2,468	2,247

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(B) Debt and Equity Securities

The table below presents amortized costs and fair values of securities held to maturity at September 30, 2013.

	Securities Held to Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Debt securities:				
U.S. agencies	$23,095	1,955	—	25,050
U.S. Treasury	1,912	492	—	2,404
States and political subdivisions	420,618	19,007	(9,433)	430,192
Foreign governments	9,994	279	—	10,273
Public utilities	800,954	60,551	(6,995)	854,510
Corporate	3,345,778	166,137	(65,345)	3,446,570
Mortgage-backed	1,714,586	72,554	(15,482)	1,771,658
Home equity	20,400	4,858	(35)	25,223
Manufactured housing	7,779	527	—	8,306
Totals	$6,345,116	326,360	(97,290)	6,574,186

The table below presents amortized costs and fair values of securities available for sale at September 30, 2013.

	Securities Available for Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Debt securities:				
States and political subdivisions	$595	—	(121)	474
Foreign governments	9,929	—	(29)	9,900
Public utilities	243,796	17,774	(1,374)	260,196
Corporate	2,260,308	133,809	(24,833)	2,369,284
Mortgage-backed	76,779	6,006	—	82,785
Home equity	12,137	259	(271)	12,125
Manufactured housing	4,063	150	—	4,213
	2,607,607	157,998	(26,628)	2,738,977
Equity public	10,643	3,667	(757)	13,553
Totals	$2,618,250	161,665	(27,385)	2,752,530

The table below presents amortized costs and fair values of securities held to maturity at December 31, 2012.

	Securities Held to Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Debt securities:				
U.S. agencies	$23,114	2,748	—	25,862
U.S. Treasury	1,907	648	—	2,555
States and political subdivisions	391,062	41,150	(431)	431,781
Foreign governments	9,988	616	—	10,604
Public utilities	781,239	89,162	(103)	870,298
Corporate	2,887,572	273,431	(3,753)	3,157,250
Mortgage-backed	1,835,051	133,684	(261)	1,968,474
Home equity	21,545	4,443	(549)	25,439
Manufactured housing	10,642	722	—	11,364
Totals	$5,962,120	546,604	(5,097)	6,503,627

The table below presents amortized costs and fair values of securities available for sale at December 31, 2012.

	Securities Available for Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Debt securities:				
States and political subdivisions	$599	—	(28)	571
Foreign governments	15,134	932	—	16,066
Public utilities	254,853	26,621	(47)	281,427
Corporate	2,157,706	222,587	(2,981)	2,377,312
Mortgage-backed	113,488	8,905	(64)	122,329
Home equity	12,242	—	(1,483)	10,759
Manufactured housing	5,030	240	—	5,270
	2,559,052	259,285	(4,603)	2,813,734
Equity public	9,460	2,865	(58)	12,267
Totals	$2,568,512	262,150	(4,661)	2,826,001

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The following table shows the gross unrealized losses and fair values of the Company's held to maturity investments by investment category and length of time the individual securities have been in a continuous unrealized loss position at September 30, 2013.

	Securities Held to Maturity					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Debt securities:						
U.S. agencies	$—	—	—	—	—	—
U.S. Treasury	—	—	—	—	—	—
States and political subdivisions	96,058	(9,303)	1,419	(130)	97,477	(9,433)
Foreign governments	—	—	—	—	—	—
Public utilities	167,547	(6,995)	—	—	167,547	(6,995)
Corporate	1,263,953	(63,154)	27,796	(2,191)	1,291,749	(65,345)
Mortgage-backed	428,837	(15,482)	—	—	428,837	(15,482)
Home equity	—	—	2,644	(35)	2,644	(35)
Manufactured housing	—	—	—	—	—	—
Total temporarily impaired securities	$1,956,395	(94,934)	31,859	(2,356)	1,988,254	(97,290)

The following table shows the gross unrealized losses and fair values of the Company's available for sale investments by investment category and length of time the individual securities have been in a continuous unrealized loss position at September 30, 2013.

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	Securities Available for Sale					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Debt securities:						
U.S. agencies	$—	—	—	—	—	—
U.S. Treasury	—	—	—	—	—	—
States and political subdivisions	474	(121)	—	—	474	(121)
Foreign governments	9,900	(29)	—	—	9,900	(29)
Public utilities	21,074	(1,374)	—	—	21,074	(1,374)
Corporate	490,037	(24,833)	—	—	490,037	(24,833)
Mortgage-backed	—	—	—	—	—	—
Home equity	4,812	(32)	4,127	(239)	8,939	(271)
Manufactured housing	—	—	—	—	—	—
	526,297	(26,389)	4,127	(239)	530,424	(26,628)
Equity public	3,640	(740)	33	(17)	3,673	(757)
Total temporarily impaired securities	$529,937	(27,129)	4,160	(256)	534,097	(27,385)

Although unrealized losses have increased during the first three quarters of 2013, the increase is due primarily to the increases in market interest rates rather than credit issues. The Company does not consider these investments to be other-than-temporarily impaired as the Company does not intend to sell these securities nor does it think it will be forced to sell until recovery in fair value or maturity, and expects to receive all amounts due relative to principal and interest.

The Company does not consider securities to be other-than-temporarily impaired when the market decline is attributable to factors such as interest rate movements, market volatility, liquidity, spread widening and credit quality and when recovery of all amounts due under the contractual terms of the security is anticipated. Based on the review and the Company's ability and intent not to sell these securities until maturity, the Company does not consider these investments to be other-than-temporarily impaired at September 30, 2013. The Company will monitor the investment portfolio for future changes in issuer facts and circumstances that could result in future impairments beyond those currently identified.

During the third quarter of 2013, the Company recorded an other-than-temporary impairment on one asset-backed security. The security had a $13 thousand credit impairment which is reported in the Condensed Consolidated Statements of Earnings and there were $0.2 million of liquidity gains which did not affect current earnings. The Company intends to hold the securities until recovery of fair market value or maturity.

Debt securities. The gross unrealized losses for debt securities are made up of 351 individual issues, or 27.4% of the total debt securities held by the Company. The market value of these bonds as a percent of amortized cost averages

95.3%. Of the 351 securities, 7, or approximately 2.0%, fall in the 12 months or greater aging category; and 346 were rated investment grade at September 30, 2013.

Equity securities. The gross unrealized losses for equity securities are made up of 16 individual issues. These holdings are reviewed quarterly for impairment. One equity security was other-than-temporarily impaired during the nine months ended September 30, 2013, in accordance with Company policy.

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The following table shows the gross unrealized losses and fair values of the Company's held to maturity investments by investment category and length of time the individual securities have been in a continuous unrealized loss position at December 31, 2012.

	Securities Held to Maturity					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Debt securities:						
U.S. agencies	$—	—	—	—	—	—
U.S. Treasury	—	—	—	—	—	—
States and political subdivisions	19,745	(401)	1,470	(30)	21,215	(431)
Foreign governments	—	—	—	—	—	—
Public utilities	24,271	(80)	1,982	(23)	26,253	(103)
Corporate	303,645	(1,776)	38,078	(1,977)	341,723	(3,753)
Mortgage-backed	15,010	(261)	—	—	15,010	(261)
Home equity	—	—	6,435	(549)	6,435	(549)
Manufactured housing	—	—	—	—	—	—
Total temporarily impaired securities	$362,671	(2,518)	47,965	(2,579)	410,636	(5,097)

The following table shows the gross unrealized losses and fair values of the Company's available for sale investments by investment category and length of time that the individual securities have been in a continuous unrealized loss position at December 31, 2012.

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	Securities Available for Sale					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Debt securities:						
U.S. agencies	$—	—	—	—	—	—
U.S. Treasury	—	—	—	—	—	—
States and political subdivisions	571	(28)	—	—	571	(28)
Foreign governments	—	—	—	—	—	—
Public utilities	10,949	(47)	—	—	10,949	(47)
Corporate	64,383	(713)	14,713	(2,268)	79,096	(2,981)
Mortgage-backed	3,839	(64)	—	—	3,839	(64)
Home equity	4,698	(216)	6,062	(1,267)	10,760	(1,483)
Manufactured housing	—	—	—	—	—	—
	84,440	(1,068)	20,775	(3,535)	105,215	(4,603)
Equity public	756	(8)	295	(50)	1,051	(58)
Total temporarily impaired securities	$85,196	(1,076)	21,070	(3,585)	106,266	(4,661)

(C) Transfer of Securities

During the nine months ended September 30, 2013 and 2012, the Company made no transfers to the held to maturity category from securities available for sale. Lower holdings of securities available for sale reduces the Company's exposure to market price volatility while still providing securities available for liquidity and asset/liability management purposes.

(D) Mortgage Loans and Real Estate

A financing receivable is a contractual right to receive money on demand or on fixed or determinable dates that is recognized as an asset in a company's statement of financial position. Mortgage, equity, participation and mezzanine loans on real estate are considered financing receivables reported by the Company.

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 lease payments and also by the borrower. This approach has proven to result in quality mortgage loans with few defaults. Mortgage loan interest income is recognized on an accrual basis with any premium or discount amortized over the life of the loan. Prepayment and late fees are recorded on the date of collection.

Loans in foreclosure, loans considered impaired or loans past due 90 days or more are placed on a non-accrual status. If a mortgage loan is determined to be on non-accrual status, the mortgage loan does not accrue any revenue into the Condensed Consolidated Statements of Earnings. The loan is independently monitored and evaluated as to potential impairment or foreclosure. If delinquent payments are made and the loan is brought current, then the Company returns the loan to active status and accrues income accordingly. The Company has no loans past due 90 days which are accruing interest.

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The following table represents the loan-to-value ratio using the most recent appraised value.

	September 30, 2013		December 31, 2012	
	Amount (In thousands)	%	Amount (In thousands)	%
Mortgage Loans by Loan-to-Value Ratio (1):				
Less than 50%	$47,155	40.0 %	$58,754	41.1 %
50% to 60%	16,841	14.3 %	27,832	19.5 %
60% to 70%	21,063	17.9 %	23,518	16.5 %
70% to 80%	9,766	8.3 %	9,431	6.6 %
80% to 90%	—	— %	—	— %
Greater than 90%	22,916	19.5 %	23,285	16.3 %
Gross balance	117,741	100.0 %	142,820	100.0 %
Allowance for possible losses	(650)	(0.6)%	(650)	(0.5)%
Totals	$117,091	99.4 %	$142,170	99.5 %

(1) Loan-to-Value Ratio using the most recent appraised value.

The mortgage loans in the greater than 90% category relate to loans made with a long standing borrower. The loans are backed by the investment property, contracted leases, as well as a separate and additional guarantee of the long standing borrower.

The Company does not consider its mortgage loans to be a separate portfolio segment. The Company considers its primary class to be property type and primarily uses loan-to-value as its credit risk quality indicator. All loans within the portfolio are analyzed quarterly in order to monitor the financial quality of these assets. Based on ongoing monitoring, mortgage loans with a likelihood of becoming delinquent are identified and placed on an internal "watch list". Among the criteria that would indicate a potential problem are: major tenant vacancies or bankruptcies, late payments, and loan relief/restructuring requests. The mortgage loan portfolio is analyzed for the need for a valuation allowance on any loan that is on the internal watch list, in the process of foreclosure or that currently has a valuation allowance.

Mortgage loans are considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. When it is determined that a loan is impaired, a loss is recognized for the difference between the carrying amount of the mortgage loan and the estimated value reduced by the cost to sell. Estimated value is typically based on the loan's observable market price or the fair value of the collateral less cost to sell. Impairments and changes in the valuation allowance are reported in net realized capital gains (losses) in the Condensed Consolidated Statements of Earnings.

The following table represents the mortgage loan allowance at September 30, 2013 and December 31, 2012:

	September 30, 2013	December 31, 2012
	(In thousands)	

Balance, beginning of period	$650	4,571	
Provision	—	650	
Releases	—	(4,571	)
Balance, end of period	$650	650	

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The mortgage loan allowance released in the second quarter of 2012 pertained to one loan in which the borrower filed for bankruptcy protection. The property securing said loan was subsequently acquired by the company in a bankruptcy auction. The mortgage loan was closed and the property reclassified as a real estate investment included in other long-term investments on the Company's balance sheet. The property was subsequently sold in the third quarter of 2012 for a net gain of $2.7 million.

(10) FAIR VALUES OF FINANCIAL INSTRUMENTS

Effective January 1, 2008, the Company adopted FASB guidance which defines fair value, establishes a framework for measuring fair value under GAAP, and requires additional disclosures about fair value measurements. In compliance with this GAAP guidance, the Company has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three level hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded at fair value on the Condensed Consolidated Balance Sheets are categorized as follows:

Level 1: Fair value is based on unadjusted quoted prices in active markets that are accessible to the Company for identical assets or liabilities. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. These generally provide the most reliable evidence and are used to measure fair value whenever available. The Company's Level 1 assets include equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets.

Level 2: Fair value is based upon significant inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable for substantially the full term of the asset or liability through corroboration with observable market data as of the reporting date. Level 2 inputs include quoted market prices in active markets for similar assets and liabilities, quoted market prices in markets that are not active for identical or similar assets or liabilities, model-derived valuations whose inputs are observable or whose significant value drivers are observable and other observable inputs. The Company's Level 2 assets include fixed maturity debt securities (corporate and private bonds, government and agency securities, asset-backed and mortgage-backed securities), preferred stock, certain equity securities, and over-the-counter derivative contracts. The Company's Level 2 liabilities consist of certain product-related embedded derivatives. Valuations are generally obtained from third party pricing services for identical or comparable assets or determined through use of valuation methodologies using observable market inputs.

Level 3: Fair value is based on significant unobservable inputs which reflect the entity's or third party pricing service's assumptions about the assumptions market participants would use in pricing an asset or liability. The Company currently does not have securities where significant valuation inputs cannot be corroborated with market observable data. The Company's Level 3 liabilities consist of share-based compensation obligations. Valuations are estimated based on non-binding broker prices or internally developed valuation models or methodologies, discounted cash flow models and other similar techniques.

The following tables set forth the Company’s assets and liabilities that are measured at fair value on a recurring basis as of the date indicated:

	September 30, 2013			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Debt securities, available for sale	$2,738,977	—	2,738,977	—
Equity securities, available for sale	13,553	12,848	705	—
Derivatives, index options	119,276	—	119,276	—
Total assets	$2,871,806	12,848	2,858,958	—
Policyholder account balances (a)	$136,742	—	136,742	—
Other liabilities (b)	4,553	—	—	4,553
Total liabilities	$141,295	—	136,742	4,553

During the three and nine months ended September 30, 2013, the Company had no transfers into or out of Levels 1, 2 or 3.

	December 31, 2012			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Debt securities, available for sale	$2,813,734	—	2,813,734	—
Equity securities, available for sale	12,267	11,968	299	—
Derivatives, index options	57,890	—	57,890	—
Total assets	$2,883,891	11,968	2,871,923	—
Policyholder account balances (a)	$72,470	—	72,470	—
Other liabilities (b)	2,718	—	—	2,718
Total liabilities	$75,188	—	72,470	2,718

(a) Represents the fair value of certain product-related embedded derivatives that were recorded at fair value.
(b) Represents the liability for share-based compensation.

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The following tables present, by pricing source and fair value hierarchy level, the Company's assets that are measured at fair value on a recurring basis:

	September 30, 2013			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Debt securities, available for sale:				
Priced by third-party vendors	$2,738,977	—	2,738,977	—
Priced internally	—	—	—	—
Subtotal	2,738,977	—	2,738,977	—
Equity securities, available for sale:				
Priced by third-party vendors	13,553	12,848	705	—
Priced internally	—	—	—	—
Subtotal	13,553	12,848	705	—
Derivatives, index options:				
Priced by third-party vendors	119,276	—	119,276	—
Priced internally	—	—	—	—
Subtotal	119,276	—	119,276	—
Total	$2,871,806	12,848	2,858,958	—
Percent of total	100.0 %	0.4 %	99.6 %	— %

	December 31, 2012			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Debt securities, available for sale:				
Priced by third-party vendors	$2,813,734	—	2,813,734	—
Priced internally	—	—	—	—
Subtotal	2,813,734	—	2,813,734	—
Equity securities, available for sale:				
Priced by third-party vendors	12,267	11,968	299	—
Priced internally	—	—	—	—
Subtotal	12,267	11,968	299	—
Derivatives, index options:				
Priced by third-party vendors	57,890	—	57,890	—
Priced internally	—	—	—	—
Subtotal	57,890	—	57,890	—

Total	$2,883,891	11,968	2,871,923	—
Percent of total	100.0 %	0.4 %	99.6 %	— %

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The following tables provide additional information about fair value measurements for which significant unobservable (Level 3) inputs were utilized to determine fair value.

	For the Three Months Ended September 30, 2013			
	Debt Securities, Available for Sale	Equity Securities, Available for Sale	Total Assets	Other Liabilities
	(In thousands)			
Balance at July 1, 2013	$—	—	—	4,370
Total realized and unrealized gains (losses):				
Included in net income	—	—	—	1,010
Included in other comprehensive income	—	—	—	—
Purchases, sales, issuances and settlements, net	—	—	—	(827)
Transfers into (out of) Level 3	—	—	—	—
Balance at end of period	$—	—	—	4,553
Amount of total gains (losses) for the period included in net income attributable to the change in unrealized gains (losses) relating to assets still held at end of period	$—	—	—	1,601

	For the Three months ended September 30, 2012			
	Debt Securities, Available for Sale	Equity Securities, Available for Sale	Total Assets	Other Liabilities
	(In thousands)			
Balance at July 1, 2012	$—	—	—	2,217
Total realized and unrealized gains (losses):				
Included in net income	—	—	—	(166)
Included in other comprehensive income	—	—	—	—
Purchases, sales, issuances and settlements, net	—	—	—	(48)
Transfers into (out of) Level 3	—	—	—	—
Balance at end of period	$—	—	—	2,003
Amount of total gains (losses) for the period included in net income attributable to the change in unrealized gains (losses) relating to assets still held at end of period	$—	—	—	(68)

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	Nine Months Ended September 30, 2013			
	Debt Securities, Available for Sale	Equity Securities, Available for Sale	Total Assets	Other Liabilities
	(In thousands)			
Beginning balance, January 1, 2013	$—	—	—	2,718
Total realized and unrealized gains (losses):				
Included in net income	—	—	—	3,976
Included in other comprehensive income	—	—	—	—
Purchases, sales, issuances and settlements, net	—	—	—	(2,141)
Transfers into (out of) Level 3	—	—	—	—
Balance at end of period	$—	—	—	4,553
Amount of total gains (losses) for the period included in net income attributable to the change in unrealized gains (losses) relating to assets still held at end of period	$—	—	—	5,343

	Nine Months Ended September 30, 2012			
	Debt Securities, Available for Sale	Equity Securities, Available for Sale	Total Assets	Other Liabilities
	(In thousands)			
Beginning balance, January 1, 2012	$—	8,118	8,118	1,647
Total realized and unrealized gains (losses):				
Included in net income	—	—	—	422
Included in other comprehensive income	—	897	897	—
Purchases, sales, issuances and settlements, net	—	—	—	(66)
Transfers into (out of) Level 3	—	(9,015)	(9,015)	—
Balance at end of period	$—	—	—	2,003
Amount of total gains (losses) for the period included in net income attributable to the change in unrealized gains (losses) relating to assets still held at end of period	$—	—	—	583

Realized gains (losses) on debt and equity securities are reported in the Condensed Consolidated Statements of Earnings as net investment gains (losses). Unrealized gains (losses) on available for sale debt and equity securities are reported as other comprehensive income (loss) within stockholders' equity of the Condensed Consolidated Balance

Sheet.

The fair value hierarchy classifications are reviewed each reporting period. Reclassification of certain financial assets and liabilities may result based on changes in the observability of valuation attributes. Reclassifications are reported as transfers into and out of Level 3 at the beginning fair value for the reporting period in which the changes occur.

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The carrying amounts and fair values of the Company's financial instruments are as follows:

	September 30, 2013		December 31, 2012	
	Carrying Values	Fair Values	Carrying Values	Fair Values
	(In thousands)			
ASSETS				
Investments in debt and equity securities:				
Securities held to maturity	$6,345,116	6,574,186	5,962,120	6,503,627
Securities available for sale	2,752,530	2,752,530	2,826,001	2,826,001
Cash and short-term investments	94,458	94,458	124,561	124,561
Mortgage loans	117,091	122,782	142,170	147,365
Policy loans	68,307	68,307	71,549	71,549
Other loans	3,185	3,360	14,997	15,273
Derivatives, index options	119,276	119,276	57,890	57,890
Life interest in Libbie Shearn Moody Trust	—	12,775	—	12,775
LIABILITIES				
Deferred annuity contracts	$7,154,103	6,876,234	6,907,055	6,624,111
Immediate annuity and supplemental contracts	471,825	498,502	492,853	531,857

Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instruments. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(11) DERIVATIVE INVESTMENTS

Fixed-index products provide traditional fixed annuities and universal life contracts with the option to have credited interest rates linked in part to an underlying equity index or a combination of equity indices. The equity return component of such policy contracts is identified separately and accounted for in future policy benefits as embedded derivatives on the Condensed Consolidated Balance Sheet. The remaining portions of these policy contracts are considered the host contracts and are recorded separately in future policy benefits as fixed annuity or universal life contracts. The host contracts are accounted for under debt instrument type accounting in which future policy benefits are recorded as discounted debt instruments that are accreted, using the effective yield method, to their minimum account values at their projected maturities or termination dates.

The Company purchases over-the-counter index options, which are derivative financial instruments, to hedge the equity return component of its fixed-index annuity and life products. The index options act as hedges to match closely the returns on the underlying index or indices. The amounts which may be credited to policyholders are linked, in part, to the returns of the underlying index or indices. As a result, changes to policyholders' liabilities move in tandem with changes in the value of the options. Cash is exchanged upon purchase of the index options and no principal or interest payments are made by either party during the option periods. Upon maturity or expiration of the options, cash may be paid to the Company depending on the performance of the underlying index or indices and terms of the contract.

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The Company does not elect hedge accounting relative to these derivative instruments. The index options are reported at fair value in the accompanying condensed consolidated financial statements. The changes in the values of the index options and the changes in the policyholder liabilities are both reflected in the Condensed Consolidated Statements of Earnings. Any changes relative to the embedded derivatives associated with policy contracts are reflected in contract interest in the Condensed Consolidated Statements of Earnings. 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 net investment income in the Condensed Consolidated Statements of Earnings.

Although there is credit risk in the event of nonperformance by counterparties to the index options, the Company does not expect any counterparties to fail to meet their obligations, given their high credit ratings and the Company's evaluation of each counterparty. In addition, credit support agreements are in place with all counterparties for option holdings in excess of specific limits, which may further reduce the Company's credit exposure.

The tables below present the fair value of derivative instruments as of September 30, 2013 and December 31, 2012, respectively.

	September 30, 2013			
	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
		(In thousands)		(In thousands)
Derivatives not designated as hedging instruments				
Equity index options	Derivatives, Index Options	$119,276		
Fixed-index products			Universal Life and Annuity Contracts	$136,742
Total		$119,276		$136,742

	December 31, 2012			
	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
		(In thousands)		(In thousands)
Derivatives not designated as hedging instruments				
Equity index options		$57,890		

	Derivatives, Index Options			
Fixed-index products			Universal Life and Annuity Contracts	$72,470
Total		$57,890		$72,470

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The table below presents the effect of derivative instruments in the Condensed Consolidated Statements of Earnings for the three months ended September 30, 2013 and 2012.

Derivatives Not Designated As Hedging Instruments	Location of Gain or (Loss) Recognized In Income on Derivatives	September 30, 2013	September 30, 2012
		Amount of Gain or (Loss) Recognized in Income on Derivatives (In thousands)	
Equity index options	Net investment income	$35,615	32,369
Fixed-index products	Universal life and annuity contract interest	(36,857)	(32,988)
		$(1,242)	(619)

The table below presents the effect of derivative instruments in the Condensed Consolidated Statements of Earnings for the nine months ended September 30, 2013 and 2012.

Derivatives Not Designated As Hedging Instruments	Location of Gain or (Loss) Recognized In Income on Derivatives	September 30, 2013	September 30, 2012
		Amount of Gain or (Loss) Recognized in Income on Derivatives (In thousands)	
Equity index options	Net investment income	$126,739	42,328
Fixed-index products	Universal life and annuity contract interest	(129,625)	(48,050)
		$(2,886)	(5,722)

(12) SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 12, 2013, which is the date that the financial statements have been issued, and no reportable items were identified.

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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 Financial 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.

During the quarter ended June 30, 2013, the Company implemented a new investment accounting system. This constitutes a change in the Company's internal controls over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Prior to implementation, the Company performed conversion testing, evaluated and tested internal controls and determined that the change did not materially affect, nor will reasonably likely materially affect, the Company's internal controls over financial reporting. Internal controls over financial reporting change as the Company modifies or enhances its systems and processes to meet business needs. Any significant changes in controls are evaluated prior to implementation to help ensure continued effectiveness of internal controls and the control environment.

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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 are or may be viewed as forward-looking. Although the Company has taken 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 SEC filings 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.

Management's discussion and analysis of the financial condition and results of operations ("MD&A") of National Western Life Insurance Company for the three and nine months ended September 30, 2013 follows. This discussion should be read in conjunction with the Company's condensed consolidated financial statements and related notes beginning on page 3 of this report and with the 2012 Annual Report filed on Form 10-K with the SEC.

Overview

The Company provides life insurance products on a global basis for the savings and protection needs of policyholders and annuity contracts for the asset accumulation and retirement needs of contract holders, both domestically and internationally. The Company accepts funds from policyholders or contract-holders and establishes a liability representing future obligations to pay the policy or contract-holders and their beneficiaries. To ensure the Company will be able to pay these future commitments, the funds received as premium payments and deposits are invested in high quality investments, primarily fixed income securities.

Due to the business of accepting funds to pay future obligations in later years and the underlying economics, the relevant factors affecting the Company's business and profitability include the following:

- the level of sales and premium revenues collected
- persistency of policies and contracts
- returns on investments sufficient to produce acceptable spread margins over interest crediting rates
- investment credit quality which minimizes the risk of default or impairment
- levels of policy benefits and costs to acquire business
- the level of operating expenses
- effect of interest rate changes on revenues and investments including asset and liability matching
- maintaining adequate levels of capital and surplus
- actual levels of surrenders, withdrawals, claims and interest spreads
- changes in assumptions for amortization of deferred policy acquisition expenses and deferred sales inducements
- changes in the fair value of derivative index options and embedded derivatives pertaining to fixed-index life and annuity products
- pricing and availability of adequate reinsurance

The Company monitors these factors continually as key business indicators. The discussion that follows in this Item 2 includes these indicators and presents information useful to an overall understanding of the Company's business performance in 2013, incorporating required disclosures in accordance with the rules and regulations of the Securities and Exchange Commission.

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Insurance Operations - Domestic

The Company is currently licensed to do business in all states and the District of Columbia except for New York. Products marketed are annuities, universal life insurance, fixed-indexed universal life, and traditional life insurance, which include both term and whole life products. The Company's domestic sales have historically been more heavily weighted toward annuity products, which include single and flexible premium deferred annuities, single premium immediate annuities, and fixed-indexed annuities. Most of these annuities can be sold as tax qualified or nonqualified products. At September 30, 2013, the Company maintained approximately 140,300 annuity contracts 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's agents are independent contractors who are compensated on a commission basis. The Company currently has approximately 17,100 domestic independent agents contracted. Roughly 17% of these contracted agents have submitted policy applications to the Company in the past twelve months.

Insurance Operations - International

The Company's international clientèle consists mainly of foreign nationals in upper socioeconomic classes. Insurance products are issued primarily to residents of countries in Central and South America, the Caribbean, Eastern Europe, Asia and the Pacific Rim based upon applications received in the Company's home office in Austin, Texas. 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 annuity and investment contracts are also available. At September 30, 2013, the Company had approximately 71,900 international life insurance policies in force representing approximately $19.3 billion in face amount of coverage.

International applications are submitted by independent contractor consultants and broker-agents. The Company has approximately 3,500 independent international consultants and brokers currently contracted, 29% 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. The Company's in excess of fifty years of experience with the international products and its longstanding independent consultant and broker-agent relationships further serve to minimize risks.

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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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
International:				
Universal life	$1,143	1,502	3,366	4,679
Traditional life	731	876	2,298	2,404
Equity-indexed life	5,452	3,464	11,051	10,442
	7,326	5,842	16,715	17,525
Domestic:				
Universal life	42	73	201	147
Traditional life	12	72	40	96
Equity-indexed life	5,387	2,898	14,326	6,732
	5,441	3,043	14,567	6,975
Totals	$12,767	8,885	31,282	24,500

Life insurance sales as measured by annualized first year premiums increased 44% in the third quarter of 2013 as compared to the third quarter of 2012. By market segment, the domestic life insurance line of business posted a 79% increase over the comparable results during the third quarter of 2012 while international life sales increased 25% during the same time frame. For the nine months ended September 30th, total life insurance sales expanded 28% as domestic life insurance sales increased 109% during this period while international life insurance sales declined 5%.

The Company's international life business consists of applications accepted from residents of various regions outside of the United States, the volume of which typically varies based upon changes in the socioeconomic climates of these regions. Historically, the Company has experienced a simultaneous combination of rising and declining sales in various countries; however, the appeal of the Company's dollar-denominated life insurance products overcomes many of the local and national difficulties. In the “Great Recession” economic climate during 2008-2009, individuals in countries outside of the United States became increasingly leery of the U.S. economy and the stability of financial institutions and markets. These concerns resulted in reduced international sales during this time period. As fiscal and regulatory policies were enacted in response to the financial market turmoil, the ensuing level of relative stability served to recapture the confidence of international markets. As a result, the Company subsequently witnessed an increased level of submitted life insurance applications.

In the Company's Form 10-Q filing for the quarter ended September 30, 2011, it was first reported that Brazilian insurance regulators had publicly stated their intention to curtail the sales activity of certain foreign multinational insurers, including National Western, and attempt to levy fines. Although Brazilian insurance regulators have no regulatory authority with respect to the Company, this public announcement served to influence the demand for the Company's products resulting in a decrease in the number of new applications for insurance from residents of Brazil since that time.

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Applications submitted from residents of Latin America and the Pacific Rim perennially have comprised the majority of the Company's international life insurance sales. As noted previously, the Company's international sales by geographic market tend to fluctuate with the socio and economic climates in these regions. The Company's mix of international sales by geographic region is as follows.

	Nine Months Ended September 30,			
	2013		2012	
Percentage of International Sales:				
Latin America	91.8	%	87.9	%
Pacific Rim	5.8		10.7	
Eastern Europe	2.4		1.4	
Totals	100.0	%	100.0	%

Year-to-date, the Company has accepted new business from residents outside of the United States in over thirty different countries with Brazil (20%), Venezuela (19%), Chile (15%) and Peru (11%) comprising the largest contributions. Sales to residents of Peru and Chile increased in the first nine months of 2013 compared to the same period in 2012 while sales to residents of Brazil and Venezuela declined during the same period.

The Company's domestic operations have historically been more heavily skewed toward annuity sales rather than life insurance sales. Partially in response to comments from outside rating agencies who expressed a preference for a greater proportion of overall Company earnings to derive from the life insurance line of business, management has been placing emphasis on building domestic life insurance sales as a strategic focus for future growth. The Company revamped its domestic life operations by changing the way it contracts distribution for life business, eliminating products and distribution that had not contributed significantly to earnings, and creating new and competitive products. These offerings included single premium universal life ("SPUL") and equity-indexed universal life ("EIUL") products.

The Company has developed hybrids of its EIUL and SPUL products, combining features, and discontinued the marketing of smaller premium and volume life insurance policies. The Company's product development emphasis in creating SPUL, EIUL, and single or limited pay EIUL products has been positioned to take advantage of the changing demographic in the marketplace as the “Baby Boomer” generation began reaching 65 years of age beginning in 2011. These products are designed to facilitate the wealth transfer of accumulated savings of this segment of the population via systematic funding mechanisms such as single premium immediate annuities. These life products have been valuable offerings for the Company's distributors as evidenced by the 113% increase in domestic EIUL sales in the first nine months of 2013 versus 2012.

The Company's implementation of commission caps on domestic policies in 2009 served to discourage sales of larger face amounts resulting in lower sales levels and amounts of insurance per policy as shown below. While the average new policy face amounts subsequently declined, the increased sales activity in the past few years has produced an upward trend in this figure. The Company's sales to international residents have witnessed a steady growth in the average face amount of insurance coverage per policy over the same time period and has begun to level off in 2013.

	Average New Policy Face Amount	
	Domestic	International

Year ended December 31, 2007	416,800	251,000
Year ended December 31, 2008	455,200	272,000
Year ended December 31, 2009	201,400	315,300
Year ended December 31, 2010	164,800	338,600
Year ended December 31, 2011	178,500	363,600
Year ended December 31, 2012	254,900	380,200
Nine months ended September 30, 2013	286,000	369,500

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After several challenging years of life insurance sales in the wake of the global financial crisis, life insurers have looked for new ways to rebuild premium levels. The Company's focus is directed toward its competitive advantages in international markets and wealth transfer strategies for domestic life sales. Critical to these strategies is the Company's portfolio of fixed-index (equity indexed) life insurance products. Fixed-index life products accounted for 81% of total life sales in the first nine months of 2013, an increase from 70% for the same period in 2012.

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

	Insurance In Force as of September 30,	
	2013	2012
	($ in thousands)	
Universal life:		
Number of policies	54,860	58,140
Face amounts	$7,102,460	7,406,390
Traditional life:		
Number of policies	39,520	41,860
Face amounts	$3,329,160	3,102,580
Fixed-indexed life:		
Number of policies	35,780	33,740
Face amounts	$8,904,050	8,379,160
Rider face amounts	$2,669,260	2,403,570
Total life insurance:		
Number of policies	130,160	133,740
Face amounts	$22,004,930	21,291,700

The Company's domestic in force business includes final expense policies and other smaller face amount traditional life policies written over the past several decades. As the Company's domestic product portfolio has changed to higher face amount universal life and fixed-indexed life policies, a decline in the number of traditional life policies in force has been steadily occurring.

At September 30, 2013, the Company’s face amount of life insurance in force was comprised of $19.3 billion from the international line of business and $2.7 billion from the domestic line of business. At September 30, 2012, these amounts were $18.9 billion and $2.4 billion for the international and domestic lines of business, respectively.

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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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Fixed-indexed annuities	$186,526	166,318	538,854	484,715
Other deferred annuities	10,777	49,746	56,349	117,081
Immediate annuities	1,909	10,136	8,782	33,976
Totals	$199,212	226,200	603,985	635,772

Annuity sales in the third quarter of 2013 were 12% lower than in the third quarter of 2012. For the first nine months of the year, annuity sales trailed the level in 2012 by approximately 5%. Annuity sales in the first nine months of 2013 are in line with the Company's sales goals for the 2013 calendar year of $800 million.

The recessionary contraction and financial market crisis that began in the latter half of 2007 and persisted into 2009 impacted many annuity carriers. Losses from investment impairments and equity exposure (for insurers with variable annuity product offerings) crippled the capital position of numerous companies and limited their ability to write new business. In contrast, the Company's substantial capital position attained through profitable operations and limited investment loss exposure positioned it to write additional levels of annuity business. During 2010 and 2011, the Company sold approximately $1.4 billion of annuity products per year indicative of the Company's enhanced competitive position in the marketplace.

Under the auspices of the Company's enterprise risk management (ERM) processes, management evaluated the potential ramifications of continuing a high level of annuity sales in the current depressed interest rate environment precipitated by the "quantitative easing" programs enacted by the Federal Reserve and the European debt crisis. Considered was the Federal Reserve's announced intention to maintain interest rates at current levels over the next several years and hints of ongoing quantitative easing initiatives. While the Company does not subsidize its interest crediting rates on new policies in order to obtain market share, the Company's ERM considerations determined in 2012 that managing to a lower level of annuity sales was prudent in the present environment.

The Company's mix of annuity sales tends to shift with interest rate levels and the relative performance of the equity market. Over the past several years, sales of fixed-indexed products have accounted for 60% to 80% of all annuity sales. During the first nine months of 2013 this percentage reached 89% reflecting the bull market run in equities since bottoming out in the first quarter of 2009 and the low level of fixed interest rates. For all fixed-indexed products, the Company purchases over the counter options to hedge the equity return feature. The options are purchased relative to the issuance of the annuity contracts in such a manner to minimize timing risk. Generally, the index return during the indexing period (if the underlying index increases) becomes a component in a formula (set forth in the annuity), the result of which is credited as interest to contract holders electing the index formula crediting method at the beginning of the indexing period. The formula result can never be less than zero with these products. The Company does not deliberately mismatch or under hedge for the equity feature of the products. Fixed-indexed products also provide the contract holder the alternative to elect a fixed interest rate crediting option.

The level of annuity business in force requires a focused discipline on asset/liability analysis. The Company monitors its asset/liability matching within the self-constraints of desired capital levels and risk tolerance. Despite the amounts of new business generated over the past several years, the Company's capital level remains substantially above industry averages and regulatory targets. Management has performed analyses of the capital strain associated with incrementally higher levels of annuity new business and determined that the Company's capital position is more than sufficient to handle increased sales activity.

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

	Annuities In Force as of September 30,	
	2013	2012
	($ in thousands)	
Fixed-indexed annuities		
Number of policies	63,460	58,730
GAAP annuity reserves	$4,606,831	4,098,748
Other deferred annuities		
Number of policies	59,470	64,470
GAAP annuity reserves	$2,521,551	2,725,878
Immediate annuities		
Number of policies	17,390	17,840
GAAP annuity reserves	$391,531	422,103
Total annuities		
Number of policies	140,320	141,040
GAAP annuity reserves	$7,519,913	7,246,729

Impact of Recent Business Environment

The Company's business is generally aided by an economic environment undergoing expansion, whether moderate or vibrant. Conversely, a muted economic recovery could adversely impact the demand for the Company's products. Economic data through the first nine months of 2013 has provided a mixed picture of the economy's direction. There are some indications that improvements are beginning to emerge domestically, especially in the area of the housing industry, but regional reports of business activity reveal inconsistent progress amongst the various areas of the country. The fundamental fiscal problems embedded in the European block of countries persist despite improved sentiment of late. Given the importance of global trade to domestic economies, the ongoing concerns of European countries remain a threat to spill over into other regions of the world. While Greece remains at the forefront of troubled economies, issues in France, Spain, and Portugal, among other countries, continue to linger in the background. Conflicting reports and analysis raise questions as to whether there is a slowdown in China's economic engine which has supported global activity over the past several years. The Japanese experiment referred to as "Abenomics" has been generally positive as the Japanese version of "quantitative easing" has raised the economic activity within that country. However, recent comments from country officials have indicated that the stimulative effect of these policies has begun to wane. Increasingly, currency sentiments toward a change from the U.S. dollar to another currency as the global standard have picked up pace particularly in view of the recent Federal government shutdown prompted by Congress' inability to productively address its fiscal and Federal debt issues.

The Federal Reserve had previously provided notice of its intention to begin "tapering" its purchases of long duration securities, perhaps as soon as September. In a surprise announcement, the Federal Reserve decided in its September meeting to delay their tapering plans. The treasury bond market responded robustly with the 10-year Treasury note yield eliminating approximately 30 basis points of the rate increase which had occurred since the end of 2012. The Federal Reserve cited conflicting business conditions along with a historically high unemployment level as factors driving their thinking. Certainly, the global factors mentioned in the previous paragraph also influenced the Federal Reserve's thought process. Under this set of circumstances, lack of job growth and lingering high unemployment rates negatively impact consumer income and financial confidence which inhibit increased economic activity. Such a scenario would build the case for ongoing economic stimulus policies which serve to prolong a low interest rate environment. The goal of such policies are the instigating of a sustainable recovery in the U.S. economy. For insurers offering interest-sensitive products such as fixed-rate annuities and universal life insurance, the low yield environment creates pressure on managing investment spread compression and therefore profitability.

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Industry analysts and observers generally agree that a sudden jump in interest rate levels would be harmful to life insurers with interest-sensitive products as it could provide an impetus for a potentially severe risk of disintermediation. Such an occurrence involves abnormal product surrenders and withdrawals at the same time fixed debt securities held by insurers declined in market value. If insurers were forced to sell investments at a loss to meet the demand for product surrenders and withdrawals, it would result in a degradation of capital. Currently, a sudden increase in rates does not appear likely given the tepid pace of economic expansion and the number of risks still present domestically and globally. It is uncertain what direction and at what pace interest rate movements may occur in the future and what impact, if any, such movements would have on the Company's business, results of operations, cash flows or financial condition.

Our operating strategy continues to be to maintain capital levels substantially above regulatory and rating agency requirements. The Company maintains resources more than adequate to fund future growth and absorb abnormal periods of cash outflows.

RESULTS OF OPERATIONS

The Company's condensed 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 derivative and realized investment gains and losses from operating revenues. 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 derivative 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 condensed 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 condensed consolidated financial statements.

Consolidated Operations

Revenues. The following details Company revenues.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Universal life and annuity contract charges	$33,523	36,924	111,785	109,776
Traditional life and annuity premiums	4,159	4,124	13,241	13,111
Net investment income (excluding derivatives)	105,788	106,705	325,165	324,485
Other revenues	5,822	5,923	17,954	17,444
Operating revenues	149,292	153,676	468,145	464,816
Derivative gain (loss)	35,615	32,369	126,739	42,328
Net realized investment gains (losses)	3,285	4,940	7,199	8,112

Total revenues	$188,192	190,985	602,083	515,256

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Universal life and annuity contract charges - Revenues for universal life and annuity contracts increased 1.8% for the first nine months in 2013 compared to 2012 primarily due to higher cost of insurance and administrative charges resulting from growth in the amount of business in force. Revenues for universal life and annuity products consist of policy charges for the cost of insurance, administration charges, and surrender charges assessed against policyholder account balances, less reinsurance premiums, as shown in the following table.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Contract Revenues:				
Cost of insurance and administrative charges	$28,778	31,990	96,079	93,245
Surrender charges	9,591	9,356	27,615	28,861
Other charges	(795)	(131)	(385)	65
Gross contract revenues	37,574	41,215	123,309	122,171
Reinsurance premiums	(4,051)	(4,291)	(11,524)	(12,395)
Net contract revenues	$33,523	36,924	111,785	109,776

Cost of insurance charges typically trend with the size of the life insurance block in force and the amount of new business issued during the period. Life insurance in force during the nine months ended September 30, 2013 averaged approximately $21.7 billion while for the same period of 2012 averaged $21.1 billion. Cost of insurance charges recognized in the third quarter ended September 30, 2013, increased to $24.9 million from $23.9 million in the same period of the prior year. For the nine months ended September 30, 2013, cost of insurance increased to $74.2 million from $71.0 million at September 30, 2012. Administrative charges pertaining to new business issued decreased to $21.9 million from $22.3 million for the nine months ended September 30, 2013 versus September 30, 2012, and were $3.9 million and $8.0 million, respectively, for the three months ended September 30, 2013 and 2012. Due to the substantial increase in the Company's single premium life insurance sales in 2013, in the third quarter the Company deferred the premium load associated with this product, retroactive to the beginning of the year, and set the amount up as an unearned revenue balance to be earned over future periods of the policy life. While reducing administrative charge revenue for the three and nine month periods ended September 30, 2013, the amounts were largely offset by corresponding changes to deferred policy acquisition costs and death benefit reserve liabilities.

Traditional life and annuity premiums - Traditional life and annuity premiums increased slightly in the first nine months of 2013 compared to the same period in 2012. Traditional life insurance premiums for products such as whole life and term life are recognized as revenues over the premium-paying period. The Company's life insurance sales focus has been primarily centered around universal life products. Universal life products, especially the Company's equity indexed universal life products which offer the opportunity for consumers to acquire life insurance protection and receive credited interest linked in part to an outside market index such as the S&P 500 Index®, have been more popular product offerings in the Company's markets.

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Net investment income - To ensure the Company will be able to honor future commitments to policyholders and provide a financial return, the funds received as premium payments and deposits are invested in high quality investments, primarily fixed maturity debt securities. The income from these investments is closely monitored by the Company due to its significant impact on the business. A detail of net investment income (with and without index options) is provided below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Gross investment income:				
Debt securities	$102,171	102,137	308,364	306,544
Mortgage loans	2,117	2,571	7,076	9,255
Policy loans	1,094	1,232	3,412	3,839
Short-term investments	59	258	220	762
Other invested assets	664	737	6,873	4,892
Total investment income	106,105	106,935	325,945	325,292
Less: investment expenses	317	230	780	807
Net investment income (excluding derivatives)	105,788	106,705	325,165	324,485
Derivative gain (loss)	35,615	32,369	126,739	42,328
Net investment income	$141,403	139,074	451,904	366,813

For the nine months ended September 30, 2013, debt securities generated approximately 94.8% of total investment income, excluding derivative gain (loss). The growth in investment income from debt securities through the third quarter of 2013 versus 2012 reflects the increase in the size of the portfolio fueled by investable cash inflows from annuity and single premium life insurance sales. This increase is somewhat mitigated by higher yielding debt securities maturing or being called by borrowers and being replaced with lower yielding securities in the current interest rate environment. Mortgage loan investment income for the three and nine months ended September 30, 2013 decreased over the comparable periods in 2012 reflecting a reduction in the portfolio balance due to loan maturities and paydowns. The Company's new mortgage loan activity has been relatively low by historical standards in recent years given the low level of rates and the higher level of risk associated with commercial properties in the current economic environment. The decrease in short-term investment income in 2013 compared to 2012 for the periods shown reflects lower balances held in this category. A lower level of liquidity in the bond markets during 2012 prompted the Company to temporarily invest cash flows in short term commercial paper. The increase in investment income for other invested assets was for the nine months ended September 30, 2013 reflects a real estate profits participation loan held in a subsidiary company which paid off during the during the second quarter netting the Company $2.3 million.

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In order to evaluate underlying profitability and results from ongoing operations, net investment income performance is analyzed excluding derivative gain (loss), which is a common practice in the insurance industry. Net investment income performance is summarized as follows:

	Nine Months Ended September 30,			
	2013		2012	
	(In thousands)			
Excluding derivatives:				
Net investment income	$325,165		324,485	
Average invested assets, at amortized cost	$8,862,066		8,697,100	
Annual yield on average invested assets	4.89	%	4.97	%
Including derivatives:				
Net investment income	$451,904		366,813	
Average invested assets, at amortized cost	$8,873,756		8,735,274	
Annual yield on average invested assets	6.79	%	5.60	%

The lower yield on average invested assets, excluding derivatives, through the third quarter of 2013 compared to 2012 is due to progressively lower yields obtained on new fixed maturity debt securities investments. During 2012, the average yield on bond purchases to fund insurance operations was 3.37% representing a 1.59% spread over treasury rates. Insurance operation bond purchases through the third quarter of 2013 had an average yield of 3.43% with spreads decreasing to 1.20% over treasury rates. The weighted average quality of new purchases during the first nine months was "A", which was marginally higher than the overall "A-" quality rating of purchases during 2012. In addition, the composite duration of purchases during the first nine months of 2013 also was marginally higher than that for 2012 purchases, primarily due to lower coupon rates. The Company's general investment strategy is to purchase securities with maturity dates approximating ten years in the future. Accordingly, an appropriate measure for benchmarking the direction of interest rate levels for the Company's debt security purchases is the ten year treasury bond rate. The ten year treasury bond rate ranged from a low of 1.61% to a high of 2.98% during the first nine months of 2013. The movement toward the high end of this range occurred during early September in response to Federal Reserve comments during the summer which indicated an intention to taper down long-term bond purchases associated with its quantitative easing initiatives. When the Federal Reserve unexpectedly announced at its September meeting a delay in tapering implementation, rates subsequently declined 35 to 40 basis points from the year-to-date 2013 high.

Other revenues - Other revenues primarily pertain to the Company's two nursing home operations in Reno, Nevada and San Marcos, Texas. Revenues associated with these operations were $17.7 million and $17.0 million for the nine months ended September 30, 2013 and 2012, respectively.

Derivative gain (loss) - Index options are derivative financial instruments used to hedge the equity return component of the Company's fixed-index products. Derivative gain or loss includes the amounts realized from the sale or expiration of the options. Since the index options do not meet the requirements for hedge accounting under GAAP, they are marked to fair value on each reporting date and the resulting unrealized gain or loss is also reflected as a component of net investment income.

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Gains and losses from index options are due to changes in equity market conditions. Index options are intended to act as hedges to match the returns on the product's underlying reference index and the rise or decline in the index relative to the index level at the time of the option purchase which causes option values to likewise rise or decline. As income from index options fluctuates with the underlying index, the contract interest expense to policyholder accounts for the Company's fixed-index products also fluctuates in a similar manner and direction. For the quarter ended September 30, 2013, the reference indices increased and the Company recorded an overall gain from index options with a corresponding increase in contract interest expense during this period.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Derivatives:				
Unrealized gain (loss)	$(3,385)	26,800	58,165	65,097
Realized gain (loss)	39,000	5,569	68,574	(22,769)
Total gain (loss) included in net investment income	$35,615	32,369	126,739	42,328
Total contract interest	$87,486	89,386	299,224	216,933

The economic impact of the option performance in the Company's financial statements is not generally determined solely by the option gain or loss included in net investment income as a corresponding amount is recorded in the contract interest expense line. Rather, the Company's financial result for these options is dependent upon the purchase cost of the option remaining within the financial budget for purchasing options embedded in the product pricing. Option prices vary with interest rates, volatility, and dividend yields among other things. As option prices vary, the Company manages for the variability by making offsetting adjustments to product caps, participation rates, and management fees. For the periods shown, the Company's option costs have been within the product pricing budgets.

Net realized investment gains (losses) - Realized gains on investments in 2013 primarily resulted from bond calls and sales. The net gains reported for the nine months ended September 30, 2013 consisted of gross gains of $7.5 million offset by gross losses of $0.3 million, which include other-than-temporary impairment losses.

The Company records impairment write-downs when a decline in value is considered to be other-than-temporary and full recovery of the investment is not expected. Impairments due to credit factors are recorded in the Company's Condensed Consolidated Statements of Earnings while non-credit (liquidity) impairment losses are included in other comprehensive income (loss). Impairment and valuation write-downs reflected in the Company's Condensed Consolidated Statements of Earnings are summarized in the following table.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Impairment or valuation write-downs:				
Bonds	$13	494	238	1,060
Equities	—	17	14	70
Mortgage loans	—	—	—	—

Real estate	—	—	—	
Total	$13	511	252	1,130

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Bond impairments during the nine months ended September 30, 2013 pertained to asset-backed securities whose cash flows and fair values did not support the amortized cost basis at which the instrument was recorded in the financial records. Equity impairments represent a mark-to-market write-down on common stock securities in which the market discount to book value was significant and had been maintained for several reporting periods. Equity securities represent 0.1% of invested assets and individual common stock holdings have an average cost basis of approximately $47,000.

Benefits and Expenses. The following table details benefits and expenses.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Life and other policy benefits	$16,941	12,323	48,081	39,858
Amortization of deferred policy acquisition costs	24,244	28,403	83,900	91,463
Universal life and annuity contract interest	87,486	89,386	299,224	216,933
Other operating expenses	22,675	22,143	69,442	64,613
Totals	$151,346	152,255	500,647	412,867

Life and other policy benefits - Death claim benefits, the largest component of policy benefits, increased to $28.3 million year-to-date 2013 compared to $23.6 million for the first nine months of 2012. Death claim amounts are generally subject to variation from period to period and the Company's mortality experience has generally been consistent with or better than its product pricing assumptions. Results for the three and nine months ended September 30, 2013 include a higher incidence of international life insurance claims which typically are of a larger face amount of coverage compared to domestic life insurance claims.

Although not utilized previously, the Company initiated a project during 2012 to identify unreported death claims by researching the Social Security Administration master database for deceased individuals which matches with insureds under in force policies of the Company. The results have not been substantial given that most of the claims identified are lower face insurance policies issued many years ago by the Company. However, the claim activity for 2013 and 2012 include incremental amounts associated with this project.

During the second quarter of 2013, annuity policy benefit obligations were increased $4.0 million pertaining to the market value adjustment feature on annuity contract surrenders and partial withdrawals transacted over a number of years. The amount of the market value adjustment for any single reporting period was not material given the length of time over which the transactions occurred.

Amortization of deferred policy acquisition costs - Life insurance companies are required to defer certain expenses that vary with, and are primarily related to, the cost of 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 (“DPAC”) as an expense in the condensed consolidated financial statements occurs over future periods in relation to the expected 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 universal life and annuity contract 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. DPAC balances are also adjusted each period to reflect current policy lapse or termination rates, expense levels and credited rates on policies compared to anticipated experience (“true-up”) with the adjustment reflected in current period amortization expense. In accordance with GAAP guidance the Company must also write-off deferred acquisition costs, unearned revenue liabilities, and deferred sales inducement assets upon internal replacement of certain contracts as well as annuitizations of deferred annuities.

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The following table identifies the effects of unlocking and true-up adjustments on DPAC balances recorded through amortization expense for the three and nine months ended September 30, 2013 and 2012.

Increase (Decrease) in DPAC Balance	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Unlocking	$—	—	—	—
True-up	3,326	2,925	13,055	2,427
Totals	$3,326	2,925	13,055	2,427

True-up adjustments were recorded in 2013 and 2012 relative to partial surrender rates, mortality rates, credited interest rates and earned rates for the current year's experience. This resulted in a $3.3 million decrease in amortization expense for the three months ended September 30, 2013, and a $2.9 million decrease for the three months ended September 30, 2012. The true-up adjustments for the life insurance lines of business were positive, (decrease to amortization expense) by $15.0 million in the first nine months of 2013 whereas the true-up adjustments for the annuity line of business during the same periods were negative by $1.9 million, incrementally adding to amortization expense. For the nine months ended September 30, 2012, true-up adjustments for the life insurance lines of business were positive (decrease to amortization expense) by $13.6 million while true-up adjustments for the annuity line of business increased amortization expense by approximately $11.2 million.

No unlocking adjustments were made by the Company in the first nine months of 2013 or 2012. 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.

Universal life and annuity contract interest - 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 on investments over policy credited rates is often referred to as the "interest spread".

The Company's approximated average credited rates, excluding and including fixed-indexed (derivative) products, were as follows:

	September 30,		September 30,	
	2013	2012	2013	2012
	(Excluding fixed-index products)		(Including fixed-index products)	
Annuity	2.66 %	2.92 %	4.18 %	3.21 %
Interest sensitive life	3.90 %	4.07 %	7.51 %	5.89 %

Contract interest including fixed-index products also encompasses the performance of the index options associated with the Company's fixed-index products. As previously noted, the market performance of these derivative features resulted in net realized and unrealized gains (losses) of $35.6 million and $32.4 million for the quarters ended September 30, 2013 and 2012, respectively.

Similar to deferred policy acquisition costs, the Company makes true-up adjustments pertaining to deferred sales inducements (first year interest bonuses) on a quarterly basis. For the nine months ended September 30, 2013 and 2012, these true-ups adjustments decreased the deferred sales inducement balance sheet amounts (increased contract interest expense) by $0.4 million and $5.3 million, respectively.

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Other operating expenses - Other operating expenses consist of general administrative expenses, licenses and fees, commissions not subject to deferral, nursing home expenses and compensation costs. These expenses for the three and nine months ended September 30, 2013 and 2012 are summarized in the table that follows.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
General insurance expenses	$4,538	6,087	19,935	18,914
Nursing home expenses	5,340	5,429	16,009	16,245
Compensation expenses	7,266	5,466	21,156	16,923
Commission expenses	3,938	3,713	6,677	8,674
Taxes, licenses and fees	1,593	1,448	5,665	3,857
Totals	$22,675	22,143	69,442	64,613

General insurance expenses include amortization expense associated with capitalized system costs. The Company has been involved in major information system initiatives to enhance actuarial, accounting, policy acquisition, and policy administration processes. Costs related to these systems are capitalized during the development process and then amortized once they are placed into service and used in operations. Amortization expense in association with these system implementations was $1.5 million and $2.3 million in the nine months of 2013 and 2012, respectively. General expenses also include amounts provided for various legal matters and outstanding litigation. During the second quarter of 2013, the Company increased its accrual for these items by $3.5 million.

Compensation expenses include share based compensation costs for the Company’s stock option plans related to outstanding vested and unvested stock options. As these costs vary in tandem with the Company's Class A common share price as a result of marking the stock options to fair value under the liability method of accounting, the related expense amount varies positive or negative in any given period. For the nine months ended September 30, 2013 share based compensation expense was $4.0 million while for the comparable period in 2012 share based compensation expense was $0.4 million. The market price of the Company's Class A common stock increased approximately 28% between December 31, 2012 and September 30, 2013 from $157.74 to $201.77.

Taxes, licenses and fees include premium taxes paid to state insurance departments. For the nine months ended September 30th, these amounts increased from $1.4 million in 2012 to $2.6 million in 2013 reflecting the substantial gains in domestic life insurance sales. In addition, guaranty funds paid to state associations to fund insurance company insolvencies are included in these expenses and were $0.6 million in the first nine months of 2013.

Federal Income Taxes. Federal income taxes on earnings from operations reflect an effective tax rate of 32.6% for the nine months ended September 30, 2013 compared to 34.3% for the nine months ended September 30, 2012. The Company's effective tax rate is normally 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.

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Segment Operations

Summary of Segment Earnings
A summary of segment earnings for the nine months ended September 30, 2013 and 2012 is provided below. The segment earnings exclude realized gains and losses on investments, net of taxes.

	Domestic Life Insurance (In thousands)	International Life Insurance	Annuities	All Others	Totals
Segment earnings (losses):					
Three months ended:					
September 30, 2013	$555	7,447	11,013	3,633	22,648
September 30, 2012	$1,598	10,888	4,657	3,968	21,111
Nine months ended:					
September 30, 2013	$2,520	25,024	25,569	10,613	63,726
September 30, 2012	$2,386	25,547	23,735	10,368	62,036

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 September 30,		Nine Months Ended September 30,	
	2013 (In thousands)	2012	2013	2012
Premiums and other revenues:				
Premiums and contract charges	$3,944	7,680	22,967	22,499
Net investment income	6,928	6,037	22,943	15,846
Other revenues	12	(46)	21	6
Total revenues	10,884	13,671	45,931	38,351
Benefits and expenses:				
Life and other policy benefits	4,003	4,482	8,129	7,750
Amortization of deferred policy acquisition costs	1,015	437	5,260	4,896
Universal life insurance contract interest	2,261	2,976	17,320	11,419
Other operating expenses	2,782	3,313	11,496	10,659
Total benefits and expenses	10,061	11,208	42,205	34,724
Segment earnings (loss) before Federal income taxes	823	2,463	3,726	3,627
Provision (benefit) for Federal income taxes	268	865	1,206	1,241

Segment earnings (loss)	$555	1,598	2,520	2,386

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Revenues from domestic life insurance operations include life insurance premiums on traditional type products and contract 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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Universal life insurance revenues	$4,939	8,240	24,108	22,821
Traditional life insurance premiums	559	1,000	3,111	4,183
Reinsurance premiums	(1,554)	(1,560)	(4,252)	(4,505)
Totals	$3,944	7,680	22,967	22,499

The Company's domestic life insurance in force in terms of policy counts has been declining since 2008 resulting in lower universal life contract revenue charges. The pace of new policies issued has lagged the number of policies terminating from death or surrender by roughly a five-to-one rate over the past several years causing a declining level of insurance in force from which contract charge revenue is received. With the increase in new life sales this ratio has improved in the first nine months of 2013 to slightly more than a two-to-one relationship. Nonetheless, the number of domestic life insurance policies has declined from 62,900 at December 31, 2011 to 60,000 at December 31, 2012, and to 58,300 at September 30, 2013. Universal life insurance revenues are also generated with the issuance of new business based upon amounts per application and percentages of the face amount (volume) of insurance issued. Revenues associated with issuing new business are typically greater than that realized in a renewal period for in force policies. The number of domestic life policies issued in the first nine months of 2013 was 77% higher than in the comparable period for 2012 and the volume of insurance issued was 116% greater than that in 2012.

As noted in the discussion of Consolidated Operations results, in the third quarter of this year the Company began deferring the premium load on its most popular selling product, single pay life insurance. This resulted in a decrease in universal life insurance revenues during the third quarter of 2013 as compared to 2012.

Premiums collected on universal life products are not reflected as revenues in the Company's Condensed Consolidated Statements of Earnings in accordance with GAAP. Actual domestic universal life premiums collected are detailed below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Universal life insurance:				
First year and single premiums	$36,071	21,096	96,245	44,738
Renewal premiums	4,883	3,731	15,259	12,840
Totals	$40,954	24,827	111,504	57,578

The Company's efforts over the past several years have been to attract new independent agents and to promote life products to improve domestic life sales. During the past couple of years the Company has achieved some success in this regard with the number of new policies issued trending higher. This trend continued through the first nine months of 2013 as noted above. Sales have been substantially weighted toward single premium policies which do not have recurring premium payments. These products are targeting wealth transfer strategies involving the movement of accumulated wealth in alternative investment vehicles, including annuities, into life insurance products.

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Net investment income includes the gains and losses on index options purchased to back the index crediting mechanism on equity-index universal products. As noted previously in the Results of Operations discussion, option values have increased more rapidly in the first nine months of 2013 as compared to 2012 incurring larger option value gains.

Life and policy benefits for a smaller block of business are subject to variation from quarter to quarter. Claim activity during the first nine months of 2013 was consistent compared to historical trends, although the Social Security Administration master data base project mentioned in the Consolidated Operations section of the discussion on Results of Operations resulted in incremental claims during the period. The Company's overall mortality experience for this segment is in line with pricing assumptions.

As noted previously in the discussion of Results of Operations, the Company records true-up adjustments to DPAC balances each period to reflect current policy lapse or termination rates, expense levels and credited rates on policies as compared to anticipated experience with the adjustment reflected in current period amortization expense. To the extent required, the Company may also record unlocking adjustments to DPAC balances. The following table identifies the effects of unlocking and true-up adjustments on domestic life insurance DPAC balances recorded through amortization expense three and nine months ended September 30, 2013 and 2012.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Increase (Decrease) in DPAC Balance				
Unlocking	$—	—	—	—
True-up	1,362	2,867	5,742	4,186
Totals	$1,362	2,867	5,742	4,186

As noted in the table above, the true-up adjustments recorded increased the DPAC balance which conversely reduced amortization expense by a like amount for the periods shown.

International Life Insurance Operations

The Company's international life operations have been a significant factor in the Company's overall earnings performance and represents a niche where the Company believes it has a competitive advantage. A stable population of distribution relationships has been developed given the Company's longstanding reputation for supporting its international life products coupled with the instability of competing companies in international markets.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Premiums and other revenues:				
Premiums and contract charges	$28,865	28,453	87,061	83,999
Net investment income	10,957	12,255	43,224	34,967
Other revenues	60	32	211	378
Total revenues	39,882	40,740	130,496	119,344
Benefits and expenses:				
Life and other policy benefits	11,040	4,827	17,910	14,622
Amortization of deferred policy acquisition costs	3,287	2,083	17,000	15,448
Universal life insurance contract interest	8,525	9,602	39,760	30,845
Other operating expenses	5,987	7,069	18,820	19,605
Total benefits and expenses	28,839	23,581	93,490	80,520
Segment earnings (losses) before Federal income taxes	11,043	17,159	37,006	38,824
Provision (benefit) for Federal income taxes	3,596	6,271	11,982	13,277
Segment earnings (loss)	$7,447	10,888	25,024	25,547

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Universal life insurance revenues	$27,922	28,061	84,386	82,962
Traditional life insurance premiums	3,600	3,920	10,130	11,229
Reinsurance premiums	(2,657)	(3,528)	(7,455)	(10,192)
Totals	$28,865	28,453	87,061	83,999

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In general, universal life revenues and operating earnings are anticipated to emerge with growth in the amount of international life insurance in force fueled by a steady growth in new sales. The volume of insurance in force grew from $18.6 billion at December 31, 2011 to $19.2 billion at December 31, 2012 and leveled off to $19.3 billion at September 30, 2013. Universal life insurance revenues are also generated with the issuance of new business based upon amounts per application and percentages of the face amount (volume) of insurance issued. The number of international life policies issued in the first nine months of 2013 was 8% lower than in the first nine months of 2012 and the volume of insurance issued was 9% less than issued in 2012 during the same period.

International universal life revenues also include surrender charges assessed upon surrender of contracts by policyholders. In the midst of the financial crisis the past few years, the Company's international policyholders in particular exhibited concern regarding the developments in U.S. financial markets. This evidenced itself in the Company's termination activity in its international life policies in force. During 2009, the Company incurred higher termination experience than is typical which resulted in recognition of increased surrender charge fee income. This level of termination activity subsequently subsided in 2011. However, the ongoing global concerns may be causing re-emerging concern as international policyholder terminations have been slowly trending higher. The following table illustrates the Company's recent international life termination experience.

	Amount in $'s (millions)	Annualized Termination Rate	
Volume In Force Terminations			
Nine months ended September 30, 2013	$1,385.5	8.7	%
Year ended December 31, 2012	1,828.4	8.7	%
Year ended December 31, 2011	1,465.1	7.3	%
Year ended December 31, 2010	1,721.8	9.0	%
Year ended December 31, 2009	2,423.2	13.0	%
Year ended December 31, 2008	1,923.2	10.8	%

As noted previously, premiums collected on universal life products are not reflected as revenues in the Company's Condensed Consolidated Statements of Earnings in accordance with GAAP. Actual international universal life premiums collected are detailed below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Universal life insurance:				
First year and single premiums	$8,174	7,684	19,420	23,348
Renewal premiums	29,651	30,098	86,720	87,410
Totals	$37,825	37,782	106,140	110,758

The Company's most popular international products have been its fixed-index universal life products in which the policyholder can elect to have the interest rate credited to their policy account values linked in part to the performance of the S&P 500 Index®. Included in the totals in the above table are collected premiums for fixed-index universal life products of approximately $66.9 million and $69.1 million for the first nine months of 2013 and 2012, respectively.

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As previously noted, net investment income and contract interest include period-to-period changes in fair values pertaining to call options purchased to hedge the interest crediting feature on the fixed-index universal life products. With the growth in the fixed-index universal life block of business, the period-to-period changes in fair values of the underlying options have had an increasingly greater impact on net investment income and universal life contract interest. A detail of net investment income for international life insurance operations is provided below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Net investment income (excluding derivatives)	$6,679	7,356	28,193	28,397
Derivative gain (loss)	4,278	4,899	15,031	6,570
Net investment income	$10,957	12,255	43,224	34,967

A comparable impact for the derivative component in the equity-index universal life product is reflected in the contract interest expense for each respective period.

Life and policy benefits primarily consist of death claims on policies. The Company's clientele for international products are wealthy individuals with access to U.S. dollars and quality medical care. Consequently, the amounts of coverage purchased tend to be larger amounts. In the year ended December 31, 2012, the average face amount of insurance purchased was approximately $380,000, and in the first nine months of 2013, the average was $369,500. While life and policy benefit expense for the international life segment reflects the larger policies purchased, mortality due to natural causes is comparable to that in the United States. In the third quarter of 2013, the Company incurred a higher than normal volume of international life insurance claims which increased the related benefit expense during the period.

The Company records true-up adjustments to DPAC balances each period to reflect current policy lapse or termination rates, expense levels and credited rates on policies as compared to anticipated experience as well as unlocking adjustments as necessary. The following table identifies the effects of unlocking and true-up adjustments on international life insurance DPAC balances recorded through amortization expense for the three and nine months ended September 30, 2013 and 2012.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Increase (Decrease) in DPAC Balance				
Unlocking	$—	—	—	—
True-up	1,999	2,878	9,210	9,472
Totals	$1,999	2,878	9,210	9,472

True-up adjustments in the first nine months of 2013 and 2012 increased the DPAC balance and decreased amortization expense.

As indicated in the discussion concerning net investment income, contract interest expense includes fluctuations that are the result of the performance of underlying equity indices associated with fixed-index universal life products. The derivative gain (loss) realized on purchased call options is included in the amounts the Company credits to policyholders. For more details about the Company's use of index options to hedge the performance of equity indices refer to the derivative gain (loss) discussion in Note 11.

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Annuity Operations

The Company's annuity operations are almost exclusively with residents of 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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Premiums and other revenues:				
Premiums and contract charges	$4,873	4,915	14,998	16,389
Net investment income	118,521	115,781	371,704	302,045
Other revenues	22	213	52	14
Total revenues	123,416	120,909	386,754	318,448
Benefits and expenses:				
Life and other policy benefits	1,898	3,014	22,042	17,486
Amortization of deferred policy acquisition costs	19,942	25,883	61,640	71,119
Annuity contract interest	76,700	76,808	242,144	174,669
Other operating expenses	8,565	7,332	23,117	19,104
Total benefits and expenses	107,105	113,037	348,943	282,378
Segment earnings (loss) before Federal income taxes	16,311	7,872	37,811	36,070
Provision (benefit) for Federal income taxes	5,298	3,215	12,242	12,335
Segment earnings (loss)	$11,013	4,657	25,569	23,735

A comparative detail of the components of premiums and annuity contract revenues is provided below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Surrender charges	$4,873	4,915	14,998	16,385
Payout annuity and other revenues	—	—	—	—
Traditional annuity premiums	—	—	—	4
Totals	$4,873	4,915	14,998	16,389

The Company's lapse rate for annuity contracts in the first nine months of 2013 was 6.6% compared to 5.8% during the same period in 2012. Surrender charge revenue is also dependent upon the duration of the policy at the time of termination as typical surrender charge provisions decrease during the tenure of the contract. Accordingly, the decrease in surrender charge revenue in the first nine months of 2013 is primarily a function of the termination of contracts later in their duration.

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Deposits collected on annuity contracts are not reflected as revenues in the Company's Condensed Consolidated Statements of Earnings, in accordance with GAAP. Actual annuity deposits collected during the three and nine months ended September 30, 2013 and 2012 are detailed below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Fixed-index annuities	$181,727	175,672	539,809	494,289
Other deferred annuities	22,077	46,725	66,224	122,045
Immediate annuities	1,081	7,059	5,148	23,613
Totals	$204,885	229,456	611,181	639,947

Fixed-index products are more attractive for consumers when interest rate levels remain low and equity markets produce positive returns. Since the Company does not offer variable products or mutual funds, fixed-index products provide an important alternative to the Company's existing fixed interest rate annuity products. Fixed-index annuity deposits as a percentage of total annuity deposits were 88% and 77% for the nine months ended September 30, 2013 and 2012, respectively. The increasing percentage of fixed-index products of total annuity sales reflects the low interest rate environment and the current bull market in equities.

As a selling inducement, some of the deferred products, as well as the fixed-index annuity products, include a first year interest bonus ranging from 1% to 7% depending upon the product, in addition to a base first year interest rate. Other products include a premium bonus ranging from 2% to 10% which is credited to the account balance when premiums are applied. These bonus rates are deferred in conjunction with other capitalized policy acquisition costs. The amount deferred to be amortized over future periods amounted to approximately $20.9 million and $23.5 million during the first nine months of 2013 and 2012, respectively. Amortization of deferred sales inducements is included as a component of annuity contract interest as described later in this discussion of Annuity Operations.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Net investment income (excluding derivatives)	$88,718	88,142	263,926	267,510
Derivative gain (loss)	29,803	27,639	107,778	34,535
Net investment income	$118,521	115,781	371,704	302,045

As previously described, derivatives are call options purchased to hedge the equity return component of the Company's fixed-index annuity products with any gains or losses from the sale or expiration of the options, as well as period-to-period changes in fair values, reflected in net investment income. Given the bifurcation of the embedded option in the determination of the contract reserve liability, a comparable impact for the derivative component in fixed-index annuity products is reflected in contract interest expense.

Life and other policy benefits primarily consists of death claim benefits paid on annuity policies. For the nine month period ended September 30, 2013, this amount also includes a $4.0 million liability increase recorded during the second quarter pertaining to the market value adjustment on surrenders and partial withdrawals on certain annuity policies that were transacted over a period of years.

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Consistent with the domestic and international life segments, the Company records true-up adjustments to DPAC balances each period to reflect current policy lapse or termination rates, expense levels and credited rates on policies as compared to anticipated experience as well as unlocking adjustments as necessary. The following table identifies the effects of unlocking and true-up adjustments on annuity DPAC balances recorded through amortization expense for the three and nine months ended September 30, 2013 and 2012.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Increase (Decrease) in DPAC Balance				
Unlocking	$—	—	—	—
True-up	(35)	(2,820)	(1,897)	(11,231)
Totals	$(35)	(2,820)	(1,897)	(11,231)

As the true-up adjustments decreased the DPAC balances for the three and nine months ended September 30, 2013 and 2012, a corresponding increase in DPAC amortization was recorded in the Company's Condensed Consolidated Statements of Earnings in each respective period.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Fixed-index annuities	$53,482	49,156	164,742	113,365
All other annuities	23,077	27,486	78,746	64,353
Gross contract interest	76,559	76,642	243,488	177,718
Bonus interest deferred and capitalized	(5,968)	(5,514)	(20,904)	(23,483)
Bonus interest amortization	6,109	5,680	19,560	20,434
Total contract interest	$76,700	76,808	242,144	174,669

The fluctuation in reported contract interest amounts for fixed-index annuities is driven by sales levels, the level of the business in force and the positive or negative performance of equity markets on option values. The derivative gain (loss) information included in the net investment income discussion above is largely reflected in the amounts shown for contract interest for fixed-index annuities.

True-up adjustments for the deferred sales inducement balance are made each period similar to that done with respect to DPAC balances. For the nine months ended September 30, 2013 and 2012, deferred sales inducement balances were reduced by $0.4 million and $5.3 million, respectively, for true-up adjustments. These decreases are included in the above table as an addition to bonus interest amortization.

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The majority of litigation and legal matters the Company is involved with emanate from annuity products. Accordingly, the $3.5 million addition to the liability for legal matters during the second quarter of 2013 discussed in the Consolidated Operations of this report was allocated to the Annuity Operations segment and is included in other operating expenses for the nine months ended September 30, 2013.

Other Operations

National Western Life Insurance Company'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 $1.7 million and $0.8 million of operating earnings in the first nine months of 2013 and 2012, respectively. The remaining earnings of $8.9 million and $9.8 million for the nine months ended September 30, 2013 and 2012, respectively, in Other Operations represent investment income from real estate, municipal bonds, and common and preferred equities held in subsidiary company portfolios principally for tax advantage purposes. Included in these amounts are the semi-annual distributions from the life interest in the Libby Shearn Moody Trust which is an asset held in NWLSM, Inc.

INVESTMENTS

General

The Company's investment philosophy emphasizes the careful 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. The Company emphasizes investment grade debt securities with smaller holdings in mortgage loans.

	September 30, 2013			December 31, 2012		
	Carrying Value (In thousands)	%		Carrying Value (In thousands)	%	
Debt securities	$9,084,093	96.3	%	$8,775,854	96.5	%
Mortgage loans	117,091	1.3	%	142,170	1.6	%
Policy loans	68,307	0.7	%	71,549	0.8	%
Derivatives, index options	119,276	1.3	%	57,890	0.6	%
Real estate	18,362	0.2	%	18,800	0.2	%
Equity securities	13,553	0.1	%	12,267	0.1	%
Other	13,010	0.1	%	22,639	0.2	%
Totals	$9,433,692	100.0	%	$9,101,169	100.0	%

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Debt and Equity Securities

The Company maintains a diversified portfolio which consists mostly of corporate, mortgage-backed, and public utility fixed income securities. Investments in mortgage-backed securities primarily include U.S. Government agency pass-through securities and collateralized mortgage obligations ("CMO"). The Company's investment guidelines prescribe limitations by type of security as a percent of the total investment portfolio and all holdings were within these threshold limits. As of September 30, 2013 and December 31, 2012, the Company's debt securities portfolio consisted of the following classes of securities:

	September 30, 2013		December 31, 2012	
	Carrying Value (In thousands)	%	Carrying Value (In thousands)	%
Corporate	$5,715,062	62.9	$5,264,884	60.0
Mortgage-backed securities	1,797,371	19.8	1,957,380	22.3
Public utilities	1,061,150	11.7	1,062,666	12.1
State and political subdivisions	421,092	4.6	391,633	4.5
U.S. agencies	23,095	0.3	23,114	0.3
Asset-backed securities	44,517	0.5	48,216	0.5
Foreign governments	19,894	0.2	26,054	0.3
U.S. Treasury	1,912	—	1,907	—
Totals	$9,084,093	100.0	$8,775,854	100.0

Substantially all of the Company's investable cash flows are directed toward the purchase of debt securities. The Company's investment policy calls for investing in debt securities that are investment grade, meet quality and yield objectives, and provide adequate liquidity for obligations to policyholders. Debt securities with intermediate maturities are targeted by the Company as they more closely match the intermediate nature of the Company's policy liabilities and provide an appropriate strategy for managing cash flows. Debt securities purchased to fund insurance company operations are summarized below.

	Nine Months Ended September 30, 2013		Year Ended December 31, 2012	
	($ In thousands)			
Cost of acquisitions	$1,374,117		$1,419,730	
Average S&P® quality	A		A-	
Effective annual yield	3.43	%	3.37	%
Spread to treasuries	1.20	%	1.59	%
Effective duration	8.6 years		8.2 years	

The mortgage-backed securities portfolio consists predominantly of agency mortgage-backed securities. Because mortgage-backed securities are subject to prepayment and extension risk, the Company has substantially reduced these risks by investing in collateralized mortgage obligations ("CMO"), which have more predictable cash flow patterns than pass-through securities. These securities, known as planned amortization class I ("PAC I"), very accurately defined maturity ("VADM") and sequential tranches are designed to amortize in a more predictable manner than other CMO classes or pass-throughs. The Company does not purchase tranches, such as PAC II and support tranches, that subject the portfolio to greater than average prepayment risk. 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.

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In addition to diversification, an important aspect of the Company's investment approach is managing the credit quality of its investment in debt securities. 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 debt securities portfolio with 98.2% held in investment grade securities. 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®.

	September 30, 2013		December 31, 2012	
	Carrying Value (In thousands)	%	Carrying Value (In thousands)	%
AAA	$96,363	1.1	$111,859	1.3
AA	2,568,922	28.3	2,646,017	30.2
A	2,814,100	31.0	2,529,537	28.8
BBB	3,443,699	37.8	3,322,674	37.8
BB and other below investment grade	161,009	1.8	165,767	1.9
Totals	$9,084,093	100.0	$8,775,854	100.0

The Company's investment guidelines do not allow for the purchase of below investment grade securities. The investments held in debt securities below investment grade are the result of subsequent downgrades of the securities. These holdings are further summarized below.

	Below Investment Grade Debt Securities				
	Amortized Cost	Carrying Value	Fair Value	% of Invested Assets	
	(In thousands, except percentages)				
September 30, 2013	$157,415	161,009	164,332	1.7	%
December 31, 2012	$161,550	165,767	168,671	1.8	%

The Company's percentage of below investment grade securities compared to total invested assets decreased slightly from December 31, 2012 due to bond calls, maturities and rating upgrades. The Company's holdings of below investment grade securities are relatively small and as a percentage of total invested assets low compared to industry averages.

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Holdings in below investment grade securities by category as of September 30, 2013 are summarized below, including September 30, 2013 and December 31, 2012 fair values for comparison. The Company continually monitors developments in these industries for issues that may affect security valuation.

Industry Category	Below Investment Grade Debt Securities Amortized Cost September 30, 2013 (In thousands)	Carrying Value September 30, 2013	Fair Value September 30, 2013	Fair Value December 31, 2012
Retail	$17,964	18,090	18,090	23,770
Telecommunications	5,431	8,563	8,563	8,538
Asset-backed securities	7,168	7,168	9,111	9,989
Mortgage-backed	12,821	13,048	13,276	7,775
Transportation	—	189	189	320
Manufacturing	50,811	52,085	54,400	56,325
Banking/finance	33,516	33,687	32,312	31,324
Other	29,704	28,179	28,391	30,630
Totals	$157,415	161,009	164,332	168,671

The Company closely monitors its 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 or the markets in general is possible, which may result in further write-downs.

Certain European countries have experienced varying degrees of financial stress. Risks from the lingering debt crisis in Europe could continue to disrupt financial markets and have a detrimental impact on global conditions as well as on sovereign and non-sovereign obligations.The Company has no exposure to the sovereign debt of Portugal, Ireland, Italy, Greece or Spain. These countries in particular are experiencing significant economic, fiscal and political strains that increase the likelihood of default for these countries. Additionally, the Company has no exposure to the debt of financial institutions domiciled in these countries.

However, the Company does have exposure to the debt of non-financial companies in these countries except Greece. The following table shows bond holdings at September 30, 2013 of non-financial companies that are domiciled in Portugal, Ireland, Italy, or Spain held in the available for sale and held to maturity debt security portfolios.

Securities Available for Sale Company	S&P Rating (In thousands)	Amortized Cost September 30, 2013	Fair Value September 30, 2013	Country Domiciled
Covidien	A	$24,188	24,808	Ireland
CRH	BBB+	10,999	11,426	Ireland
Telecom Italia	BBB-	12,000	12,054	Italy

Telefonica	BBB	11,760	12,978	Spain
Totals		$58,947	61,266	

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Securities Held to Maturity		Amortized Cost	Fair Value	
Company	S&P Rating	September 30, 2013	September 30, 2013	Country Domiciled
	(In thousands)			
Covidien	A	$4,989	4,717	Ireland
CRH	BBB+	3,000	3,005	Ireland
EDP	BB+	17,225	17,762	Portugal
Enel	BBB	19,923	21,814	Italy
Finmeccanica	BB+	15,022	15,450	Italy
Iberdrola Finance	BBB	2,909	3,180	Spain
Kerry Group	BBB+	21,950	20,310	Ireland
Telecom Italia	BBB-	2,998	3,087	Italy
Telefonica	BBB	8,126	8,665	Spain
Totals		$96,142	97,990	

Generally accepted accounting principles require that investments in debt securities be written down to fair value when declines in value are judged to be other-than-temporary. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price methodology). Refer to Note 10, Fair Values of Financial Instruments, of the accompanying condensed consolidated financial statements for further discussion.

During the nine months ended September 30, 2013 the Company recorded other-than-temporary impairment credit related write-downs on debt securities of $0.2 million. The Company had no other-than-temporary impairment write-downs on debt securities other than on certain asset-backed securities whose fair value and net present value of future cash flows fell below the amortized cost of the security. See Note 9, Investments, of the accompanying condensed consolidated financial statements for further discussion. Since the Company's adoption of the GAAP guidance on the recognition and accounting for other-than-temporary impairments due to credit loss versus non-credit loss, the Company has recognized a total of $6.8 million of other-than-temporary impairments of which $2.6 million was deemed credit related and recognized as realized investment losses in earnings, and $4.2 million was deemed a non-credit related impairment and recognized in other comprehensive income.

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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 on categorization 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 September 30, 2013, approximately 29.5% of the Company's total debt and equity securities, based on fair values, were classified as securities available for sale. The holdings in available for sale provide flexibility to the Company 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 (Losses)
	(In thousands)		
Securities held to maturity:			
Debt securities	$6,574,186	6,345,116	229,070
Securities available for sale:			
Debt securities	2,738,977	2,607,607	131,370
Equity securities	13,553	10,643	2,910
Totals	$9,326,716	8,963,366	363,350

Asset-Backed Securities

The Company holds approximately $44.5 million in asset-backed securities as of September 30, 2013. This portfolio includes $12.0 million of manufactured housing bonds and $32.5 million of home equity loans (also referred to as subprime securities). The Company does not have any holdings in collaterized bond obligations (“CBO”s), collateralized debt obligations (“CDO”s), or collateralized loan obligations (“CLO”s). Principal risks in holding asset-backed securities are structural, credit, and capital market risks. Structural risks include the securities' priority in the issuer's capital structure, the adequacy of and ability to realize proceeds from collateral and the potential for prepayments. Credit risks include corporate credit risks or consumer credit risks for financing such as subprime mortgages. Capital market risks include the general level of interest rates and the liquidity for these securities in the marketplace.

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The Company holds one Alt-A security with a carrying value of $3.8 million. The Alt-A sector is a sub-sector of the jumbo prime MBS sector. The average FICO for an Alt-A borrower is approximately 715 compared to a score of 730 for a jumbo prime borrower. The Company's exposure to the Alt-A and subprime sectors is limited to investments in the senior tranches of structured securities collateralized by Alt-A or subprime residential mortgage loans. The subprime sector is generally categorized under the asset-backed sector. This sector lends to borrowers who do not qualify for prime interest rates due to poor or insufficient credit history. Subprime borrowers generally have FICO scores of 660 or below. The slowing housing market, rising interest rates, and relaxed underwriting standards for loans originated after 2005 resulted in higher delinquency rates and losses beginning in 2007. These events caused illiquidity in the market and volatility in the market prices of subprime securities. With the government intervention initiatives in 2009, the housing market began to show signs of stabilizing. There was an improvement in the prices of subprime securities as the bond market also became more liquid. All of the loans classified as Alt-A or subprime in the Company's portfolio as of September 30, 2013 were underwritten prior to 2005 as noted in the table below.

	September 30, 2013		December 31, 2012	
Investment Origination Year	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)			
Subprime:				
1998	$4,229	4,372	5,310	5,014
2003	3,954	5,395	3,927	4,960
2004	24,341	27,581	23,067	26,225
Subtotal subprime	$32,524	37,348	32,304	36,199
Alt A:				
2004	$3,765	3,765	3,839	3,839

As of September 30, 2013, 1 of the subprime securities was rated AAA, 2 were rated AA, 3 were rated BBB, 2 were rated B, and 2 were rated CC. The Company sold a subprime security in the first quarter of 2013 and realized a gain on this previously impaired security.

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, motels, and health care facilities. The location of these properties 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 lease payments and also by the borrower. This approach has proven to result in quality mortgage loans with few defaults. Mortgage loan interest income is recognized on an accrual basis with any premium or discount amortized over the life of the loan. Prepayment and late fees are recorded on the date of collection.

The Company requires a minimum specified yield on mortgage loan investments. During the past several years, the low interest rate environment has resulted in fewer loan opportunities being available that meet the Company's required rate of return. Mortgage loans originated by the Company totaled $21.5 million for the year ended December 31, 2012 and $5.3 million for the nine months ended September 30, 2013. Principal repayments on mortgage loans for the nine months ended September 30, 2013 were $30.6 million.

Loans in foreclosure, loans considered impaired or loans past due 90 days or more are placed on a non-accrual status. If a mortgage loan is determined to be on non-accrual status, the mortgage loan does not accrue any revenue into the Condensed Consolidated Statements of Earnings. The loan is independently monitored and evaluated as to potential impairment or foreclosure. If delinquent payments are made and the loan is brought current, then the Company returns the loan to active status and accrues income accordingly. The Company has no loans past due 90 days which are accruing interest.

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The Company held net investments in mortgage loans totaling $117.1 million and $142.2 million at September 30, 2013 and December 31, 2012, respectively. The diversification of the portfolio by geographic region and by property type was as follows:

	September 30, 2013		December 31, 2012	
	Amount (In thousands)	%	Amount (In thousands)	%
Mortgage Loans by Geographic Region:				
West South Central	$63,819	54.2 %	$78,010	54.6 %
New England	17,470	14.8 %	21,160	14.8 %
Mountain	3,260	2.8 %	2,180	1.5 %
Pacific	10,384	8.9 %	18,178	12.7 %
East North Central	10,638	9.0 %	10,367	7.3 %
East South Central	10,140	8.6 %	10,261	7.2 %
South Atlantic	—	— %	561	0.4 %
Middle Atlantic	2,030	1.7 %	2,103	1.5 %
Gross balance	117,741	100.0 %	142,820	100.0 %
Allowance for possible losses	(650)	(0.6)%	(650)	(0.5)%
Totals	$117,091	99.4 %	$142,170	99.5 %

	September 30, 2013		December 31, 2012	
	Amount (In thousands)	%	Amount (In thousands)	%
Mortgage Loans by Property Type:				
Retail	$87,656	74.4 %	$98,180	68.7 %
Hotel/Motel	3,777	3.2 %	4,139	2.9 %
Land/Lots	3,078	2.6 %	12,618	8.8 %
Apartments	15,432	13.1 %	16,919	11.9 %
Office	1,356	1.2 %	4,354	3.1 %
All other	6,442	5.5 %	6,610	4.6 %
Gross balance	117,741	100.0 %	142,820	100.0 %
Allowance for possible losses	(650)	(0.6)%	(650)	(0.5)%
Totals	$117,091	99.4 %	$142,170	99.5 %

The Company's direct investments in real estate are not a significant portion of its total investment portfolio as most of these investments were acquired through mortgage loan foreclosures. The Company also participates in several real estate joint ventures, limited partnerships, and other loans that invest primarily in income-producing retail properties. These investments have enhanced the Company's overall investment portfolio returns. The Company's real estate investments totaled approximately $18.4 million and $18.8 million at September 30, 2013 and December 31, 2012, respectively. The Company recognized operating income on these properties of approximately $1.2 million for the first nine months of 2013. The Company monitors the conditions and market values of these properties on a regular basis and makes repairs and capital improvements to keep the properties in good condition.

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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. Substantial and sustained increases and decreases in market interest rates can affect the profitability of insurance products and fair value of investments. The yield realized on new investments generally increases or decreases in direct relationship with interest rate changes. The fair values of fixed income debt securities correlate to external market interest rate conditions as 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, market dislocations or increasing event-risk concerns.

Interest Rate Risk

A gradual increase in interest rates from current levels would generally be a positive development for the Company. Rate increases would be expected to provide incremental net investment income, produce increased sales of fixed rate products, and limit the potential erosion of the Company's interest rate spread on products due to minimum guaranteed crediting rates in products. Alternatively, a rise in interest rates would reduce the fair value of the Company's investment portfolio and if long-term rates rise dramatically within a relatively short time period could expose the Company to disintermediation risk. Disintermediation risk is the risk that policyholders will surrender their policies in a rising interest rate environment forcing the Company to liquidate assets when they are in an unrealized loss position.

A decline in interest rates could cause certain mortgage-backed securities in the Company's portfolio to be more likely to pay down or prepay. In this situation, the Company typically will be unable to reinvest the proceeds at comparable yields. Lower interest rates will likely also cause lower net investment income, subject the Company to reinvestment rate risks, and possibly reduce profitability through reduced interest rate margins associated with products with minimum guaranteed crediting rates. Alternatively, the fair value of the Company's investment portfolio will increase when interest rates decline.

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

	September 30, 2013	June 30, 2013	December 31, 2012
	(In thousands except percentages)		
Debt securities - fair value	$9,313,163	9,247,058	9,317,361
Debt securities - amortized cost	$8,952,723	8,848,403	8,521,172
Fair value as a percentage of amortized cost	104.03 %	104.51 %	109.34 %
Unrealized gain balance	$360,440	398,655	796,189
Ten-year U.S. Treasury bond – (decrease) increase in yield for the period	0.12 %	0.64 %	(0.12)%

	Unrealized Gains Balance				
	At September 30, 2013	At June 30, 2013	At December 31, 2012	Quarter Change in Unrealized Balance	Year-to-date Change in Unrealized Balance
Debt securities held to maturity	$229,070	258,304	541,507	(29,234)	(312,437)
Debt securities available for sale	131,370	140,351	254,682	(8,981)	(123,312)

Totals	$360,440	398,655	796,189	(38,215)	(435,749)

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Changes in interest rates typically have a sizable effect on the fair values of the Company's debt securities. The market interest rate of the ten-year U.S. Treasury bond increased approximately 12 basis points from year-end 2012 through the first nine months of 2013 and the Company's unrealized gain position decreased $435.7 million on a portfolio with an amortized cost basis of approximately $9.0 billion. 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 Condensed Consolidated Balance Sheet.

The Company manages interest rate risk principally through ongoing cash flow testing as 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 has the ability to adjust interest rates, participation rates, and asset fees and caps, as applicable, in response to changes in investment portfolio yields for a substantial portion of its business in force. The ability to adjust these rates is subject to competitive forces in the market for the Company’s products. Surrender rates could increase and new sales could be negatively affected if crediting rates are not competitive with the rates on competing products offered by other insurance companies and financial service entities. The Company designs its products with features encouraging persistency. Interest sensitive life and annuity products have surrender and withdrawal penalty provisions. Depending on the products, surrender charge rates on annuity contracts sold or in force range up to 25% and surrender charge periods up to 15 years. Typically, surrender charge rates gradually decrease each year the contract is in force.

The Company performed detailed sensitivity analysis as of December 31, 2012, for its interest rate-sensitive assets and liabilities. The changes in market values of the Company's debt securities in the first nine months of 2013 were reasonable given the expected range of results of this analysis.

Credit Risk

The Company is exposed to credit risk through counterparties and within its investment portfolio. Credit risk relates to the uncertainty associated with an obligor's continued ability to make timely payments of principal and interest in accordance with the contractual terms of an instrument or contract. As previously discussed, the Company manages credit risk through established investment credit policies and guidelines which address the quality of creditors and counterparties, concentration limits, diversification practices and acceptable risk levels. These policies and guidelines are regularly reviewed and approved by senior management and the Company's Board of Directors.

In connection with the Company’s use of call options to hedge the equity return component of its fixed-indexed annuity and life products, the Company is exposed to the risk that a counterparty fails to perform under terms of the option contract. The Company purchases one-year option contracts from multiple counterparties and evaluates the creditworthiness of all counterparties prior to the purchase of the contracts. For consideration in contracting with a counterparty the rating required by the Company is a Standard & Poor’s credit rating of “A” or higher and a Moody’s rating of “A2” or higher. Accordingly, all options are purchased from nationally recognized financial institutions with a demonstrated performance for honoring their financial obligations and possessing substantial financial capacity. In addition, each counterparty is required to execute a credit support agreement obligating the counterparty to provide collateral to the Company when the fair value of the Company's exposure to the counterparty exceeds specified amounts. The amount of collateral to be provided is based upon a sliding scale tied to the credit rating of the counterparty(the higher the credit rating of the counterparty the higher the threshold of exposure before collateral is to be provided). At the highest credit rating level the maximum counterparty net exposure not subject to collateral support is $20 million. This net exposure level declines as the counterparty credit rating declines and ultimately is $0 at a rating of "BBB+". Counterparty credit ratings and credit exposure are monitored continuously by the Company's Investment department with adjustments to collateral levels managed as incurred under the credit support agreements.

The Company is also exposed to credit spread risk related to market prices of investment securities and cash flows associated with changes in credit spreads. Credit spread tightening will reduce net investment income associated with new purchases of fixed debt securities and increase the fair value of the investment portfolio. Credit spread widening will reduce the fair value of the investment portfolio and will increase net investment income on new purchases.

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LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Liquidity requirements are met primarily by funds provided from operations. Premium deposits and annuity considerations, investment income, and investment maturities and prepayments are the primary sources of funds while investment purchases, policy benefits in the form of claims, and payments to policyholders and contract holders in connection with surrenders and withdrawals as well as operating expenses are the primary uses of funds. To ensure the Company will be able to pay future commitments, the funds received as premium payments and deposits are invested in high quality investments, primarily fixed income securities. Funds are invested with the intent that the income from investments, plus proceeds from maturities, will meet the ongoing cash flow needs of the Company. The approach of matching asset and liability durations and yields requires an appropriate mix of investments. Although the Company historically has not been put in the position of having to liquidate 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. There were no borrowings outstanding under the line of credit at September 30, 2013.

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 and market value adjustments, that help limit and discourage early withdrawals.

The actual amounts paid by product line in connection with surrenders and withdrawals for the periods ended September 30, are noted in the table below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Product Line:				
Traditional Life	$1,146	1,724	4,346	4,569
Universal Life	13,021	13,048	39,787	37,094
Annuities	119,388	106,911	352,002	336,138
Total	$133,555	121,683	396,135	377,801

The above contractual withdrawals, as well as the level of surrenders experienced, were generally 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 $193.9 million and $223.7 million for the nine months ended September 30, 2013 and 2012, respectively. The Company also has significant cash flows from both scheduled and unscheduled investment security maturities, redemptions, and prepayments. Investment related cash flows totaled $1,220.3 million and $1,274.1 million for the nine months ended September 30, 2013 and 2012, respectively. These cash flow items could be reduced if interest rates rise. Net cash flows from the Company's universal life and investment annuity deposit product operations totaled $67.7 million and $89.7 million during the nine months ended September 30, 2013 and 2012, respectively.

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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. As of September 30, 2013, the Company had no commitments beyond its normal operating and investment activities.

OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

It is not Company practice to enter into off-balance sheet arrangements or to issue guarantees to third parties, other than in the normal course of issuing insurance contracts. Commitments related to insurance products sold are reflected as liabilities for future policy benefits. Insurance contracts guarantee certain performances by the Company.

Insurance reserves are the means by which life insurance companies determine the liabilities that must be established to assure that future policy benefits are provided for and can be paid. These reserves are required by law and based upon standard actuarial methodologies to ensure fulfillment of commitments guaranteed to policyholders and their beneficiaries, even though the obligations may not be due for many years. Refer to Note (1) in the Notes to Condensed Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012 for a discussion of reserving methods.

The table below summarizes future estimated cash payments under existing contractual obligations.

	Payment Due by Period				
	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
	(In thousands)				
Operating lease obligations	$571	55	320	196	—
Life claims payable (1)	72,595	72,595	—	—	—
Other long-term reserve liabilities reflected on the balance sheet under GAAP (2)	10,688,065	1,043,230	1,844,744	1,675,196	6,124,895
Total	$10,761,231	1,115,880	1,845,064	1,675,392	6,124,895

(1) Life claims payable include benefit and claim liabilities for which the Company believes the amount and timing of the payment is essentially fixed and determinable. Such amounts generally relate to incurred and reported death and critical illness claims including an estimate of claims incurred but not reported.

(2) Other long-term liabilities include estimated life and annuity obligations related to death claims, policy surrenders, policy withdrawals, maturities and annuity payments based on mortality, lapse, annuitization, and withdrawal assumptions consistent with the Company's historical experience. These estimated life and annuity obligations are undiscounted projected cash outflows that assume interest crediting and market growth consistent with assumptions used in amortizing deferred acquisition costs. They do not include any offsets for future premiums or deposits. Other long-term liabilities also include determinable payout patterns related to immediate annuities. Due to the significance of the assumptions used, the actual cash outflows will differ both in amount and timing, possibly materially, from these estimates.

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CHANGES IN ACCOUNTING PRINCIPLES AND CRITICAL ACCOUNTING POLICIES

Changes in Accounting Principles

There were no changes in accounting principles during the periods reported in this Form 10-Q.

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 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.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Refer to Note 8(A) "Legal Proceedings" of the accompanying financial statements included in this Form 10-Q.

ITEM 1A. RISK FACTORS

There have been no substantial changes relative to the risk factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

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ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Effective August 22, 2008, the Company adopted and implemented a limited stock buy-back program associated with the Company's 2008 Incentive Plan which provides Option Holders the additional alternative of selling shares acquired through the exercise of options directly back to the Company. This program succeeded a similar buy-back program implemented March 10, 2006 associated with the Company's 1995 Stock Option and Incentive Plan. Option Holders may elect to sell such acquired shares back to the Company at any time within ninety (90) days after the exercise of options at the prevailing market price as of the date of notice of election.

The following table sets forth the Company's repurchase of its Class A common shares from Option Holders for the quarter ended September 30, 2013.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May yet Be Purchased Under the Plans or Programs
July 1, 2013 through July 31, 2013	—	—	N/A	N/A
August 1, 2013 through August 31, 2013	6,200	$212.67	N/A	N/A
September 1, 2013 through September 30, 2013	6,150	$207.83	N/A	N/A
Total	12,350	$208.27	N/A	N/A

Purchased shares are reported in the Company's condensed consolidated financial statements as authorized and unissued.

ITEM 4. Removed and Reserved.

ITEM 6. EXHIBITS

(a) Exhibits

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.

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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: November 12, 2013	/S/ Ross R. Moody Ross R. Moody President, Chief Operating Officer, and Director (Authorized Officer)
Date: November 12, 2013	/S/ Brian M. Pribyl Brian M. Pribyl Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)
Date: November 12, 2013	/S/ Thomas F. Kopetic Thomas F. Kopetic Vice President, Controller and Assistant Treasurer (Principal Accounting Officer)