NATIONAL WESTERN LIFE INSURANCE CO
Form 10-K/A
October 08, 2010

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

FORM 10-K/A
Amendment No. 1

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

For the Fiscal Year Ended December 31, 2009

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	84-0467208
(State of Incorporation)	(I.R.S. Employer Identification Number)

850 EAST ANDERSON LANE, AUSTIN, TEXAS 78752-1602
(Address of Principal Executive Offices)

(512) 836-1010
(Telephone Number)

Securities registered pursuant to Section 12 (b) of the Act:

Title of each class to be so registered:	Name of each exchange on which each class is to be registered:
Class A Common Stock, $1.00 par value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12 (g) of the Act:
None
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes o No þ

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 þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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. (Check One)

Large accelerated filer o Accelerated filer þ Non-accelerated filer o Smaller reporting company o

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

The aggregate market value of the common stock (based upon the closing price) held by non-affiliates of the Registrant on June 30, 2009 was $399,981,531.

As of March 11, 2010, the number of shares of Registrant's common stock outstanding was: Class A - 3,425,966 and Class B - 200,000.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive proxy statement for the annual meeting of shareholders held June 29, 2010, are incorporated by reference into Part III of this report.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A (“Amendment”) amends National Western Life Insurance Company’s (the “Company”) previously filed Annual Report on Form 10-K for the fiscal year ended December 31, 2009 as filed on March 16, 2010 (“Original Filing”). This Amendment is being filed to reflect the changes made in response to a comment letter received by the Company from the Staff of the Securities and Exchange Commission (SEC) in connection with the Staff’s review of the Company’s Annual Report and Proxy Statement on Schedule 14A. The Company’s consolidated balance sheets and consolidated statements of earnings for the periods presented have not been restated from the consolidated balance sheets and consolidated statements of earnings reported in the Original Filing. The Company is only filing the items of its Annual Report that have been revised in response to the Staff’s comment letter and all other information in the Annual Report remains unchanged. Accordingly, this Amendment should be read in conjunction with the Annual Report in the Original Filing. Pursuant to the Rules of the SEC, currently dated certifications from the Company’s Chief Executive Officer and Chief Financial Officer as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 are filed or furnished herewith, as applicable.

TABLE OF CONTENTS

ITEM 7. 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 financial condition and results of operations ("MD&A") of National Western Life Insurance Company for the three years ended December 31, 2009 follows. This discussion should be read in conjunction with the Company's consolidated financial statements and related notes beginning on page 60 of this report.

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:

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

The Company monitors these factors continually as key business indicators. The discussion that follows in this Item 7 includes these indicators and presents information useful to an overall understanding of the Company's business performance in 2009, incorporating required disclosures in accordance with the rules and regulations of the Securities and Exchange Commission.

Critical Accounting Policies

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

Impairment of Investment Securities. The Company's accounting policy requires that a decline in the value of a security below its amortized cost basis be evaluated to determine if the decline is other-than-temporary. The primary factors considered in evaluating whether a decline in value for fixed income and equity securities is other-than-temporary include: (a) the length of time and the extent to which the fair value has been less than cost, (b) the reasons for the decline in value (credit event, interest rate related, credit spread widening), (c) the overall financial condition as well as the near-term prospects of the issuer, (d) whether the debtor is current on contractually obligated principal and interest payments, and (e) the Company does not intend to sell the investment prior to recovery. In addition, certain securitized financial assets with contractual cash flows are evaluated periodically by the Company to update the estimated cash flows over the life of the security. If the Company determines that the fair value of the securitized financial asset is less than its carrying amount and there has been a decrease in the present value of the estimated cash flows since the previous purchase or prior impairment, then an other-than-temporary impairment charge is recognized. The Company would recognize impairment of securities due to changing interest rates or market dislocations only if the Company intended to sell the securities prior to recovery. When a security is deemed to be impaired a charge is recorded equal to the difference between the fair value and amortized cost basis of the security. In compliance with GAAP guidance the estimated credit versus the non-credit components are bifurcated, and the non-credit component reclassified as unrealized losses in other comprehensive income. Once an impairment charge has been recorded, the fair value of the impaired investment becomes its new cost basis and the Company continues to review the other-than-temporarily impaired security for appropriate valuation on an ongoing basis. However, the new cost basis of an impaired security is not adjusted for subsequent increases in estimated fair value.

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

DPAC is also subject to periodic recoverability and loss recognition testing. These tests ensure that the present value of future contract-related cash flows will support the capitalized DPAC balance to be amortized in the future. The present value of these cash flows, less the benefit reserve, is compared with the unamortized DPAC balance and if the DPAC balance is greater, the deficiency is charged to expense as a component of amortization and the asset balance is reduced to the recoverable amount. For more information about accounting for DPAC see Note 1, Summary of Significant Accounting Policies, of the consolidated financial statements.

Deferred Sales Inducements. Costs related to sales inducements offered on sales to new customers, principally on investment type contracts and primarily in the form of additional credits to the customer's account value or enhancements to interest credited for a specified period, which are beyond amounts currently being credited to existing contracts, are deferred and recorded as other assets. All other sales inducements are expensed as incurred and included in interest credited to contract holders' funds. Deferred sales inducements are amortized to income using the same methodology and assumptions as DPAC, and are included in interest credited to contract holders' funds. Deferred sales inducements are periodically reviewed for recoverability. For more information about accounting for DPAC see Note 1, Summary of Significant Accounting Policies, of the consolidated financial statements.

Future Policy Benefits. Because of the long-term nature of insurance contracts, the Company is liable for policy benefit payments many years into the future. The liability for future policy benefits represents estimates of the present value of the Company's expected benefit payments, net of the related present value of future net premium collections. For traditional life insurance contracts, this is determined by standard actuarial procedures, using assumptions as to mortality (life expectancy), morbidity (health expectancy), persistency, and interest rates, which are based on the Company's experience with similar products. The assumptions used are those considered to be appropriate at the time the policies are issued. An additional provision is made on most products to allow for possible adverse deviation from the assumptions assumed. For universal life and annuity products, the Company's liability is the amount of the contract's account balance. Account balances are also subject to minimum liability calculations as a result of minimum guaranteed interest rates in the policies. While management and Company actuaries have used their best judgment in determining the assumptions and in calculating the liability for future policy benefits, there is no assurance that the estimate of the liabilities reflected in the financial statements represents the Company's ultimate obligation. In addition, significantly different assumptions could result in materially different reported amounts. A discussion of the assumptions used to calculate the liability for future policy benefits is reported in Note 1, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements.

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

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

Pension Plans and Other Postretirement Benefits. The Company sponsors a qualified defined benefit pension plan, which was frozen effective December 31, 2007, covering substantially all employees, and three nonqualified defined benefit plans covering certain senior officers. In addition, the Company has postretirement health care benefits for certain senior officers. The freeze of the qualified benefit pension plan 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. In accordance with prescribed accounting standards, the Company annually reviews plan assumptions.

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

Other postretirement benefit assumptions include future events affecting retirement age, mortality, dependency status, per capita claims costs by age, health care trend rates, and discount rates. Per capita claims cost by age is the current cost of providing postretirement health care benefits for one year at each age from the youngest age to the oldest age at which plan participants are expected to receive benefits under the plan. Health care trend rates involve assumptions about the annual rate(s) of change in the cost of health care benefits currently provided by the plan, due to factors other than changes in the composition of the plan population by age and dependency status. These rates implicitly consider estimates of health care inflation, changes in utilization, technological advances, and changes in health status of the participants.

Share-Based Payments. Liability awards under a share-based payment arrangement have been measured based on the awards' fair value at the reporting date. The Black-Scholes valuation method is used to estimate the fair value of the options. This fair value calculation of the options include assumptions relative to the following:

Ÿ exercise price
Ÿ expected term based on contractual term and perceived future behavior relative to exercise
Ÿ current price
Ÿ expected volatility
Ÿ risk-free interest rates
Ÿ expected dividends

These assumptions are continually reviewed by the Company and adjustments may be made based upon current facts and circumstances.

Other significant accounting policies, although not involving the same level of measurement uncertainties as those discussed above, but nonetheless important to an understanding of the financial statements, are described in Note 1, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements.

Impact of Recent Business Environment

The financial markets began experiencing stress during the second half of 2007 which significantly increased during 2008 and on into the first half of 2009. Volatility and disruption in the financial markets caused the availability and cost of credit to be materially affected. Consumer confidence declined in the face of depressed home prices, increasing foreclosures, and higher unemployment. Eventually, these factors precipitated a severe recession in many ways akin to the Great Depression.

This combination of economic conditions began to negatively impact our sales in 2008, particularly in the domestic life and international life segments. Although the financial markets and the economy began to show improvement in the latter half of 2009, international life insurance sales, as measured by placed annualized target premium, declined 15% from 2008 levels and domestic life insurance sales dropped 74%. Economic indicators are currently pointing toward the economy as having emerged from the trough of the recession and possibly toward a line of growth in the immediate future. However, high unemployment, massive Federal government budget deficits, instability in the European economic markets, and the threat of looming inflation make the prospects of future economic stability and prosperity anything but certain. Consequently, demand for our life insurance products may continue to be adversely impacted during this period of economic uncertainty. It is also uncertain what impact, if any, the current environment may have upon the incidence of claims, policy lapses, or surrenders of policies.

The economic backdrop did not have a similar influence on our annuity product sales. Annuity sales in 2009 increased 106% over the levels attained in 2008. Several factors may explain this outcome including: (1) during uncertain economic periods, consumers follow a flight to safety toward lower risk assets such as annuity products; (2) the

Company's strong financial position, upgrade in financial strength rating from A.M. Best during the year and ample capital resources enhanced our presence in the annuity marketplace with independent distributors and end market consumers; and (3) many of the Company's competitors incurred reductions in their capital base due to a deterioration in the quality of their investment portfolios, including investment impairments and losses, which caused them to curtail sales activity and recruitment of independent distribution. Despite the growth in annuity sales, it is unclear what effect ongoing economic challenges may have upon future business levels.

The fixed income markets, our primary investment source, have experienced a high level of turmoil and constrained market liquidity conditions. Recently, there have been some improvements in this market although the low interest rate environment and tightening of interest spreads over U.S. treasury investment rates present a different set of tests. Credit downgrades of fixed income instruments by rating agencies were fairly prevalent during the first nine months of calendar 2009 with the fourth quarter producing much less activity in this regard. Market analysts generally anticipate events of default to continue into 2010 with moderation occurring during the second half of the year. The Company has experienced minimal impairment and degradation of quality in its fixed income holdings thus far although future events may not produce the same success in this regard.

These volatile market conditions have also increased the difficulty of valuing certain securities as trading is less frequent and/or market data is less observable. Certain securities that were in active markets with significant observable data became illiquid due to the current financial environment resulting in valuations that require greater estimation and judgment as well as valuation methods which are more complex. Such valuations may not ultimately be realizable in a market transaction and may change very rapidly as market conditions change and valuation assumptions need to be modified. Some market sectors remain dislocated with market valuations not indicative of true economic value.

Credit spreads (difference between bond yields and risk-free interest rates) on fixed maturity securities increased markedly during 2008 given the market conditions but tightened throughout 2009 and on into 2010. While the increase in credit spreads in 2008 and early in 2009 generated higher yields making our products more attractive to consumers, the subsequent spread tightening caused investment yields to fall dramatically. The lower investment yields not only cause the Company’s products to appear less appealing to consumers but also require skillful management of the Company’s earnings margin relative to minimum interest guarantee levels. It also caused us to hold a higher amount of cash and short-term investments at very low interest rates while portfolio managers searched for investment securities meeting the Company’s criteria for quality, diversification, duration and yield.

Our operating strategy is to maintain capital levels substantially above regulatory and rating agency requirements. While not significant, our capital levels incurred declinations for impairment losses on investments during 2008 and 2009. Despite these modest reductions in capital, the Company maintains resources more than adequate to fund future growth and absorb abnormal periods of cash outflows.

RESULTS OF OPERATIONS

The Company’s consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (“GAAP”). In addition, the Company regularly evaluates operating performance using non-GAAP financial measures which exclude or segregate 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 consolidated operations and segment operations, appropriate reconciliations have been included to report information management considers useful in enhancing an understanding of the Company’s operations to reportable GAAP balances reflected in the consolidated financial statements.

Consolidated Operations

Revenues. The following details Company revenues:

	Years Ended December 31,		
	2009	2008	2007
		(In thousands)	
Universal life and annuity contract charges	$145,651	133,424	119,677
Traditional life and annuity premiums	17,043	17,752	19,513
Net investment income (excluding derivatives)	348,186	339,038	334,799
Other revenues	17,348	12,769	13,683
Operating revenues	528,228	502,983	487,672
Derivative income (loss)	45,345	(65,676)	(16,662)
Net realized investment (losses) gains	(5,167)	(26,228)	3,497
Total revenues	$568,406	411,079	474,507

Universal life and annuity contract revenues - Revenues for universal life and annuity contract revenues increased 9.2% in 2009 compared to 2008. Revenues for these products consist of policy charges for the cost of insurance, administration charges, and surrender charges assessed against policyholder account balances, less reinsurance premiums. Cost of insurance charges were $83.6 million in 2009 compared to $82.9 million in 2008 and $74.3 million in 2007. Administrative charges were $25.4 million, $25.0 million and $20.9 million for the years ended December 31, 2009, 2008 and 2007, respectively. Surrender charges assessed against policyholder account balances upon withdrawal were $50.0 million in 2009 compared to $39.1 million in 2008 and $33.4 million in 2007.

Traditional life and annuity premiums - Traditional life and annuity premiums decreased 4.0% in 2009 compared to 2008. 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, 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®.

Net investment income (with and without derivatives) - A detail of net investment income is provided below.

	Years Ended December 31,		
	2009	2008	2007
		(In thousands)	
Gross investment income:			
Debt securities	$332,207	321,234	315,271
Mortgage loans	6,346	7,223	8,513
Policy loans	5,901	6,096	6,302
Short-term investments	116	956	1,496
Other investments	6,982	5,934	6,087
Total investment income	351,552	341,443	337,669
Less: investment expenses	3,366	2,405	2,870

Net investment income (excluding derivatives)	348,186	339,038	334,799
Derivative income (loss)	45,345	(65,676)	(16,662)
Net investment income	$393,531	273,362	318,137

9

Investment grade debt securities generated approximately 95.4% of net investment income, excluding derivatives, in 2009. The decrease in short-term investment income in 2009 is attributable to the very low interest rates available on money market funds during all of 2009. Interest income earned on other investments increased due to new investments in collateralized loans made during the second half of 2009.

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

	Years Ended December 31,		
	2009	2008	2007
	(In thousands except percentages)		
Excluding derivatives:			
Net investment income	$348,186	339,038	334,799
Average invested assets, at amortized cost	$6,056,042	5,762,688	5,732,212
Yield on average invested assets	5.75 %	5.88 %	5.84 %
Including derivatives:			
Net investment income	$393,531	273,362	318,137
Average invested assets, at amortized cost	$6,083,722	5,814,439	5,789,502
Yield on average invested assets	6.47 %	4.70 %	5.50 %

The average invested asset yield, excluding derivatives, decreased in 2009 due to the Company obtaining lower yields on newly invested cash inflows. The Company invests substantially most of its net cash flows in debt securities whose yields fell during 2009 with the decline in U.S. Treasury yields. Although the Company's average credit spread on debt securities purchased for insurance operations widened to approximately 270 basis points during 2009 from 240 basis points in 2008, the overall drop in interest rate levels more than offset the incremental spread on new investments. The average invested asset yield, including derivatives, increased due to the recovery in the equity markets during 2009. Refer to the derivatives discussion following this section for a more detailed explanation.

Other revenues - Other revenues consists primarily of gross income associated with nursing home operations of $15.7 million, $12.5 million and $12.6 million in 2009, 2008 and 2007, respectively. In addition, the Company received $0.5 million related to lawsuit settlements during 2007.

Derivative income (loss) - Index options are derivative financial instruments used to fully hedge the equity return component of the Company's fixed-indexed products, which were first introduced for sale in 1997. In 2002, the Company began selling a fixed-indexed universal life product in addition to its fixed-indexed annuities. Any income or loss from the sale or expiration of the options, as well as period-to-period changes in fair values, are reflected as a component of net investment income.

Income and losses from index options are due to 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 causes option values to likewise rise or decline. The Company does not elect hedge accounting relative to these derivative instruments. While income from index options fluctuates with the underlying index, the contract interest expense to policyholder accounts for the Company's fixed-indexed products also fluctuates in a similar manner and direction. In 2009, the reference indices increased and the Company recorded income from index options and likewise increased contract interest expenses. In 2008 and 2007, the reference indices decreased resulting in index option losses and a reduction in contract interest expenses.

10

The table below summarized the derivate income (loss) amounts and total contract interest by year.

	Years Ended December 31, 2009	2008	2007
		(In thousands)	
Derivatives:			
Unrealized income (loss)	$93,085	(17,480)	(56,204)
Realized income (loss)	(47,740)	(48,196)	39,542
Total income (loss) included in net investment income	$45,345	(65,676)	(16,662)
Total contract interest	$242,816	138,960	164,391

Net realized investment (losses) gains - Realized losses on investments have primarily resulted from impairment write-downs on investments in debt securities and valuation allowances recorded on mortgage loans. The net losses reported in 2009 of $5.2 million consisted of gross gains of $2.2 million primarily from calls and sales of debt securities, offset by gross losses of $7.4 million, which includes 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. Impairment write-downs are summarized in the following table.

	Years Ended December 31, 2009	2008	2007
		(In thousands)	
Impairment or valuation write-downs:			
Bonds	$5,105	21,803	67
Equities	416	5,412	-
Mortgage loans	1,461	1,020	1,467
	$6,982	28,235	1,534

Due to events providing evidence of a significant deterioration in the issuers' credit worthiness, one security was transferred from the held to maturity to the available for sale classification, and was ultimately sold.

The equity impairments represent mark-to-market write-downs on various equity holdings. In addition, the 2008 amount includes Fannie Mae and Freddie Mac preferred stock impairments of $4.6 million.

The mortgage loan valuation writedown in 2009 relates to a property located in Steubenville, Ohio. The writedown in 2008 principally involves a property located in Ft. Smith, Arkansas. The 2007 mortgage loan valuation writedown involves a New Orleans, Louisiana property whose value was negatively impacted by Hurricane Katrina.

Benefits and Expenses. The following details benefits and expenses.

	Years Ended December 31, 2009	2008	2007
		(In thousands)	
Life and other policy benefits	$48,997	39,759	41,326

Amortization of deferred policy acquisition costs	115,163	127,161	88,413
Universal life and annuity contract interest	242,816	138,960	164,391
Other operating expenses	92,192	55,630	55,130
Totals	$499,168	361,510	349,260

Life and other policy benefits - Life and other policy benefits include death claims of $30.2 million, $29.6 million and $28.5 million for 2009, 2008 and 2007, respectively.

11

The Company is implementing new actuarial reserving systems that will enhance its ability to provide estimates used in establishing future policy liabilities, monitor the deferred acquisition cost asset and the deferred sales inducement asset as well as support other actuarial processes within the Company. The Company is installing a vendor software product for use in calculating the GAAP reserve liability for future policy benefits of its products. The vendor system provides actuarial formula calculations producing refined estimates of reserves in accordance with GAAP. The previous reserving system produced estimated liabilities on state regulated actuarial formulas which were supplemented with adjustments in order to produce GAAP reserve estimates. The Company elected to purchase and install the new reserving system as growth in its lines of businesses created a need for more refined and controlled actuarial reserve computations in accordance with GAAP. The implementation of these new reserving systems for specific blocks of business began in the second quarter of 2009 and is expected to be completed in 2010. As the Company applies these new systems to a line of business, current reserving assumptions are reviewed and updated as appropriate. During the year ended December 31, 2009, loss recognition testing was performed on certain products that were converted to the new reserving system. As a result of the loss recognition testing, unlocking of historical assumptions resulted in an increase of $11.6 million in reserves and policy benefit expenses. Specifically, the Company unlocked assumptions for discount interest rates which accounted for $7.8 million of the increase as well as mortality assumptions which accounted for the remaining $3.8 million.

Amortization of deferred policy acquisition costs - Life insurance companies are required to defer certain expenses associated with acquiring new business. The majority of these acquisition expenses consist of commissions paid to agents, underwriting costs, and certain marketing expenses and sales inducements. The Company defers sales inducements in the form of first year interest bonuses on annuity and universal life products that are directly related to the production of new business. These charges are deferred and amortized using the same methodology and assumptions used to amortize other capitalized acquisition costs and the amortization is included in contract interest. Recognition of these deferred policy acquisition costs in the 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 profit patterns is to be "unlocked" and reset based upon the actual experience.

An unlocking adjustment was recorded in 2009 which resulted in an increase of amortization of $5.2 million. This unlocking adjustment was based upon changes to future mortality assumptions reflecting current experience studies and assumption changes regarding the level of future policy maintenance expenses. Mortality experience is monitored regularly and future mortality assumptions are unlocked when a continued trend in actual mortality experience deviates from current assumptions and is expected to continue. Although not a prediction of future impact, prior period mortality assumption unlocking has resulted in changes of the DPAC balance between $2 million and $(7.5) million in the period of the unlocking. Policy maintenance expenses are also reviewed regularly and future assumptions are unlocked when a continued trend in the actual policy maintenance expense deviates from the current assumptions. Although not a prediction of the impact of future changes the policy maintenance expense assumptions, similar unlocking of maintenance expense assumptions could result in DPAC balance changes between $1.5 million and $4.5 million.

An unlocking adjustment was also recorded in 2008 which resulted in an increase of amortization by $8.1 million. This unlocking adjustment was based upon assumption changes to future annuitizations and full surrenders reflecting current experience studies. An unlocking adjustment was recorded in 2007 which resulted in a decrease in amortization of $10.4 million. This unlocking adjustment was based upon changes to future mortality assumptions reflecting current experience studies and assumption changes to future cost of insurance rates. 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.

In accordance with GAAP guidance the Company writes 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.

The Company is required to periodically adjust for actual experience that varies from that assumed. True-up adjustments were recorded in 2009, 2008 and 2007 relative to partial surrender rates, mortality rates, credited interest rates and earned rates for the current year's experience resulting in $8.4 million, $16.2 million, and $1.0 million increases in amortization, respectively.

Universal life and annuity contract interest - The Company closely monitors 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 described above. The difference between yields earned on investments over policy credited rates is often referred to as the "interest spread". Raising policy credited rates can typically have an impact sooner than higher market rates on the Company's investment portfolio yield, making it more difficult to maintain the current interest spread.

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

	December 31,			December 31,		
	2009	2008	2007	2009	2008	2007
	(Excluding equity-indexed products)			(Including equity-indexed products)		
Annuity	2.83 %	3.01 %	3.41 %	4.11 %	2.42 %	2.84 %
Interest sensitive life	3.80 %	3.92 %	3.23 %	6.83 %	3.39 %	4.28 %

Contract interest includes the performance of the derivative component of the Company's equity-indexed products. As previously noted, the recent market performance of these derivative features increased contract interest expense in 2009 and 2007, and decreased contract interest expense in 2008, with corresponding offsetting effects in the Company's investment income given the hedge nature of the options. With these credited rates, the Company generally realized its targeted interest spread on its products.

Other operating expenses - Other operating expenses consist of general administrative expenses, legal costs, licenses and fees, commissions not subject to deferral, and expenses of nursing home operations. As discussed previously in Item 3. Legal Proceedings, and in reports on Form 8-K which the Company issued on February 9, 2010 and February 22, 2010, the Company is currently involved in various legal actions in the normal course of its business. In accordance with generally accepted accounting principles, the Company accrued $23.0 million during the year ended December 31, 2009 for potential future costs pertaining to these various matters.

During 2009, the Company started or accelerated major information system initiatives to enhance actuarial, accounting, policy acquisition, and policy administration processes. Non-capitalizable expenses associated with these various system development efforts were approximately $1.5 million higher than amounts incurred in 2008. Deprecation expense increased $0.9 million in association with new system implementations.

Guaranty fund assessment expenses increased to $0.5 million in 2009 from $0.3 million and $(0.2) million in 2008 and 2007, respectively.

Nursing home expenses amounted to $14.9 million, $11.4 million and $11.0 million in 2009, 2008 and 2007, respectively. The higher level of expenses during 2009 is primarily related to the start-up of operations of the Company’s second nursing home during 2009.

Compensation costs related to stock options totaled $1.6 million in 2009, $(1.4) million in 2008 and $(1.1) million in 2007 as a result of marking the options to fair value under the liability method of accounting.

Federal income taxes - Federal income taxes on earnings from continuing operations for 2009, 2008 and 2007 reflect effective tax rates of 34.3%, 32.1% and 31.8%, respectively, which are lower than the expected Federal rate of 35% primarily due to tax-exempt investment income related to investments in municipal securities and dividends-received deductions on income from stock investments.

During 2008, the Company was notified that its 2005 tax return amendment, which was filed September 2007, was being audited by the IRS. The audit is currently in progress. Adjustments to the amended return, if any, are not expected to have a material effect on the financial condition or operating results of the Company.

During the second quarter of 2007, upon the completion of a detailed review of deferred tax items, the Company identified a $2.3 million error in the net deferred tax liability. The error, which occurred during various periods prior to 2005, was corrected in the second quarter of 2007 and resulted in a decrease in the net deferred tax liability and deferred tax expense. The adjustment was not material to 2007 or any prior period financial statements.

Segment Operations

Summary of Segment Earnings

A summary of segment earnings from continuing operations for the years ended December 31, 2009, 2008 and 2007 is provided below. The segment earnings exclude realized gains and losses on investments, net of taxes.

	Domestic Life Insurance	International Life Insurance	Annuities (In thousands)	All Others	Totals
Segment earnings:					
2009	$426	14,663	25,460	8,294	48,843
2008	717	15,350	27,842	6,781	50,690
2007	342	20,179	56,299	6,278	83,098

Domestic Life Insurance Operations

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

	Years Ended December 31, 2009	2008 (In thousands)	2007
Premiums and other revenue:			
Premiums and contract charges	$34,414	27,919	25,879
Net investment income	19,498	20,254	18,863
Other revenues	25	20	41
Total premiums and other revenue	53,937	48,193	44,783
Benefits and expenses:			
Life and other policy benefits	13,884	14,478	14,922
Amortization of deferred policy acquisition costs and deferred sales inducements	16,423	12,416	7,998
Universal life insurance contract interest	9,014	9,171	9,463
Other operating expenses	13,968	11,057	11,898
Total benefits and expenses	53,289	47,122	44,281
Segment earnings before Federal income taxes	648	1,071	502
Federal income taxes	222	354	160
Segment earnings	$426	717	342

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.

	Years Ended December 31,		
	2009	2008	2007
	(In thousands)		
Universal life insurance revenues	$32,993	26,978	23,028
Traditional life insurance premiums	6,378	5,849	6,629
Reinsurance premiums	(4,957)	(4,908)	(3,778)
Totals	$34,414	27,919	25,879

The Company's premiums and contract revenues increased 23% from 2008 coinciding with sales growth in recent years of domestic life products. It is the Company's marketing plan to increase domestic life product sales through increased recruiting, new distribution and the development of new life insurance products. The Company had approximately 7,300 contracted agents as of December 31, 2009, an increase of 3,000 contracted agents from December 31, 2008.

In accordance with generally accepted accounting principles, premiums collected on universal life products are not reflected as revenues in the Company's consolidated statements of earnings. Actual domestic universal life premiums are detailed below.

	Years Ended December 31,		
	2009	2008	2007
	(In thousands)		
Universal life insurance:			
First year and single premiums	$13,640	15,272	15,592
Renewal premiums	21,978	19,948	16,639
Totals	$35,618	35,220	32,231

Net investment income decreased slightly to $19.5 million in 2009 as compared to $20.3 million in 2008 and $18.9 million in 2007, due to lower investment yields from debt security investment purchases backing the obligations of the line of business.

Policy benefits in 2009, 2008 and 2007 were consistent with Company expectations. Other operating expenses were $2.9 million higher in 2009 reflecting the factors discussed in the other operating expense section of consolidated operations above.

During the current year, unlocking of the projected universal life per policy maintenance expense and projected mortality assumptions decreased the DPAC asset balance and increased life DPAC amortization by $2.7 million. Current year true-up adjustments increased amortization expense by $1.9 million. No unlocking adjustments were recorded in 2008. True-up adjustments increased DPAC amortization $1.4 million for the year. During 2007, the Company recorded an unlocking adjustment for changes in mortality assumptions which reduced the DPAC asset and increased DPAC amortization expense by $2.2 million. True-up adjustments increased DPAC amortization expense by $0.6 million.

International Life Insurance Operations

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

	Years Ended December 31, 2009	2008	2007
		(In thousands)	
Premiums and other revenue:			
Premiums and contract charges	$104,016	97,661	88,782
Net investment income	44,540	17,350	24,690
Other revenues	68	62	126
Total premiums and other revenue	148,624	115,073	113,598
Benefits and expenses:			
Life and other policy benefits	19,522	21,292	22,810
Amortization of deferred policy acquisition costs and deferred sales inducements	41,849	37,525	24,959
Universal life insurance contract interest	45,868	16,803	20,993
Other operating expenses	19,048	16,502	15,271
Total benefits and expenses	126,287	92,122	84,033
Segment earnings before Federal income taxes	22,337	22,951	29,565
Federal income taxes	7,674	7,601	9,386
Segment earnings	$14,663	15,350	20,179

In general, as the amount of international life insurance in force grows, the Company anticipates operating earnings to increase as well. The amount of international life insurance in force grew from $14.8 billion at December 31, 2007 to $15.9 billion at December 31, 2008. However, international life insurance in force declined slightly to $15.7 billion at December 31, 2009, in reaction to the U.S. financial market crisis.

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

	Years Ended December 31, 2009	2008	2007
		(In thousands)	
Universal life insurance revenues	$106,601	98,458	85,633
Traditional life insurance premiums	13,113	14,727	15,692
Reinsurance premiums	(15,698)	(15,524)	(12,543)
Totals	$104,016	97,661	88,782

16

International operations have emphasized universal life policies over traditional life insurance products. In accordance with generally accepted accounting principles, premiums collected on universal life products are not reflected as revenues in the Company's consolidated statements of earnings. Actual international universal life premiums collected are detailed below.

	Years Ended December 31, 2009	2008	2007
		(In thousands)	
Universal life insurance			
First year and single premiums	$35,147	39,257	44,426
Renewal premiums	102,403	96,456	91,621
Totals	$137,550	135,713	136,047

The Company's international life operations historically have been a significant factor in the Company's overall earnings performance and represent a market niche where the Company believes it has a competitive advantage. A productive agency force 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. In particular, the Company has experienced growth with its fixed-indexed universal life products and has collected related premiums of $81.9 million, $78.5 million and $76.8 million for the years ended 2009, 2008 and 2007, respectively.

The appealing feature to a consumer purchasing a fixed-indexed universal life policy is the interest crediting component linked in part to an equity index. With the growth in this block of business, the period-to-period changes in fair values of the underlying options used to hedge this interest crediting feature have had an increasingly greater impact on net investment and contract interest. A detail of net investment income for international life insurance operations is provided below.

	Years Ended December 31, 2009	2008	2007
		(In thousands)	
Net investment income (excluding derivatives)	$34,130	28,687	26,519
Derivative income (loss)	10,410	(11,337)	(1,829)
Net investment income	$44,540	17,350	24,690

In 2009, the Company recorded an unlocking adjustment of $2.5 million relative to changes in projected universal life per policy maintenance expenses, and projected mortality assumptions, that reduced the DPAC asset and increased amortization expense. True-up adjustments of $1.5 million were also recorded that increased amortization expense. Amortization of deferred policy acquisition costs in 2008, were impacted as the Company recorded true-up adjustments that reduced the DPAC asset and increased amortization by $3.7 million. The Company recorded an unlocking adjustment benefit in 2007 totaling $9.0 million relative to improved mortality assumptions that resulted in an increase to the DPAC asset balance and a decrease in amortization expense. In addition, a true-up adjustment of $1.7 million was also recorded in 2007 resulting in a decrease to amortization. Offsetting the decrease to 2007 amortization for the unlocking and true-up adjustments was an increase in amortization due primarily to the application of new GAAP guidance in 2007 which required the write-off of deferred balances on contracts considered substantially changed. These balances were previously carried and amortized over the projected life of the contract.

Contract interest expense includes fluctuations that are the result of underlying equity indices performance relative to the equity-indexed universal life products. The associated stock market gains (losses) increase (decrease) the amounts the Company credits to policyholders. With the recovery in the equity markets during 2009, the segment reported significant increases in net investment income and contract interest expense. For more details about the Company's use of index options to hedge equity indices performance refer to the derivative income (loss) discussion in the Consolidated Operations section of Item 7.

Other operating expenses reported in 2009 were 15.4% higher compared to 2008, reflecting the factors discussed in the other operating expense section of Consolidated Operations previously.

Annuity Operations

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

	Years Ended December 31,		
	2009	2008	2007
	(In thousands)		
Premiums and other revenue:			
Premiums and contract charges	$24,264	25,596	24,529
Net investment income	317,703	226,683	266,953
Other revenues	1,535	232	920
Total premiums and other revenue	343,502	252,511	292,402
Benefits and expenses:			
Life and other policy benefits	15,666	3,990	3,594
Amortization of deferred policy acquisition costs and deferred sales inducements	56,891	77,219	55,456
Annuity contract interest	187,934	112,986	133,935
Other operating expenses	44,227	16,685	16,931
Total benefits and expenses	304,718	210,880	209,916
Segment earnings before Federal income taxes	38,784	41,631	82,486
Federal income taxes	13,324	13,789	26,187
Segment earnings	$25,460	27,842	56,299

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

	Years Ended December 31,		
	2009	2008	2007
	(In thousands)		
Surrender charges	$21,302	20,502	20,238
Payout annuity and other revenues	2,941	5,071	4,263
Traditional annuity premiums	21	23	28
Totals	$24,264	25,596	24,529

In accordance with generally accepted accounting principles, deposits collected on annuity contracts are not reflected as revenues in the Company's consolidated statements of earnings. Actual annuity deposits collected are detailed below.

	Years Ended December 31,		
	2009	2008	2007
	(In thousands)		
Fixed-indexed annuities	$488,352	281,649	316,848
Other deferred annuities	325,959	121,319	116,280
Immediate annuities	23,266	7,165	4,637
Totals	$837,577	410,133	437,765

Fixed-indexed products are more attractive for consumers when interest rate levels remain low and equity markets produce positive returns. Fixed-indexed annuity deposits as a percentage of total annuity deposits recorded were 58.4%, 68.7% and 72.4% for the years ended December 31, 2009, 2008 and 2007, respectively, with the equity market turmoil accounting for the declining percentage during this period. Since the Company does not offer variable products or mutual funds, fixed-indexed products provide an important alternative to the Company's existing fixed interest rate annuity products. Although fixed-indexed sales declined as a percent of overall annuity sales, the recovery of the equity markets during 2009 was a contributing factor to the 73.4% increase in fixed index annuity sales. The 225% increase in immediate annuities sales is reflective of consumers shift in risk tolerance to guaranteed performance and payouts offered by these types of annuities. Other factors contributing to the increase in both fixed-indexed and other deferred annuities sales include the increase in contracted agents during the year and competitors having to slow down their acceptance of new business in order to maintain solvency ratios. Due to the Company’s strong capital and high solvency ratios, the Company was able to continue to accept new business without any constraints.

Other deferred annuity deposits increased 169% in 2009 compared to 2008. These product sales had been trending lower over the past few years due to low interest rates and investor preferences. As a selling inducement, many annuity products include a first year premium or interest rate bonus in addition to the base first year deposit interest rate. These bonuses are credited to the policyholder account but are deferred by the Company and amortized over future periods. The amount deferred was approximately $36.8 million, $19.4 million and $20.8 million for the years ended December 31, 2009, 2008 and 2007, respectively.

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

	Years Ended December 31,		
	2009	2008	2007
		(In thousands)	
Net investment income (excluding derivatives)	$284,149	279,925	281,553
Derivative income (loss)	33,554	(53,242)	(14,600)
Net investment income	$317,703	226,683	266,953

As previously described, derivatives are used to hedge the equity return component of the Company's fixed-indexed 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. Derivative income and losses fluctuate from period to period based on the performance of the indices underlying fixed-indexed products.

The Company is implementing new actuarial reserving systems that will enhance its ability to provide estimates used in establishing future policy liabilities, monitor the deferred acquisition cost asset and the deferred sales inducement asset as well as support other actuarial processes within the Company. The implementation of these new reserving systems for specific blocks of business began in the second quarter of 2009 and is expected to be completed in 2010. As the Company applies these new systems to a line of business, current reserving assumptions are reviewed and updated as appropriate. During the year ended December 31, 2009, loss recognition testing was performed on certain products that were converted to the new reserving system. As a result of the loss recognition testing, unlocking of historical assumptions resulted in an increase of $11.6 million in reserves and policy benefit expenses.

With respect to deferred policy acquisition costs, the Company is required to periodically adjust for actual experience that varies from that assumed. A true-up of assumptions in 2009 resulted in increased amortization of deferred policy acquisition costs of $5.1 million. During 2008, the Company recorded an unlocking adjustment of $8.1 million and a true-up adjustment of $11.1 million that together increased amortization by $19.2 million. During 2007 the Company recorded an unlocking adjustment of $1.8 million and true-up adjustments of $3.3 million resulting in decreased amortization of deferred acquisition costs. While management does not currently anticipate any impact from unlocking in 2010, facts and circumstances may arise in the future which require that the factors be reexamined.

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

	Years Ended December 31,		
	2009	2008	2007
		(In thousands)	
Fixed-indexed annuities	$150,062	42,224	50,743
All other annuities	60,891	74,596	94,632
Gross contract interest	210,953	116,820	145,375
Bonus interest deferred and capitalized	(36,747)	(19,442)	(20,796)
Bonus interest amortization	13,728	15,608	9,356
Total contract interest	$187,934	112,986	133,935

In comparison by year, the fluctuation in reported contract interest amounts for fixed-indexed annuities is due to sales levels and the positive or negative performance of equity markets on option values. In 2008, the Company increased its amortization of bonus interest (deferred sales inducements) by approximately $3.5 million for updates in future expected gross profit assumptions.

Other operating expenses in 2009 were $27.5 million higher compared to 2008 primarily due to various legal actions that arose in the normal course of business over the past several years. In accordance with generally accepted accounting principles, the Company accrued $23.0 million during 2009 pertaining to these various matters and for potential future costs. The balance of the increase in operating expenses reflects the other factors previously discussed in the Other Operating Expenses section of consolidated operations.

Other Operations

National Western's primary business encompasses its domestic and international life insurance operations and its annuity operations. However, the Company also has small real estate, nursing home, and other investment operations through its wholly-owned subsidiaries. Most of the income from the Company's subsidiaries is from a life interest in a trust. Gross income distributions from the trust totaled $3.9 million in 2009 and $4.1 million in both 2008 and 2007.

The Company owns two nursing home facilities which are operated by affiliated entities, whose financial operating results are consolidated with those of the Company. Daily operations and management of the nursing homes are performed by an experienced management company through a contract with the limited partnership. Nursing home operations generated $0.8 million, $1.1 million and $1.6 million of operating earnings in 2009, 2008 and 2007, respectively. The lower level of earnings in 2009 is primarily related to start-up costs associated with the opening of the Company’s second nursing home during the year.

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 as of December 31, 2009 and 2008. The Company emphasizes investment grade debt securities, with smaller holdings in mortgage loans and policy loans.

	2009		2008	
	Carrying Value (In thousands)	%	Carrying Value (In thousands)	%
Debt securities	$ 6,212,726	95.2	$ 5,563,000	96.3
Mortgage loans	98,200	1.5	90,733	1.6
Policy loans	78,336	1.2	79,277	1.4
Derivatives, index options	89,915	1.4	11,920	0.2
Equity securities	14,014	0.2	13,683	0.2
Real estate	20,056	0.3	10,828	0.2
Other	12,773	0.2	3,340	0.1
Totals	$ 6,526,020	100.0	$ 5,772,781	100.0

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 December 31, the Company's debt securities portfolio consisted of the following:

	2009		2008	
	Carrying Value (In thousands)	%	Carrying Value (In thousands)	%
Corporate	$ 2,921,425	47.0	$ 2,453,404	44.0
Mortgage-backed securities	1,967,303	31.7	2,001,060	36.0
Public utilities	964,390	15.5	790,419	14.2
U.S. Agencies	103,176	1.7	119,674	2.2
U.S. Treasury	1,916	0.0	1,923	-
Home equity	37,661	0.6	46,959	0.9
Manufactured housing	36,211	0.6	41,319	0.7

States & political subdivisions		159,364	2.6		86,962	1.6
Foreign governments		21,280	0.3		21,280	0.4
Totals	$	6,212,726	100.0	$	5,563,000	100.0

21

Because the Company's holdings of mortgage-backed securities are subject to prepayment and extension risk, the Company has substantially reduced these risks by investing in collateralized mortgage obligations, which have more predictable cash flow patterns than pass-through securities. These securities, known as planned amortization class I ("PAC I"), 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.

The Company holds approximately $73.9 million in asset-backed securities as of December 31, 2009. This portfolio includes $36.2 million of manufactured housing bonds and $37.7 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.

The mortgage-backed portfolio includes one Alt-A security with a carrying value of $3.6 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 during 2008 and 2009. With the government intervention initiatives in 2009, the housing market began to show signs of stabilizing at the end of the year. 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 December 31, 2009 were underwritten prior to 2005 as noted in the table below.

Investment	December 31, 2009			December 31, 2008	
Origination Year	Carrying Value		Fair Value	Carrying Value	Fair Value
			(In thousands)		
Subprime:					
1998	$	10,776	8,467	12,125	11,157
2002		469	469	1,123	556
2003		4,608	3,664	6,894	3,779
2004		21,808	19,404	26,817	21,970
Subtotal subprime	$	37,661	32,004	46,959	37,462
Alt A:					
2004	$	3,626	3,626	3,821	3,821

As of December 31, 2009, 9 of the subprime securities were rated AAA, 1 was rated AA, 1 was rated A, 1 was rated BB and 1 was rated CC.

In addition to diversification, an important aspect of the Company's investment approach is managing the credit quality of its investments 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 97.5% 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®.

	2009		2008	
	Carrying Value (In thousands)	%	Carrying Value (In thousands)	%
AAA and U.S. government	$ 2,183,561	35.2	$ 2,306,694	41.5
AA	360,634	5.8	205,729	3.7
A	1,461,055	23.5	1,431,703	25.7
BBB	2,052,193	33.0	1,546,720	27.8
BB and other below investment grade	155,283	2.5	72,154	1.3
Totals	$ 6,212,726	100.0	$ 5,563,000	100.0

National Western does not purchase below investment grade securities. Investments held in debt securities below investment grade are the result of subsequent downgrades of the securities. These holdings are summarized below.

	Below Investment Grade Debt Securities			
	Amortized Cost	Carrying Value	Fair Value	% of Invested Assets
	(In thousands except percentages)			
December 31, 2009	$155,110	155,283	141,895	2.4 %
December 31, 2008	$84,229	72,154	67,375	1.2 %

The Company's percentage of below investment grade securities compared to total invested assets increased from 2008 due to issues being downgraded during the year as the economic environment prompted rating agencies to revise their credit outlooks. Despite the increases, the Company's holdings of below investment grade securities is relatively small as a percentage of total invested assets and is low compared to industry averages.

Holdings in below investment grade securities by category as of December 31, 2009 are summarized below, including 2009 and 2008 fair values for comparison. The Company is continually monitoring developments in these industries that may affect security valuation issues.

	Below Investment Grade Debt Securities			
Industry Category	Amortized Cost 2009	Carrying Value 2009	Fair Value 2009	Fair Value 2008
	(In thousands)			
Retail	$18,958	20,478	20,478	8,184
Telecommunications	6,320	10,600	10,600	3,806
Home equity	5,625	5,625	3,815	4,609
Manufactured housing	7,434	8,152	7,637	4,705
Mortgage-backed	9,888	6,740	6,740	7,457
Transportation	1,635	1,739	1,739	1,144
Manufacturing	32,056	31,786	31,306	23,213
Utilities	1,999	2,137	2,137	1,839
Banking/finance	58,987	57,804	47,268	40,305
Other	12,208	10,222	10,175	8,554
Totals	$155,110	155,283	141,895	103,816

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.

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 14, Fair Values of Financial Instruments, of the accompanying consolidated financial statements.

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 December 31, 2009, approximately 32% of the Company's total debt and equity securities, based on fair values, were classified as securities available for sale. These holdings 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.

	December 31 ,2009		
	Fair Value	Amortized Cost	Unrealized Gains

	(In thousands)		
Securities held to maturity:			
Debt securities	$4,331,077	4,176,661	154,416
Securities available for sale:			
Debt securities	2,036,065	1,961,412	74,653
Equity securities	14,014	5,953	8,061
Totals	$6,381,156	6,144,026	237,130

During the twelve months ended December 31, 2009 the Company recorded other-than-temporary impairment credit related write-downs on debt securities totaling $5.1 million and $0.4 million on equity securities. See Note 3, Investments Debt and Equity Securities, of the accompanying consolidated financial statements.

As of April 1, 2009, the Company adopted the GAAP guidance on the recognition and accounting for other-than-temporary impairments. See Note 1, Summary of Significant Accounting Policies, and Note 3, Investments, in the accompanying consolidated financial statements. Since adoption of this new guidance, the Company recognized $8.7 million of other-than-temporary impairments; of which $0.3 million was deemed credit related and recognized as realized investment losses in earnings, and $8.4 million was deemed a non credit related impairment and recognized in other comprehensive income.

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 lessee. This approach has proven to result in quality mortgage loans with few defaults.

The Company requires a minimum specified yield on mortgage loan investments. Until recently the low interest rate environment resulted in fewer loan opportunities being available which met the Company's required rate of return. This environment has recently started to change and the Company again made new mortgage loans which resulted in an increase in total loans at year-end.

The Company's direct investments in real estate are not a significant portion of its total investment portfolio as many of these investments were acquired through mortgage loan foreclosures. Due to the bankruptcy filing by Circuit City in 2009, the Company foreclosed on one mortgage loan during 2009, and has started foreclosure proceedings on a second mortgage loan which should be completed in the first half of 2010. The Company also participates in several real estate joint ventures and limited partnerships that invest primarily in income-producing retail properties. These investments have enhanced the Company's overall investment portfolio returns.

The Company held net investments in mortgage loans totaling $98.2 million and $90.7 million at December 31, 2009 and 2008, respectively. The diversification of the portfolio by geographic region and by property type was as follows:

	2009			2008		
Geographic Region:		Amount (In thousands)	%		Amount (In thousands)	%
West South Central	$	57,238	58.3	$	62,123	68.5
Mountain		22,007	22.4		7,919	8.7
East North Central		10,686	10.9		12,030	13.3
South Atlantic		3,570	3.6		3,666	4.0
Pacific		2,340	2.4		2,562	2.8
Middle Atlantic		2,359	2.4		2,433	2.7
Totals	$	98,200	100.0	$	90,733	100.0

Property Type:	2009 Amount (In thousands)		%	2008 Amount (In thousands)		%
Retail	$	63,928	65.1	$	70,954	78.2
Hotel/Motel		19,996	20.4		6,320	7.0
Apartments		6,167	6.3		3,600	3.9
Office		5,634	5.7		5,971	6.6
Land/Lots		2,473	2.5		3,885	4.3
All other		2	-		3	-
Totals	$	98,200	100.0	$	90,733	100.0

The Company does not recognize interest income on loans past due ninety days or more. The Company had two mortgage loans past due six months or more with the principal balance totaling $7.0 million at December 31, 2009, 2008 and 2007. Interest income not recognized for past due loans totaled approximately $0.4 million in both 2008 and 2007. There was no interest income not recognized in 2009.

The Company recognized valuation losses of $1.4 million, $1.0 million and $1.5 million for the years ended December 31, 2009, 2008 and 2007, respectively, based on information which indicated that the Company may not collect all amounts in accordance with the mortgage agreement. While the Company closely monitors its mortgage loan portfolio, future changes in economic conditions can result in impairments beyond those currently identified.

The contractual maturities of mortgage loan principal balances at December 31, 2009 are as follows:

	Principal Due (In thousands)	
Due in one year or less	$	15,407
Due after one year through five years		22,678
Due after five years through ten years		64,032
Due after ten years through fifteen years		1,650
Due after fifteen years		-
Total	$	103,767

The Company's real estate investments totaled approximately $20.1 million and $10.8 million at December 31, 2009 and 2008, respectively, and consist primarily of income-producing properties which are being operated by a wholly-owned subsidiary of the Company. The Company recognized operating income on these properties of approximately $1.2 million, $0.9 million and $1.0 million for the years ended December 31, 2009, 2008 and 2007, respectively. 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. The Company recorded net realized investment losses of $0.1 million in 2008 and gains of $0.2 million in 2007, respectively, associated with these properties. There was no recorded net realized gain or loss in 2009.

Market Risk

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

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

	December 31, 2009	December 31, 2008
	(In thousands except percentages)	
Debt securities - fair value	$ 6,367,142	5,458,936
Debt securities - amortized cost	$ 6,138,073	5,728,363
Fair value as a percentage of amortized cost	103.73 %	95.30 %
Unrealized gains (losses) at year-end	$ 229,069	(269,427)
Ten-year U.S. Treasury bond – increase (decrease) in yield for the year	1.093 %	(1.81) %

	Unrealized Gains (Losses) Balance Net Balance at December 31, 2009	Net Balance at December 31, 2008	Change in Net Balance
		(In thousands)	
Debt securities held to maturity	$ 154,416	(104,064)	258,480
Debt securities available for sale	74,653	(165,363)	240,016
Totals	$ 229,069	(269,427)	498,496

Changes in interest rates typically have a significant impact on the fair values of the Company's debt securities. During 2009, market interest rates of the ten-year U.S. Treasury bond increased 109 basis points from year end 2008. However, with the improved liquidity in the corporate bond market, the spread between corporate bonds and treasuries' narrowed causing the prices of the Company's corporate bonds to rise. The decrease in spread contributed to the increase in the unrealized gain balance of $498.5 million on a portfolio of approximately $6.4 billion. This amount is reasonable based upon the current market factors and the current investment portfolio characteristics. The Company would expect similar results in the future from a significant upward or downward movement in market rates. However, since the majority of the Company's debt securities are classified as held to maturity, which are recorded at amortized cost, changes in fair values have relatively small effects on the Company's financial results.

The Company manages interest rate risk through ongoing cash flow testing required for insurance regulatory purposes. Business 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 rate risk through surrender charges that are imposed to discourage policy surrenders and to offset unamortized acquisition costs. 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 following table illustrates the market risk sensitivity of the Company's interest rate-sensitive assets. The table shows the effect of a change in interest rates on the fair value of the portfolio using models that measure the change in fair value arising from an immediate and sustained change in interest rates in increments of 100 basis points.

	Fair Values of Assets				
	Changes in Interest Rates in Basis Points				
	-100	0	+ 100	+ 200	+ 300
	(In thousands)				
Debt and equity securities	$6,670,470	6,381,156	6,063,767	5,746,319	5,444,656
Mortgage loans	100,976	97,763	94,726	91,854	89,137
Other loans	13,685	13,304	12,938	12,587	12,251
Derivatives	88,817	89,915	91,040	92,173	93,310

Expected maturities of debt securities may differ from contractual maturities due to call or prepayment provisions. The models assume that prepayments on mortgage-backed securities are influenced by agency and pool types, the level of interest rates, loan age, refinancing incentive, month of the year, and underlying coupon. During periods of declining interest rates, principal payments on mortgage-backed securities and collateralized mortgage obligations tend to increase as the underlying mortgages are prepaid. Conversely, during periods of rising interest rates, the rate of prepayment slows. Both of these situations can expose the Company to the possibility of asset-liability cash flow and yield mismatch. The model uses a proprietary method of sampling interest rate paths along with a mortgage prepayment model to derive future cash flows. The initial interest rates used are based on the current U.S. Treasury yield curve as well as current mortgage rates for the various types of collateral in the portfolio.

Mortgage and other loans were modeled by discounting scheduled cash flows through the scheduled maturities of the loans, starting with interest rates currently being offered for similar loans to borrowers with similar credit ratings. Policy loans were modeled by discounting estimated cash flows using U.S. Treasury Bill interest rates as the base rates at December 31, 2009. The estimated cash flows include assumptions as to whether such loans will be repaid by the policyholders or settled upon payment of death or surrender benefits on the underlying insurance contracts and incorporate both Company experience and mortality assumptions associated with such contracts.

In addition to the securities analyzed above, the Company invests in index options which are derivative financial instruments used to hedge the equity return component of the Company's indexed annuity and life products. The values of these options are primarily impacted by equity price risk, as the options' fair values are dependent on the performance of the underlying reference index. However, increases or decreases in investment returns from these options are substantially offset by corresponding increases or decreases in amounts paid to indexed policyholders, subject to minimum guaranteed policy interest rates.

The Company's market risk liabilities, which include policy liabilities for annuity and supplemental contracts, are managed for interest rate risk through cash flow testing as previously described. As part of this cash flow testing, the Company has analyzed the potential impact on net earnings of a 100 basis point decrease and increases in increments of 100 basis points in the U.S. Treasury yield curve as of December 31, 2009. The potential impact on net earnings from these interest rate changes are summarized below.

	Changes in Interest Rates in Basis Points			
	-100	+100	+200	+300
	(In thousands)			
Impact on net earnings	$(2,795)	1,025	2,478	2,388

These estimated impacts in earnings are net of tax effects and the estimated effects of deferred policy acquisition costs.

The above described scenarios produce estimated changes in cash flows as well as cash flow reinvestment projections. Estimated cash flows in the Company's model assume cash flow reinvestments, which are representative of the Company's current investment strategy. Calls and prepayments include scheduled maturities and those expected to occur which would benefit the security issuers. Assumed policy surrenders consider differences and relationships between credited interest rates and market interest rates as well as surrender charges on individual policies. The impact to earnings also includes the expected effects on amortization of deferred policy acquisition costs. The model considers only annuity and supplemental contracts in force at December 31, 2009, and does not consider new product sales or the possible impact of interest rate changes on sales.

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 liquidating invested assets to provide cash flow, its investments consist primarily of marketable debt securities that could be readily converted to cash for liquidity needs. The Company may also borrow up to $40 million on its bank line of credit for short-term cash needs.

A primary liquidity concern 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 adjustment charges, that help limit and discourage early withdrawals. The following table sets forth withdrawal characteristics of the Company's annuity reserves and deposit liabilities (based on statutory liability values) as of the dates indicated.

	December 31, 2009			December 31, 2008		
	Amount	% of Total		Amount	% of Total	
	(In thousands except percentages)					
Not subject to discretionary withdrawal provisions	$425,163	8.7	%	$369,405	8.3	%
Subject to discretionary withdrawal, with adjustment:						
With market value adjustment	1,434,212	29.4	%	1,305,478	29.3	%
At contract value less current surrender charge of 5% or more	2,612,171	53.6	%	2,347,156	52.6	%
Subtotal	4,471,546	91.7	%	4,022,039	90.2	%
Subject to discretionary withdrawal at contract value with no surrender charge or surrender charge of less than 5%	405,544	8.3	%	440,694	9.8	%
Total annuity reserves and deposit liabilities	$4,877,090	100.0	%	$4,462,733	100.0	%

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

	2009	2008	2007
		(In thousands)	
Product Line:			

Traditional Life	$5,327	5,763	6,408
Universal Life	55,861	41,430	34,356
Annuities	359,903	391,879	435,800
Total	$421,091	439,072	476,564

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 $138 million, $195 million and $260 million in 2009, 2008 and 2007, respectively. The Company also has significant cash flows from both scheduled and unscheduled investment security maturities, redemptions, and prepayments. These cash flows totaled $1,050 million, $727 million and $477 million in 2009, 2008 and 2007, respectively. Cash flows from security maturities, redemptions, and prepayments were relatively higher over the last three years due to the decline in interest rates. These cash flow items could be reduced if interest rates rise in 2010. Net cash flows from the Company's universal life and annuity deposit product operations totaled $337 million, $(118) million and $(93) million in 2009, 2008 and 2007, respectively.

Capital Resources

The Company relies on stockholders' equity for its capital resources as there is no long-term debt outstanding and the Company does not anticipate the need for any long-term debt in the near future. As of December 31, 2009, the Company had no commitments beyond its normal operating and investment activities.

OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

It is Company practice not 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, Summary of Significant Accounting Policies, of the accompanying consolidated financial statements 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 (1)	$390	213	177	-	-
Life claims payable (2)	49,383	49,383	-	-	-
Other long-term reserve liabilities reflected on the balance sheet under GAAP (3)	7,043,349	683,241	1,516,943	1,837,839	3,005,326

Total	$7,093,122	732,837	1,517,120	1,837,839	3,005,326

(1) Refer to Note 9, Commitments and Contingencies, of the accompanying consolidated financial statements relating to Company leases.
(2) 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.

(3) 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. In contrast to this table, the majority of the Company's liabilities for future obligations recorded on the consolidated balance sheet do not incorporate future credited interest and market growth. Therefore, the estimated life and annuity obligations presented in this table significantly exceed the life and annuity liabilities recorded in the reserves for future life and annuity obligations. Due to the significance of the assumptions used, the actual cash outflows will differ both in amount and timing, possibly materially, from these estimates.

ACCOUNTING STANDARDS AND CHANGES IN ACCOUNTING

Recently Issued Accounting Standards

In September 2006, the Financial Accounting Standards Board ("FASB") issued new guidance to provide a single definition of fair value, a framework for measuring fair value, and required additional disclosure about the use of fair value to measure assets and liabilities. The Company adopted it for its reporting of financial assets and financial liabilities on January 1, 2008. The effective date for implementation to non financial assets and non financial liabilities was delayed by the FASB until the first reporting period after November 15, 2008. The Company adopted this portion of the guidance effective January 1, 2009. The adoption of fair value measurements did not have a material impact on the Company's consolidated financial statements and results of operations.

In December 2007, the FASB issued new guidance establishing accounting and reporting standards for entities that have equity investments that are not attributable directly to the parent, called noncontrolling interests or minority interests. More specifically, the guidance addresses where and how to report noncontrolling interests in the consolidated statements of financial position and operations, how to account for changes in noncontrolling interests and provides disclosure requirements. The Company adopted this guidance effective January 1, 2009 and it did not have a material impact on the Company's consolidated financial condition and results of operations.

In December 2007, the FASB issued new guidance establishing how an entity accounts for the identifiable assets acquired, liabilities assumed, and any noncontrolling interests acquired, how to account for goodwill acquired and determines what disclosures are required as part of a business combination, and it applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company adopted this guidance effective January 1, 2009 and it did not have an impact on the Company's consolidated financial condition or results of operations.

In March 2008, the FASB issued new guidance to require companies with derivative instruments to disclose information about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for, and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. This guidance became effective for financial statements issued for fiscal years beginning after November 15, 2008. The Company adopted it on January 1, 2009 with no material impact on the consolidated financial statements. Please see Note 14, Fair Values of Financial Instruments, of the accompanying consolidated financial statements for additional information pertaining to this guidance.

In September 2008, the FASB issued new guidance establishing disclosure requirements by entities that assume credit risk through the sale of credit derivatives, including credit derivatives embedded in a hybrid instrument, to enable users of financial statements to assess the potential effect on its financial position, financial performance, and cash flows from these credit derivatives, and requires additional disclosure about the current status of the payment/performance risk of a guarantee. The Company adopted the guidance effective January 1, 2009 and it did not have a material effect on the Company’s consolidated financial condition and results of operations.

In December 2008, the FASB issued new guidance which requires information to be disclosed on an annual basis pertaining to postretirement benefit plan assets. The Company would be required to separate plan assets into the three fair value hierarchy levels and provide a rollforward of the changes in fair value of plan assets classified as Level 3. The disclosures about plan assets are effective for fiscal years ending after December 15, 2009, but will have no effect on the Company’s consolidated financial condition and results of operations.

In January 2009, the FASB issued new guidance to enhance guidance on impairments to remove the exclusive reliance on a "market participant" estimate of future cash flows to a holder's estimate of whether there has been a "probable" adverse change in estimated cash flows. This allows management to apply reasonable judgment in assessing whether an other-than-temporary impairment has occurred. It was effective for the Company as of December 31, 2008 and its adoption did not have a significant impact on the consolidated financial statements of the Company.

In March 2009, the FASB issued new guidance establishing enhanced disclosures regarding an entity's derivative and hedging activity to enable investors to better understand the effects on an entity's financial position, financial performance, and cash flows. The Company adopted the guidance as of January 1, 2009. See Note 15, Derivative Investments, of the accompanying consolidated financial statements for disclosures regarding derivative instruments and hedging activities.

On April 9, 2009 the FASB issued new guidance for estimating fair value when the volume and level of activity for an asset or liability have significantly decreased and includes guidance on identifying circumstances that indicate a transaction is not orderly. This guidance emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability, and regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. This guidance is effective for interim and annual reporting periods ending after June 15, 2009. As further discussed in Note 14, Fair Values of Financial Instruments, of the accompanying consolidated financial statements, the adoption of this guidance did not have a material impact on the Company's consolidated financial condition and results of operations.

On April 9, 2009 the FASB issued new guidance to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. It was effective for the Company as of June 30, 2009 and did not have a significant impact on the consolidated financial position or results of operations. See Note 14, Fair Values of Financial Instruments, of the accompanying consolidated financial statements for additional disclosures.

On April 9, 2009 the FASB issued new guidance which amended the other-than-temporary impairment guidance for debt securities to make the guidance more operational, and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. It did not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. This guidance was effective for the Company as of June 30, 2009. The impact of its adoption is discussed in Note 3, Investments, of the accompanying consolidated financial statements.

On May 28, 2009 the FASB issued new guidance establishing general standards of accounting for the disclosure of events that occur after the balance sheet date, but before the financial statements are issued or are available to be issued. It was effective for the Company as of June 30, 2009 and did not have a significant impact on the consolidated financial position or results of operations. See Note 18, Subsequent Events, of the accompanying consolidated financial statements for additional disclosures.

On June 12, 2009 the FASB issued new guidance that changes the way entities account for securitizations and special purpose entities. The guidance is effective as of the beginning of the Company's first annual reporting period beginning after November 15, 2009 and is not expected to have a significant impact on the consolidated financial position, results of operations or disclosures.

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

Change in Accounting

During the second quarter of 2009, the Company reviewed all previously recorded other-than-temporary impairments of securities, in compliance with newly issued FASB GAAP guidance, and estimated the credit versus the non-credit component of prior impairments consistent with the methodology used in the current period to analyze and bifurcate impairments into credit and non-credit components. As a result, the Company determined that $0.8 million in previously recorded other-than-temporary impairments had been due to non-credit impairments.

For each security the Company developed its best estimate of the net present value of the cash flows expected to be received. The credit component of the impairment for these securities was determined to be the difference between the amortized cost of the security and the projected net cash flows. The non-credit component was determined to be the difference between projected net cash flows and fair value. The Company also determined whether management had the intent to sell the security, or if it was more likely than not that it will be required to sell the security, prior to the recovery of the non-credit component.

As a result of the implementation, during the second quarter of 2009, the Company recorded a net of tax opening balance adjustment that increased retained earnings in the amount of $0.5 million and increased accumulated other comprehensive loss in the amount of $0.5 million. See Note 1, Summary of Significant Accounting Policies, of the accompanying consolidated financial statements for further discussion.

In September 2005, the FASB issued new GAAP guidance regarding internal replacements occurring in fiscal years beginning after December 15, 2006. An internal replacement is a modification in product benefits, features, rights, or coverages that occurs by the exchange of a contract for a new contract, or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. The adoption of this new guidance impacted the accounting for contracts which have annuitized and reinstatements of contracts. Under the new guidance the unamortized deferred acquisition costs and deferred sales inducement assets must now be written-off at the time of annuitization and may not be continued for reinstatements. The new guidance resulted in changes in assumptions relative to estimated gross profits which affect unamortized deferred acquisition costs, unearned revenue liabilities, and deferred sales inducement balances as of the beginning of the year. The effect of this new guidance was as $2.2 million decrease (net of tax) on beginning retained earnings as of January 1, 2007.

		Amounts (In thousands)	
Write-off of deferred acquisition costs	$	3,321	
Adjustment to deferred annuity revenue		56	
		3,377	
Federal income tax		(1,182	)
Cumulative effect of change in accounting for internal replacements and investment contracts	$	2,195	

PART III

The information required by Part III is incorporated by reference from our definitive proxy statement on Schedule 14A filed with the SEC on April 30, 2010 for our annual meeting of shareholders held June 29, 2010. The discussion that follows reflects the changes made in response to the comment letter received from the Staff of the SEC.

ITEM 11. EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Purpose

The Compensation Committee is appointed by and serves at the discretion of the Company's Board of Directors. The Compensation Committee consists of no fewer than three members who meet the independence requirements of the listing standards of NASDAQ. The purpose of the Compensation Committee is to discharge the Board of Directors' responsibilities for reviewing and establishing the compensation not just for the Chief Executive Officer, Chief Financial Officer, and the other three most highly paid executive officers, but for all of the Company's officers. These compensation elements include base salary, annual incentive bonuses, discretionary bonuses and awards, stock option and stock appreciation right grants, and any other officer compensation arrangements.

To assist the Compensation Committee with its responsibilities, it is supported by the Company's Human Resource, Legal, and Financial departments. The Compensation Committee may retain, and has retained, independent compensation consultants who report directly to the members of the Compensation Committee. Meetings of the Compensation Committee are scheduled during the year with additional meetings on an as-necessary interim basis and include sessions without members of management present. The Compensation Committee reports to the Board of Directors on its actions and recommendations.

Compensation Philosophy and Objectives

The Company's overall philosophy in setting compensation policies is to align pay with performance while at the same time providing a competitive compensation that allows the Company to retain and attract talented individuals. Within this overall philosophy, the Compensation Committee has adopted several key principles to help guide compensation decisions for executive officers:

- Provide a competitive total compensation package so the Company can attract, retain, and motivate talented individuals;
- Tie compensation in part to overall Company financial performance so that executives are held accountable through their compensation for the performance of the business;
- Tie compensation in part to the Company's stock performance through stock options and stock appreciation rights to align executives' interests with those of the Company's stockholders; and
- Maintain a committee of the Board of Directors independent of senior management that may engage independent compensation consultants as needed to review and establish compensation for executive officers.

Elements of Executive Compensation

Officer compensation arrangements, including executive officers, are reviewed and approved annually by the Compensation Committee. The Compensation Committee focuses primarily on the following components in forming the total compensation package for each Company executive officer:

- Base salary;
- Annual cash incentive bonus based on Company performance versus predetermined targets;
- Discretionary cash bonus based upon individual performance; and
- Long-term incentive compensation in the form of stock options and stock appreciation rights.

The mix of executive compensation elements is based upon a philosophy of correlating a portion of executive compensation with the Company's financial results and stock performance thus putting a segment of executive officer annual and long-term compensation at-risk. This structure provides upside potential and downside risk for senior executive positions in recognition that these roles have greater influence on the Company's performance. The Compensation Committee believes that these factors, together with a balance of cash and equity awards, and short-term and long-term incentives, help ensure that our compensation program does not create risks that are reasonably likely to have a material adverse effect on the Company.

Base Salaries

To ensure that compensation levels are reasonably competitive with market rates, the Compensation Committee engages independent compensation consultants from time-to-time to conduct a survey of executive compensation in a defined group of companies comparable to the Company. The surveyed companies are selected based on similar products and product lines, comparable financial size in terms of assets and revenues, and other known competitive factors. This process was most recently completed during 2008 and is expected to be performed again to some degree in 2010 with respect to compensation policies for 2011. While the primary focus of the survey was upon base salaries, the independent consultants were also asked to provide total compensation data for the various officer positions and levels in order to target current and future appropriate compensation levels. The Compensation Committee's past practice has been to generally target base salaries between the 25th and 75th percentile range of the identified peer group.

For the most recent survey, the Company engaged independent compensation consultants (Towers Perrin) to update the work previously performed in 2005 following the same criteria and scope as was done at the time of a previous study. Companies to be considered in the benchmarking process include American Equity Investment Life, American Fidelity Life, AVIVA, Best Meridian Insurance, Citizens Insurance Company, Lincoln National Life, Old Mutual Financial Network, Pan-American Life, and Sammons Financial Group.

In addition to market information, the Compensation Committee also subjectively reviews and evaluates the level of performance of the Company and of each officer. In approving salary and incentive compensation for individuals other than the Chief Executive Officer and the President and Chief Operating Officer, the Compensation Committee considers recommendations from these two individuals concerning the other Company officers incorporating such factors as individual performance, the scope and complexity of their current responsibilities, length of time in their current positions, value of the executive's position to the market, and difficulty of replacement of the officer. This evaluation focuses most heavily on the base salary levels for each officer.

Annual Incentive Compensation

For executive officer positions, the Compensation Committee has determined that annual incentive bonuses are an integral part of the executive's compensation package as the cash bonuses create a direct link between executive compensation and individual and business performance. Consequently, there are four bonus programs in effect which are reviewed and approved annually by the Compensation Committee. The Compensation Committee has approved similar incentive bonus programs for 2010, but changed the Senior Vice President Bonus Program into the Officer Bonus Program, and it covers all Company officers not included in any of the other bonus programs. The 2009 Bonus Programs are as follows:

- Executive Officer Bonus Program
- Domestic Marketing Officer Bonus Program
- International Marketing Officer Bonus Program
- Senior Vice President Bonus Program

Executive Officer Bonus Program. Currently, the participants in the Executive Officer Bonus Program ("Executive Bonus") are the Chairman and Chief Executive Officer (Mr. Robert L. Moody) and the President and Chief Operating Officer (Mr. Ross R. Moody). In order to tie the compensation under the program with the Company's financial performance, the Executive Bonus includes metrics associated with the Company's annual sales performance, expense management and profitability. In accordance with the program, the Compensation Committee set performance targets for each metric at various levels equating to various bonus level percentages as follows:

Financial Performance Metric	Bonus % Range*
Sales	0% to 21%
Expense Management	0% to 20%
Profitability	0% to 30%

*Max aggregate bonus is 50%.

The sum of the achieved bonus percentages for each metric, subject to a maximum aggregate percentage of 50%, is applied to the base salary approved by the Compensation Committee for each participant to determine the earned bonus amount. The profitability metric is based upon the Company's audited financial statements for the year. Bonus awards are generally paid in the year following the annual financial performance concurrent with the completion of the Company's audit of the year-end financial statements and approval of the award amounts by the Compensation Committee. Accordingly, the Executive Bonus payments paid in 2009 were primarily based upon the results achieved for 2008 financial performance metrics established by the Compensation Committee and the Executive Bonus payments earned based on 2009 financial performance were paid on February 18, 2010. The bonus percentage achieved under the program was 33% and 18% in 2009 and 2008, respectively. The 2009 bonus percentage achieved is comprised of 13% for Sales, 20% for Expense Management, and 0% for Profitability as shown in the following table.

Financial Performance Metric	Target Level	Achieved Level	Bonus %
Annuity Sales	$382.5 million	$835.3 million	7.00%
International Life Sales	$27.0 million	$29.6 million	6.00%
Domestic Life Sales	$7.7 million	$3.6 million	0.00%
Total Sales Metric			13.00%
Expense Management	74% ratio	54% ratio	20.00%
Profitability	9.5% ROE	4.9% ROE	0.00%
Total Bonus Percentage			33.00%

For information regarding awards made in 2009 to our Named Executive Officers, see the Summary Compensation Table on page 41.

Domestic Marketing Officer Bonus Program. Participants in the Domestic Marketing Officer Bonus Program ("Domestic Bonus") are all domestic marketing officers including assistant vice presidents, vice presidents, and the senior vice president (Mr. S. Christopher Johnson). As these individuals are most able to influence the outcome of the Company's financial performance in terms of sales, the program is heavily weighted toward this metric. The measures associated with this program include the Company's annual sales performance, persistency of policies sold, and expense management. These measures were incorporated into the program to award not only the amount of sales but the quality of sales and the management of the costs incurred to acquire the business sold. Unlike the Executive Bonus, the Domestic Bonus metrics assume a targeted level of performance or "par" level to which the Compensation Committee assigned a targeted bonus percentage in order to reflect a disproportionate weighting of the potential bonus award toward the sales metric. If the targeted par level for each metric is attained, the sum of the metrics is equal to a bonus percentage of 100% which is applied to the average weighted base salary of each vice president and senior vice president participant while one-half, or 50%, is applied to the average weighted base salary of each assistant vice president participant as approved by the Compensation Committee. The performance metrics set by the Compensation Committee equating to various bonus level percentages under the program are as follows:

Financial Performance Metric	Par Bonus Level	Bonus % Range
Sales	75%	0% to no limit
Persistency	15%	0% to 30%
Expense Management	10%	0% to 22.5%

The Domestic Bonus also differs from the Executive Bonus in that the composite bonus percentage is not subject to a cap and bonus amounts may be advanced quarterly based upon the year-to-date results achieved. Life insurance sales metric amounts under the program above the par level increase incrementally with an additional bonus percentage added for every increment of additional life insurance sales established by the Compensation Committee (annuity sales are subject to a cap). However, if the aggregate sum of the three performance metrics exceeds 100%, the bonus award paid at the end of the calendar year is limited to 100% for each participant. The bonus percentage above 100% is applied to the weighted average base salaries of all participants to create a pool which is paid out to participants in the subsequent calendar year based upon the recommendation of the Domestic Marketing senior vice president and subject to approval by the President and Chief Operating Officer. The Domestic Bonus percentage achieved under the program was 73.5% and 32.5% in 2009 and 2008, respectively.

International Marketing Officer Bonus Program. Participants in the International Marketing Officer Bonus Program ("International Bonus") are all international marketing officers including assistant vice presidents, vice presidents, and the senior vice president (Mr. Scott Arendale). The International Bonus is identical in format to the Domestic Bonus with the exception that the metric targets established by the Compensation Committee are customized for the differences between the domestic and international lines of business. The performance metrics set by the Compensation Committee equating to various bonus level percentages under the program are as follows:

Financial Performance Metric	Par Bonus Level	Bonus % Range
Sales	70%	0% to no limit
Persistency	15%	0% to 30%
Expense Management	15%	0% to 30%

All other features are similarly administrated. The International Bonus percentage achieved under the program was 83.0% and 44.0% in 2009 and 2008, respectively. The 2009 bonus percentage achieved is comprised of 50% for Sales, 3% for Persistency, and 30% for Expense Management as shown in the following table.

Financial Performance Metric	Target Level	Achieved Level	Bonus %
International Life Sales	$30.0 million	$29.0 million	50.00%
Expense Management	5.50% ratio	4.83% ratio	30.00%
Persistency	100.0%	89.8%	3.00%
Total Bonus Percentage			83.00%

For information regarding awards made in 2009 to our Named Executive Officers, see the Summary Compensation Table on page 41.

Senior Vice President Bonus Program. Participants in the Senior Vice President Bonus Program ("Senior VP Bonus") are all Senior Vice Presidents not otherwise included in any of the other three officer bonus programs. Currently, these individuals include Senior Vice President, Chief Financial Officer and Treasurer (Mr. Brian Pribyl), Senior Vice President, Chief Administrative Officer (Mr. Michael Hydanus), Senior Vice President, Chief Actuary (Mr. Paul Facey), Senior Vice President, Mortgage Loans and Real Estate (Mr. Charles Milos), Senior Vice President, Secretary (Mr. James Payne) and Senior Vice President, Chief Investment Officer (Ms. Patricia Scheuer). The Plan is essentially comparable to the Executive Bonus, except for the bonus award percentages, incorporating three measurable performance metrics associated with the Company's annual sales performance, expense management, and profitability. In accordance with the program, the Compensation Committee set performance targets for each metric at various levels equating to various bonus level percentages as follows:

Financial Performance Metric	Bonus % Range
Sales	0% to 9.0%
Expense Management	0% to 9.5%
Profitability	0% to 19.0%

The sum of the achieved bonus percentages for each metric, subject to a maximum aggregate percentage of 30%, is applied to the base salary for each participant approved by the Compensation Committee to determine the earned bonus amount. Like the Executive Bonus, the profitability metric is based upon the Company's audited financial statements for the year. Bonus awards are generally paid in the year following the annual financial performance concurrent with the completion of the Company's audit of the year-end financial statements and approval of the award amounts by the Compensation Committee. Accordingly, the Senior Vice President Bonus payments in 2009 were primarily based upon the results achieved for 2008 financial performance metrics established by the Compensation Committee. The bonus percentage achieved under the program was 15.25% and 0% in 2009 and 2008, respectively. The 2009 bonus percentage achieved is comprised of 5.75% for Sales, 9.5% for Expense Management, and 0% for Profitability as shown in the following table.

Financial Performance Metric	Target Level	Achieved Level	Bonus %
Annuity Sales	$382.5 million	$835.3 million	3.00%
International Life Sales	$27.0 million	$29.6 million	2.75%
Domestic Life Sales	$7.7 million	$3.6 million	0.00%
Total Sales Metric			5.75%
Expense Management	74% ratio	54% ratio	9.50%
Profitability	9.5% ROE	4.9% ROE	0.00%
Total Bonus Percentage			15.25%

For information regarding awards made in 2009 to our Named Executive Officers, see the Summary Compensation Table on page 41.

Discretionary Bonus Awards

For officers who are not participants in any of the four bonus programs above, the Compensation Committee considers from time-to-time circumstances which merit the need to recognize outstanding performance in the form of a discretionary bonus. Although many of these situations may be deemed within the normal responsibilities of officers, the Compensation Committee on occasion may provide one-time recognition bonuses to identified officers where the demands of the situation and the results of the effort warrant such recognition. There were no discretionary bonuses awarded in 2009 or 2008.

Long-Term Incentive Compensation

Under the Company's 1995 Stock and Incentive Plan and 2008 Incentive Plan, the Compensation Committee provides Company officers with long-term incentive awards through grants of stock options or stock appreciation rights ("SARs") directly aligning the interest of the officers with stockholder interests. The stock options and SARs have a graded five-year vesting period that begins on the third anniversary date of the grant in order to promote a long-term perspective and to encourage key employees to remain at the Company. All options and SARs to date have been granted at the fair market value of the Company's Class A common stock on the date of the grant. The Compensation Committee believes that stock options and SARs are inherently performance-based and a form of at-risk compensation since the recipient does not benefit unless the Company's common stock price subsequently rises.

The Compensation Committee is responsible for determining the recipients of the grants, when the grants should be made, and the number of shares to be granted. The size of the awards generally reflect each officer's position relative to other officers in the Company with consideration to total compensation targets obtained from the peer group information previously discussed. In addition, as is the case with base salaries, the Compensation Committee considers the grant recommendations of the Chairman and Chief Executive Officer and the President and Chief Operating Officer for other Company officers.

The Compensation Committee may consider granting stock options at any time but generally coordinates the issuance of grants concurrent with its annual review of officer compensation. In February 2009 the Compensation Committee approved the issuance of 29,393 SARs to selected officers. Prior to that the Compensation Committee approved the issuance of 2,750 SARs to new officers during the third quarter of 2008 and 28,268 stock options to selected officers in April 2008. Included in these grant awards were the following option/SARs amounts to named executive officers.

	Grant 2/19/09	Grant 4/18/08
Robert L. Moody	7,500	7,500
Ross R. Moody	5,518	5,518
Brian M. Pribyl	1,000	1,000
Scott E. Arendale	1,000	1,000

Charles D. Milos	1,000	1,000

As noted above, the Compensation Committee determines the timing of awards, the recipients, and the number of option shares or SARs to be granted to each participant. Prior to the April 18, 2008 grant awards to officers, the previous award determined by the Compensation Committee was made during 2004. The grant made in April 2008 represented the remaining stock options available for award (excluding grant awards to directors) under the 1995 Plan and coincided with the scheduled termination of that plan. The stock options granted at that date were given a strike price equivalent to the market closing value of the Company's Class A common shares of $255.13.

Subsequent to the April 2008 stock option awards, the Company's Class A common shares dropped approximately 75% as a consequence of the severe recession and financial crisis that enveloped the United States economy. The Compensation Committee recognized the precipitous drop in the Company's Class A common share value substantially removed the long-term incentive objective of the April 2008 grant awards. Accordingly, the Compensation Committee determined to make substantially the same grant award effective February 19, 2009 with a strike price of $114.64 representing the market closing value of the Company's Class A common shares that day.

The Compensation Committee has followed a practice of allocating grant awards based upon the level of the officer receiving the award with each officer level receiving an identified proportionate share. Historically, the Chairman of the Board and Chief Executive Officer has been allotted 25% to 35% of the total grant award and the President and Chief Operating Officer 15% to 25% of the total grant. Officers at the senior vice president level receive the same number of grant awards while all officers at the vice president level receive the same number of grant awards although at a lesser amount than that of the senior vice presidents.

Retirement and Other Benefits

The Company's executive officers are eligible to participate in the health and welfare, 401(k) and defined benefit retirement benefit plans that are offered to other Company employees (the Company's qualified defined benefit pension plan was frozen as of December 31, 2007). In addition, if eligible, executive officers may participate in the following plans:

Group Excess Benefit Plan

Company officers at the senior vice president level and above, including named executive officers, as well as those hired or promoted to the vice president level prior to May 1, 2007, are eligible to participate in a group excess benefit plan which supplements the Company's core medical insurance plan. Administered by a third party insurer, the group excess benefit plan provides coverage for co-pays, deductibles, and other out-of-pocket expenses not covered by the core medical insurance plan. Offering such a plan to the selected Company officer levels is viewed as a key component of the overall compensation strategy for attracting and retaining talented executive officers. The benefits provided to each named executive officer are reported in the "All Other Compensation Column" of the Summary Compensation Table.

Non-Qualified Defined Benefit Plan

This plan covers those officers of the Company who were in a senior vice president position or above prior to 1991. The plan provides retirement benefits to those individuals affected by the revisions to the Company's qualified defined benefit pension plan precipitated by the limitations imposed by Internal Revenue Code Section 401(a)(17) and 415. As of December 31, 2009 and 2008, the active officers participating in this plan were Mr. Robert L. Moody and Mr. Charles Milos. Benefits associated with this plan are disclosed in the Pension Benefits table in the Pension Benefits section.

Non-Qualified Deferred Compensation Plan

This plan allows Company senior officers, including named executive officers, to defer payment of a percentage of their compensation and to provide for up to a 2% matching and 2% profit sharing contribution on plan compensation that exceeds certain qualified plan limits, and additional Company discretionary matching contribution of up to 2% of plan compensation. Company contributions are subject to a vesting schedule based upon each officer's years of service. Benefit information associated with this plan is disclosed in the Non-Qualified Deferred Compensation table below and Company contributions are included in the "All Other Compensation" column in the Summary Compensation Table.

Non-Qualified Defined Benefit Plan for Robert L. Moody

This plan specifically covers the Company's Chairman of the Board and Chief Executive Officer, Mr. Robert L. Moody, and is intended to supplement the retirement benefits of the Non-Qualified Defined Benefit Plan, mentioned above, that were limited by the American Jobs Creation Act of 2004. Mr. Moody's benefits associated with this plan are disclosed in the Pension Benefits table in the Pension Benefits section.

Non-Qualified Defined Benefit Plan for the President of National Western Life Insurance Company

Similar to the immediately preceding plan, this plan specifically covers the Company's President and Chief Operating Officer, Mr. Ross R. Moody, and is intended to provide the retirement benefits that comply with the American Jobs Creation Act of 2004. Mr. Moody's benefits associated with this plan are disclosed in the Pension Benefits table in the Pension Benefits section.

National Western Life Insurance Company Retirement Bonus Program for Robert L. Moody

This program provides an annual payment to Mr. Robert L. Moody equal to 2% of his compensation and is not correlated in any manner to individual or Company performance. For reporting and disclosure purposes, the payment made in 2009 related to 2008 compensation is included in the "Non-Equity Incentive Plan Compensation" column of the Summary Compensation table.

Postretirement Benefits

The Company's basic health plan and group excess benefit plan have a provision for individuals serving in the positions of Chairman of the Board or President for seven years or more subsequent to 1980 to continue to receive lifetime health benefits for themselves and their dependents upon retirement. Mr. Robert L. Moody and Mr. Ross R. Moody currently meet this eligibility criteria.

Perquisites and Other Personal Benefits

The Compensation Committee periodically reviews executive officer perquisites and other benefits based upon information supplied to it by the Company's Human Resources, Legal, and Financial departments. In addition to base salaries and annual and long-term bonus incentives, the Company provides its executive officers with certain and varying perquisites and benefits.

The perquisites and personal benefits provided to each named executive officer are reported in the "All Other Compensation Column" of the Summary Compensation Table included in this Compensation Discussion and Analysis and are described in further detail in the footnotes to that table.

Stock Ownership Guidelines

The Company requires that its directors be shareholders, but the Company does not require its directors or executive officers to own a particular amount of the Company's common stock and accordingly has not established a set of stock ownership guidelines. The Compensation Committee is satisfied that the long-term incentive compensation offered to directors and officers in the form of stock options and SARs adequately aligns this group's interest with those of the Company's stockholders.

Employment Agreements

The Company does not utilize employment agreements with its executive officers or other employees. The Company's practice has been to issue offer letters to executive officer candidates when recruited to their positions. In addition to outlining the executive officer's responsibilities, each offer letter specifies the beginning base salary and eligibility for any additional compensation programs overseen by the Compensation Committee. Accordingly, the Company does not have any contractual obligations to its executive officers for severance payments in connection with any termination or change-in-control.

Financial Restatements

The Compensation Committee has not formally adopted a policy with respect to whether retroactive adjustments to any form of compensation paid under arrangements for executive officers will be made where the prior payment was related to financial results of the Company that are subsequently restated. As this situation has not previously been experienced, the Compensation Committee believes that such an issue is best addressed at the time it occurs and all facts and circumstances surrounding the restatement are known.

Tax and Accounting Treatment of Compensation

Section 162(m) of the Internal Revenue Code generally disallows a tax deduction to public corporations for non-performance based compensation over $1 million paid in any one year to each of the individuals who were, at the end of the year, the corporation's chief executive officer and the four other most highly compensated executive officers. Except for the Chairman and Chief Executive Officer of the Company, the levels of non-performance based salary, bonus, and other compensation paid do not typically exceed this level.

The Compensation Committee reserves the right to award compensation to executive officers that may not qualify under Section 162(m) as deductible compensation, however, it will continue to consider all elements of cost to the Company of providing such compensation, including the potential impact, if any, of Section 162(m).

The Company accounts for long-term incentive compensation in the form of stock options and SARs to executive officers under GAAP guidance which requires the Company to estimate and expense each award of equity compensation over the service period of the award. Other accounting guidance requires that cash compensation be recorded as an expense at the time the obligation is accrued.

Compensation Committee Report

The Compensation Committee has reviewed each element of executive officer compensation and believes that the compensation philosophy and practices are designed to serve the best interests of the Company and its stockholders. The Compensation Committee also believes that the compensation of the Company's executive officers is both appropriate and consistent with the objectives set by this committee.

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis set forth with the Company's management. Based on its reviews and discussions, the Compensation Committee approved and recommended to the Company's Board of Directors that the Compensation Discussion and Analysis be included in the Proxy Statement on Schedule 14A.

Members of the Compensation Committee

E. J. Pederson (Chairman)
Stephen E. Glasgow
Louis E. Pauls

Summary Compensation Table

The following table sets forth all of the compensation awarded to, earned by, or paid to the Company's principal executive officer, principal financial officer, and the three other highest paid executive officers for the years ended December 31, 2009, 2008, and 2007.

Name and Principal Position	Year	Salary (a)	Option/SAR Awards (b)	Non-Equity Incentive Plan Compen-sation		Change in Pension Value and Nonqualified Deferred Compensation Earnings (e)	All Other Compen-sation (f)	Total
Robert L. Moody	2009	$1,692,703	$474,707	$552,393	(c)	$ (367,985)	$693,056	$3,044,874
Chairman of the Board	2008	1,648,582	903,076	263,757		1,100,754	703,007	4,619,176
	2007	1,588,653	-	495,251		2,733,499	686,181	5,503,584

and Chief Executive Officer								
Ross R. Moody	2009	605,888	336,039	189,678	(c)	113,121	71,053	1,315,779
President and Chief	2008	588,956	579,765	90,490		123,587	88,626	1,471,424
Operating Officer	2007	565,534	-	160,520		126,568	121,963	974,585
Brian M. Pribyl	2009	269,283	52,240	40,655	(d)	22,190	25,640	410,008
Senior Vice President,	2008	253,165	93,064	41,863		4,580	34,937	427,609
Chief Financial Officer	2007	252,665	-	74,695		15,239	36,405	379,004
and Treasurer								
Charles D. Milos	2009	258,728	100,024	34,145	(d)	218,201	56,941	668,039
Senior Vice President,	2008	249,130	159,321	-		88,350	44,980	541,781
Mortgage Loans and	2007	239,569	-	-		81,780	50,598	371,947
Real Estate								
Scott E. Arendale	2009	160,102	52,240	137,044	(d)	44,796	14,445	408,627
Senior Vice President,	2008	158,878	93,064	321,700		15,271	20,403	609,316
International Marketing	2007	150,050	-	178,101		33,595	17,570	379,316

Note: Columns with no data have been omitted.

(a) The 2009 amounts in this column include Company and subsidiary Board of Director fees of $30,700 for Mr. Robert L. Moody, $3,250 for Mr. Pribyl, $33,950 for Mr. Ross R. Moody, and $33,700 for Mr. Milos.

(b) The amounts in this column represent the fair value on grant date of option awards received during the year.

(c) The amounts for Mr. Robert L. Moody, Mr. Ross R. Moody represent bonuses earned under the 2009 Executive Officer Bonus Program. Also included in Mr. Robert L. Moody's amount is $29,761 representing the bonus earned under the NWLIC Retirement Bonus Program.

(d) The amount for Mr. Pribyl and Mr. Milos represents the bonus earned under the 2009 Senior Vice President Bonus Program. The amount for Mr. Arendale represents the bonus earned under the 2009 International Marketing Officer Bonus Program.

(e) The amounts in this column represent the change in the accumulated pension benefit under the Company's qualified defined benefit plan for Messrs. Pribyl and Arendale and the change in the accumulated pension benefit under the Company's qualified and non-qualified defined benefit plans for Messrs. Robert L. Moody and Ross R. Moody. For a discussion of the assumptions made in the calculation of these amounts, refer to the Notes to Consolidated Financial Statements section of this Annual Report on Form 10-K.

(f) The amounts in this column include the items summarized in the following table:

All Other Compensation

Name and Principal Position	Year	Company Paid Benefit Premiums (1)	Excess Benefit Claims Paid (2)	Company Contributions To Savings Plans (3)	Company Paid Taxes/ Insurance		Other Perquisites		Total All Other Compen-Sation
Robert L. Moody	2009	$3,466	$37,708	$ 2,450	$617,143	(4)	$32,289	(5)	$693,056
Chairman of the	2008	5,264	8,613	2,300	670,684		16,146		703,007
Board and Chief	2007	4,995	2,021	4,500	669,135		5,530		686,181
Executive Officer									
Ross R. Moody	2009	2,742	27,315	33,837	-		7,159	(6)	71,053
President and Chief	2008	4,284	7,296	32,557	-		16,493		60,630
Operating Officer	2007	3,884	64,032	34,057	-		19,990		121,963
Brian M. Pribyl	2009	5,656	5,433	13,851	-		700	(7)	25,640
Senior Vice President,	2008	8,540	9,638	13,854	-		2,905		34,937
	2007	8,040	10,499	15,435	-		2,431		36,405

Chief Financial Officer and Treasurer								
Charles D. Milos	2009	5,656	27,128	15,561	-	8,596	(8)	56,941
Senior Vice President,	2008	8,670	21,496	13,043	-	1,771		44,980
Mortgage Loans and Real Estate	2007	8,170	26,116	14,346	-	1,966		50,598
Scott E. Arendale	2009	3,475	-	8,179	-	2,791	(9)	14,445
Senior Vice President,	2008	5,305	3,065	8,286	-	3,747		20,403
International Marketing	2007	4,943	-	9,297	-	3,330		17,570

(1) The Company provides its officers additional compensation equivalent to the premiums for health, dental and accidental death and dismemberment coverage offered to all employees.

(2) The amounts in this column represent claims paid under the Company's Group Excess Benefit Program.

(3) The amounts in this column represent Company contributions to the Company's qualified and non-qualified savings plans. The Company's 401(k) plan is available to all employees with the same contribution criteria.

(4) Mr. Robert L. Moody contributed a life interest in a trust estate to the Company as a capital contribution in 1964. The Company, in turn, issued term policies on the life of Mr. Moody in excess of the amount of the asset contributed which excess was assigned to Mr. Moody. The value of the excess amount of insurance was $392,194 in 2009 and represents additional compensation to Mr. Moody. In addition, the Company reimburses Mr. Moody the applicable taxes associated with this benefit which was $224,949 in 2009.

(5) Mr. Robert L. Moody’s amounts in this column include $30,889 for Office of the Chairman expenses and $1,400 in gifts.

(6) Mr. Ross R. Moody’s amounts in this column include $3,154 for car expense, $855 in membership dues, $1,750 for personal tax return preparation and $1,400 in officer and director gifts.

(7) Mr. Pribyl’s amounts in this column include $700 in officer gifts.

(8) Mr. Milos’s amounts in this column include $6,179 for guest travel on Company business trips, $1,017 for car expense and $1,400 in officer and director gifts.

(9) Mr. Arendale’s amounts in this column include $2,091 for guest travel on Company business trips and $700 in officer gifts.

Grants of Plan-Based Awards

The following table provides information regarding grants under the Company's 2009 Executive Officer Bonus Program, Senior Vice President Bonus Program and International Marketing Officer Bonus Program for the executive officers named in the Summary Compensation Table.

	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (a)		
Name	Threshold	Target	Maximum (b)
Robert L. Moody			
2009 Executive Officer Bonus Program:			
International life sales	$50,218	$83,696	$117,174
Domestic life sales	50,218	83,696	117,174
Annuities sales	50,218	83,696	117,174
Expense management	167,392	251,088	334,784
Company profitability	167,392	334,784	502,175
Ross R. Moody			
2009 Executive Officer Bonus Program:			
International life sales	17,239	28,732	40,224
Domestic life sales	17,239	28,732	40,224
Annuities sales	17,239	28,732	40,224
Expense management	57,463	86,195	114,926
Company profitability	57,463	114,926	172,389
Brian M. Pribyl			
2009 Senior Vice President Bonus Program:			
International life sales	5,306	6,632	7,958
Domestic life sales	5,306	6,632	7,958
Annuities sales	5,306	6,632	7,958
Expense management	14,590	19,896	25,202
Company profitability	13,264	33,792	50,403
Scott E. Arendale			
2009 International Marketing Officer Bonus Program:			
International life sales	33,023	115,579	No limit
International life persistency	4,953	24,767	49,534
Expense management	4,953	24,767	49,534
Charles D. Milos			
2009 Senior Vice President Bonus Program:			
International life sales	4,478	5,598	6,717
Domestic life sales	4,478	5,598	6,717
Annuities sales	4,478	5,598	6,717
Expense management	12,315	16,793	21,271
Company profitability	11,195	33,585	42,541

Note: Columns with no data have been omitted.

(a) Amounts that have been or are expected to be paid in 2010 pertaining to the 2009 programs are reflected in the Summary Compensation Table. The 2009 program bonus amounts are based upon the base salary reflected in the applicable program addendums.

(b) Although the Executive Officer and Senior Vice President Bonus Programs have stated maximums per program component, the aggregate bonus amount cannot exceed 50% and 30%, respectively, of base salaries.

The following table provides information regarding stock appreciation right (SAR) grants awarded during the year ended December 31, 2009 under the Company's 2008 Incentive Plan for the executive officers named in the Summary Compensation Table.

Name	Grant Date	All Other Option Awards: Number of Securities Underlying SARs	Exercise or Base Price of SAR Awards	Grant Date Fair Value of SAR Awards
Robert L. Moody	2/19/2009	7,500	$ 114.64	$ 356,691
Ross R. Moody	2/19/2009	5,518	$ 114.64	$ 262,429
Brian M. Pribyl	2/19/2009	1,000	$ 114.64	$ 47,559
Scott E. Arendale	2/19/2009	1,000	$ 114.64	$ 47,559
Charles D. Milos	2/19/2009	1,000	$ 114.64	$ 47,559

Outstanding Equity Awards at December 31, 2009

The following table provides information regarding outstanding stock options and SARs held by the executive officers named in the Summary Compensation Table as of December 31, 2009.

	Option/SAR Awards				
Name	Number of Securities Underlying Options/SARs (#) Exercisable		Number of Securities Underlying Unexercised Options/SARs (#) Unexercisable	Option Exercise/SAR Price	Option/SAR Expiration Date
Robert L. Moody Grants:					
4/20/2001	2,300	(*)	-	$ 92.13	4/20/2011
6/22/2001	1,000	(*)	-	95.00	6/22/2011
4/23/2004	12,000		8,000	150.00	4/23/2014
6/25/2004 (director)	1,000	(*)	-	150.00	6/25/2014
4/18/2008	-		7,500	255.13	4/18/2018
6/20/2008 (director)	200		800	208.05	6/20/2018
2/19/2009 (director)	-		1,000	114.64	2/19/2019
2/19/2009	-		7,500	114.64	2/19/2019
Ross R. Moody Grants:					
4/20/2001	5,000	(*)	-	92.13	4/20/2011
6/22/2001	1,000	(*)	-	95.00	6/22/2011
4/23/2004	6,000		4,000	150.00	4/23/2014
6/25/2004 (director)	1,000	(*)	-	150.00	6/25/2014

4/18/2008	-	5,518	255.13	4/18/2018
6/20/2008 (director)	200	800	208.05	6/20/2018
2/19/2009 (director)	-	1,000	114.64	2/19/2019
2/19/2009	-	5,518	114.64	2/19/2019

	Option/SAR Awards				
Name	Number of Securities Underlying Options/SARs (#) Exercisable		Number of Securities Underlying Unexercised Options/SARs (#) Unexercisable	Option Exercise/SAR Price	Option/SAR Expiration Date
Brian M. Pribyl Grants:					
4/23/2004	400		800	150.00	4/23/2014
4/18/2008	-		1,000	255.13	4/18/2018
2/19/2009	-		1,000	114.64	2/19/2019
Scott E. Arendale Grants:					
4/20/2001	140	(*)	-	92.13	4/20/2011
4/23/2004	300		300	150.00	4/23/2014
4/18/2008	-		1,000	255.13	4/18/2018
2/19/2009	-		1,000	114.64	2/19/2019
Charles D. Milos Grants:					
4/20/2001	1,300	(*)	-	92.13	4/20/2011
6/22/2001	1,000	(*)	-	95.00	6/22/2011
4/23/2004	1,200		800	150.00	4/23/2014
6/25/2004 (director)	1,000	(*)	-	150.00	6/25/2014
4/18/2008	-		1,000	255.13	4/18/2018
6/20/2008 (director)	200		800	208.05	6/20/2018
2/19/2009 (director)	-		1,000	114.64	2/19/2019
2/19/2009	-		1,000	114.64	2/19/2019

Note: Columns with no data have been omitted.
(*) – Fully vested.

Officer stock options and SARs vest 20% annually following three full years of service to the Company from the date of grant. Stock options and SARs granted to members of the Board of Directors vest 20% annually following one full year of service to the Company from the date of grant. Accordingly, the unexercisable options and SARs shown in the previous table are scheduled to vest during the following years:

	2010	2011	2012	2013	2014 to 2016	Total Unexercisable
Robert L. Moody						
Grants:						
4/23/2004	4,000	4,000	-	-	-	8,000
4/18/2008	-	1,500	1,500	1,500	3,000	7,500
6/20/2008 (director)	200	200	200	200	-	800
2/19/2009 (director)	200	200	200	200	200	1,000
2/19/2009	-	-	1,500	1,500	4,500	7,500
Ross R. Moody						
Grants:						
4/23/2004	2,000	2,000	-	-	-	4,000
4/18/2008	-	1,103	1,104	1,104	2,207	5,518
6/20/2008 (director)	200	200	200	200	-	800
2/19/2009 (director)	200	200	200	200	200	1,000
2/19/2009	-	-	1,104	1,104	3,310	5,518
Brian M. Pribyl						
Grants:						
4/23/2004	400	400	-	-	-	800
4/18/2008	-	200	200	200	400	1,000
2/19/2009	-	-	200	200	600	1,000
Scott E. Arendale						
Grants:						
4/23/2004	150	150	-	-	-	300
4/13/2008	-	200	200	200	400	1,000
2/19/2009	-	-	200	200	600	1,000
Charles D. Milos						
Grants:						
4/23/2004	400	400	-	-	-	800
4/18/2008	-	200	200	200	400	1,000
6/20/2008 (director)	200	200	200	200	-	800
2/19/2009 (director)	200	200	200	200	200	1,000
2/19/2009	-	-	200	200	600	1,000

Option Exercises and Stock Vested

There were no option exercises by any of the executive officers named in the summary compensation table for the year ended December 31, 2009. The Company does not have stock award plans with stock awards subject to vesting.

Pension Benefits

The following table provides information regarding benefits under the Company's Pension Plan, Non-Qualified Defined Benefit Plan, Non-qualified Defined Benefit Plan for Robert L. Moody, and Non-Qualified Defined Benefit Plan for the President of National Western Life Insurance Company (NWLIC).

Name	Plan Name	Number of Years of Credited Service	Present Value of Accumulated Benefit	Payments During Last Fiscal Year
Robert L. Moody	NWLIC Pension Plan	44	$ 1,247,137	$ 153,509
	NWLIC Grandfathered Non-Qualified Defined Benefit Plan	45	5,257,959	713,258
	NWLIC Non-Qualified Defined Benefit Plan for Robert L. Moody	45	12,645,711	1,715,423
Ross R. Moody	NWLIC Pension Plan	17	189,750	-
	Non-Qualified Defined Benefit Plan for the President of NWLIC	19	293,254	-
Brian M. Pribyl	NWLIC Pension Plan	7	98,668	-
Charles D. Milos	NWLIC Pension Plan	25	521,415	-
	NWLIC Grandfathered Non-Qualified Defined Benefit Plan	27	238,316	-
	NWLIC Non-Qualified Defined Benefit Plan	27	203,622	-
Scott E. Arendale	NWLIC Pension Plan	14	264,967	-

Note: Columns with no data have been omitted.

48

Pension Plan. The qualified defined benefit plan covers substantially all employees and officers of the Company and provides benefits based on the participant's 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. Annual pension benefits for those employees who became eligible participants prior to January 1, 1991, are generally calculated as the sum of the following:

(1) 50% of the participant's final 5-year average annual eligible compensation at December 31, 1990, less 50% of their primary social security benefit determined at December 31, 1990; this net amount is then prorated for less than 15 years of benefit service at normal retirement date. This result is multiplied by a fraction which is the participant's years of benefit service at December 31, 1990, divided by the participant's years of benefit service at normal retirement date.

(2) 1.5% of the participant's eligible compensation earned during each year of benefit service after December 31, 1990 and through December 31, 2007.

Annual pension benefits for those employees who become eligible participants on or subsequent to January 1, 1991, are generally calculated as 1.5% of their compensation earned during each year of benefit service through December 31, 2007.

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. Accordingly future pension expense is projected to be minimal.

Non-Qualified Defined Benefit Plan. This plan covers officers of the Company who were in the position of senior vice president or above prior to 1991. The plan provides benefits based on the participant's years of service and compensation. No minimum funding standards are required.

The benefit to be paid pursuant to this plan to a participant, other than the Chairman of the Company, who retires at his normal retirement date shall be equal to (a) minus (b) minus (c), but the benefit may not exceed (d) minus (b) where:

(a) is the benefit which would have been payable at the participant's normal retirement date under the terms of the Pension Plan as of December 31, 1990, as if that plan had continued without change and without regard to Internal Revenue Code Section 401(a) (17) and 415 limits, and,

(b) is the benefit which actually becomes payable under the terms of the Pension Plan at the participant's normal retirement date, and,

(c) is the actuarially equivalent life annuity which may be provided by an accumulation of 2% of the participant's compensation for each year of service on and after January 1, 1991, accumulated at an assumed interest rate of 8.5% to the participant's normal retirement date, and,

(d) is the benefit which would have been payable at the participant's normal retirement date under the terms of the Pension Plan as of December 31, 1990, as if that plan had continued without change and without regard to Internal Revenue Code Section 401(a)(17) and 415 limits, except that the proration over 15 years shall instead be calculated over 30 years.

The Chairman of the Company, Robert L. Moody, is currently receiving in-service benefits from this plan. The benefit that Mr. Moody began receiving as of his normal retirement date pursuant to the plan was equal to (a) minus (b) minus (c) where:

(a) was his years of service (up to 45), multiplied by 1.66667%, and then multiplied by the excess of his eligible compensation over his primary social security benefit under the terms of the Pension Plan as of December 31, 1990, as if that plan had continued without change and without regard to Internal Revenue Code Section 401(a) (17) and 415 limits, and,

(b) was the benefit payable to him under the terms of the Pension Plan, and,

(c) was the actuarially equivalent life annuity provided by an accumulation of 2% of his compensation for each year of service on and after January 1, 1991, accumulated at an assumed interest rate of 8.5% to his normal retirement date.

This benefit was increased for additional service and changes in eligible compensation through December 31, 2004. The benefit was frozen as of December 31, 2004 in connection with plan changes required by the American Jobs Creation Act of 2004.

Non-Qualified Defined Benefit Plan for Robert L. Moody. This plan covers the current Chairman of the Company, Robert L. Moody, and 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 American Jobs Creation Act of 2004. No minimum funding standards are required. The annual benefit paid to the Chairman of the Company on an in-service basis effective July 1, 2005 was equal to (a) minus (b) minus (c) where:

(a) was his years of service on his normal retirement date, multiplied by 1.66667%, and then multiplied by the excess of his eligible compensation over his primary social security benefit under the terms of the Pension Plan as of December 31, 1990, as if that plan had continued without change and without regard to Internal Revenue Code Section 401(a) (17) and 415 limits, less the actuarially equivalent life annuity which may be provided by an accumulation of 2% of his compensation for each year of service on and after January 1, 1991, accumulated at an assumed interest rate of 8.5% to his normal retirement date, and, multiplied by the ratio of his years of service on July 1, 2005 to his years of service on his normal retirement date, multiplied by the ratio of his eligible compensation as of July 1, 2005 to his eligible compensation as of his normal retirement date, and,

(b) was the benefit payable to him under the terms of the Pension Plan as of July 1, 2005, and,

(c) was the benefit payable to him under the terms of the Non-Qualified Defined Benefit Plan as of December 31, 2004.

Subsequent to July 1, 2005, the annual benefit was increased monthly for additional service and changes in eligible compensation.

Non-Qualified Defined Benefit Plan for the President of National Western Life Insurance Company. This plan covers the President of the Company and is intended to provide benefit accruals that comply with the American Jobs Creation Act of 2004. No minimum funding standards are required.

The annual benefit to be paid to the President of the Company who retires at his normal retirement date shall be equal to (a) minus (b) minus (c) where:

(a) equals his years of service (up to 45), multiplied by 1.66667%, and then multiplied by the excess of his eligible compensation over his primary social security benefit under the terms of the Pension Plan as of December 31, 1990, as if that plan had continued without change and without regard to Internal Revenue Code Section 401(a) (17) and 415 limits, and,

(b) equals the actuarially equivalent life annuity provided by an accumulation of 2% of his compensation for each year of service on and after his date of hire, accumulated at an assumed interest rate of 8.5% to his normal retirement date, and,

(c) equals the benefit actually payable to him under the terms of the Pension Plan.

The plan provides for a monthly in-service benefit if the President of the Company continues employment after his normal retirement date.

Non-Qualified Deferred Compensation

The following table provides information regarding the Company's non-qualified deferred compensation plan for the executive officers named in the Summary Compensation Table as of December 31, 2009.

Name	Executive Contributions in Last Fiscal Year	Registrant Contributions in Last Fiscal Year (a)	Aggregate Earnings in Last Fiscal Year (b)	Aggregate Withdrawals/ Distributions	Aggregate Balance at Last Fiscal Year-End (c)
Robert L. Moody	$ -	$ -	$ 2,620	$ 40,816	$ -
Ross R. Moody	34,164	26,487	124,022	-	620,533
Brian M. Pribyl	10,885	6,501	13,753	-	191,748
Charles D. Milos	11,520	8,211	93,325	-	407,827
Scott E. Arendale	6,523	3,272	4,409	-	51,240

Note: Columns with no data have been omitted.

(a) Registrant contributions are reflected in the "All Other Compensation" column in the Summary Compensation Table and are not additional earned compensation.
(b) The investment options under the plan consist of a selection of mutual funds identical to those available to all employees through the 401(k) plan.
(c) Balances in the plan are settled in cash upon the termination event selected by the officer and distributed either in a lump sum or in annual installments. Deferred amounts represent unsecured obligations of the Company.

Potential Payments Upon Termination or Change in Control

Other than the Company's 1995 Stock Option and Incentive Plan and 2008 Incentive Plan, the Company has no contract, agreement, plan, or arrangement, written or unwritten, that provides for payment to any officer at, following, or in connection with any termination, severance, retirement or a constructive termination, or a change in control of the Company or a change in any officer's responsibilities.

The 1995 Stock Option and Incentive Plan governs certain of the stock option grants held by our executive officers. Our executive officers are not entitled to any benefits under our 1995 Stock Option and Incentive Plan that are not available to other participants. The 1995 Stock Option and Incentive Plan includes the following change in control provisions, which would result in the accelerated vesting of outstanding option grants: In the event of a Change of Control, all outstanding Awards shall immediately vest and become exercisable or satisfiable, as applicable. The Committee, in its discretion, may determine that upon the occurrence of a Change in Control, each

Award outstanding hereunder shall terminate within a specified number of days after notice to the Holder, and such Holder shall receive, with respect to each share of Common Stock subject to such Award, cash in an amount equal to the excess of (i) the higher of (x) the Fair Market Value of such share of Common Stock immediately prior to the occurrence of such Change of Control or (y) the value of the consideration to be received in connection with such Change of Control for one share of Common Stock over (ii) the exercise price per share, if applicable, of Common Stock set forth in such Award. The provisions contained in the preceding sentence shall be inapplicable to an Award granted within six (6) months before the occurrence of a Change of Control if the Holder of such Award is subject to the reporting requirements of Section 16(a) of the 1934 Act. If the consideration offered to shareholders of the Company in any transaction described in this paragraph consists of anything other than cash, the Committee shall determine the fair cash equivalent of the portion of the consideration offered which is other than cash. The provisions contained in this paragraph shall not terminate any rights of the Holder to further payments pursuant to any other agreement with the Company following a Change of Control.

The 2008 Incentive Plan governs certain of the stock option grants and/or SARs held by our executive officers and provides for the acceleration of vesting of all awards upon a change in control of the Company. The 2008 Incentive Plan includes the following change in control provisions, which would result in the accelerated vesting of outstanding award grants: The Committee may provide in an option agreement and/or Stock Appreciation Rights agreement that in the event of a Change in Control of the Company, (i) all or a portion of the stock options and/or any Stock Appreciation Rights awarded under such agreement shall become fully vested and immediately exercisable and/or (ii) the vesting of all performance-based stock options shall be determined as if the performance period or cycle applicable to such stock options had ended immediately upon such Change in Control.

Our executive officers hold option grants under both the 1995 Stock Option and Incentive Plan and the 2008 Incentive Plan. Option Grants under the 1995 Stock Option and Incentive Plan and the 2008 Incentive Plan will immediately vest upon a change in control. The following table depicts potential benefits for our executive officers as a result of a change in control. Such termination is assumed to occur on January 1, 2010.

Named Executive Officer	Intrinsic Value of Accelerated Equity (1)($)
Robert L. Moody	$ 690,290.00
Ross R. Moody	478,911.64
Brian M. Pribyl	77,876.00
Charles D. Milos	136,856.00
Scott E. Arendale	66,066.00

(1) Value is based upon the closing selling price per share of our Class A common stock on the NASDAQ Global Select Market on December 31, 2009, which was $173.62.

52

Director Compensation

The following table sets forth the compensation for 2009 for those individuals who served as members of the Company's Board of Directors during 2009 (excluding named executive officers whose director compensation is included in the Summary Compensation Table).

Name	Fees Earned or Paid in Cash	Option Awards (a)	All Other Compensation		Total
Stephen E. Glasgow	$ 36,900	$ 47,784	$ 45,812	(b)	$ 130,496
E. Douglas McLeod	26,400	47,784	952	(c)	75,136
Russell S. Moody	26,400	47,784	20,499	(d)	94,683
Frances A. Moody-Dahlberg	26,400	47,784	29,687	(e)	103,871
Louis E. Pauls Jr.	32,500	47,784	8,860	(f)	89,144
E. J. Pederson	32,000	47,784	952	(c)	80,736

Note: Columns with no data have been omitted.

(a) The amounts in this column represent the fair value on grant date of option awards received during the year.
(b) The amount shown for Mr. Glasgow includes $38,461 value of the Company's Group and Excess Benefit Plans, $252 for the taxable value of supplemental life coverage, $6,399 in guest travel and $700 in gifts.
(c) The amounts shown for Messrs. McLeod and Pederson represent $252 for the taxable value of supplemental life coverage and $700 in gifts.
(d) The amount shown for Mr. Moody is $252 for the taxable value of supplemental life coverage, $19,547 in guest travel and $700 in gifts.
(e) The amount shown for Ms. Moody-Dahlberg is $28,874 value of the Company's Excess Benefit Plans, $113 in guest travel and $700 in gifts.
(f) The amount shown for Mr. Pauls includes $6,046 value of the Company's Group Benefit Plans, $20 for the taxable value of supplemental life coverage, $2,094 in guest travel and $700 in gifts.

All directors of the Company currently receive $24,000 a year and $600 for each board meeting attended. They are also reimbursed for actual travel expenses incurred in performing services as directors. An additional $600 is paid for each committee meeting attended. However, a director attending multiple meetings on the same day receives only one meeting fee. The amounts paid pursuant to these arrangements are included in the Summary Compensation Table of this Item. The directors and their dependents are also eligible to participate in the Company's group insurance program.

Directors of the Company are eligible for restricted stock awards, incentive awards, and performance awards under the National Western Life Insurance Company 1995 Stock Option and Incentive Plan and 2008 Incentive Plan. Company directors, including members of the Compensation and Stock Option Committee, are eligible for nondiscretionary stock options.

Directors of the Company’s subsidiary, NWL Investments, Inc., receive $250 annually. Directors of the Company’s subsidiary, NWLSM, Inc., receive $1,000 per board meeting attended. Nonemployee directors of the Company’s subsidiary, NWL Services, Inc., receive $1,000 per board meeting attended. Directors of the Company’s downstream subsidiaries, Regent Care General Partner, Inc., and Regent Care Operations General Partner, Inc., receive $250 per board meeting attended. Directors of the Company’s downstream subsidiary, Regent Care Limited Partner, Inc., receive $500 per board meeting attended.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Listing of Financial Statements

See Attachment A, Index to Financial Statements and Schedules, on page 60 for a list of financial statements included in this report.

(a) 2. Listing of Financial Statement Schedules

See Attachment A, Index to Financial Statements and Schedules, on page 60 for a list of financial statement schedules included in this report.

All other schedules are omitted because they are not applicable, not required, or because the information required by the schedule is included elsewhere in the financial statements or notes.

(a) 3. Listing of Exhibits

The exhibits listed below, as part of Form 10-K, are numbered in accordance with the numbering used in Item 601 of Regulation S-K of The Securities and Exchange Commission.

Exhibit 2	-	Order Confirming Third Amended Joint Consensual Plan Of Reorganization Proposed By The Debtors And The Official Committee Of Unsecured Creditors (As Modified As of August 28, 1998) (incorporated by reference to Exhibit 2 to the Company's Form 8-K dated August 28, 1998).
Exhibit 3(a)	-	Restated Articles of Incorporation of National Western Life Insurance Company dated April 10, 1968 (incorporated by reference to Exhibit 3(a) to the Company's Form 10-K for the year ended December 31, 1995).
Exhibit 3(b)	-	Amendment to the Articles of Incorporation of National Western Life Insurance Company dated July 29, 1971 (incorporated by reference to Exhibit 3(b) to the Company's Form 10-K for the year ended December 31, 1995).
Exhibit 3(c)	-	Amendment to the Articles of Incorporation of National Western Life Insurance Company dated May 10, 1976 (incorporated by reference to Exhibit 3(c) to the Company's Form 10-K for the year ended December 31, 1995).
Exhibit 3(d)	-	Amendment to the Articles of Incorporation of National Western Life Insurance Company dated April 28, 1978 (incorporated by reference to Exhibit 3(d) to the Company's Form 10-K for the year ended December 31, 1995).
Exhibit 3(e)	-	Amendment to the Articles of Incorporation of National Western Life Insurance Company dated May 1, 1979 (incorporated by reference to Exhibit 3(e) to the Company's Form 10-K for the year ended December 31, 1995).
Exhibit 3(f)	-	

		Bylaws of National Western Life Insurance Company as amended through April 24, 1987 (incorporated by reference to Exhibit 3(f) to the Company's Form 10-K for the year ended December 31, 1995).
Exhibit 3ii(g)	-	Bylaws of National Western Life Insurance Company dated August 24, 2007 (incorporated by reference to Exhibit 3ii(g) to the Company's Form 10-Q September 30, 2007).
Exhibit 10(a)	-	National Western Life Insurance Company Non-Qualified Defined Benefit Plan dated July 26, 1991 (incorporated by reference to Exhibit 10(a) to the Company's Form 10-K for the year ended December 31, 1995).

54

Exhibit 10(c)	-	National Western Life Insurance Company Non-Qualified Deferred Compensation Plan, as amended and restated, dated March 27, 1995 (incorporated by reference to Exhibit 10(c) to the Company's Form 10-K for the year ended December 31, 1995).
Exhibit 10(d)	-	First Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective July 1, 1995 (incorporated by reference to Exhibit 10(d) to the Company's Form 10-K for the year ended December 31, 1995).
Exhibit 10(e)	-	National Western Life Insurance Company 1995 Stock and Incentive Plan (incorporated by reference to Exhibit 10(e) to the Company's Form 10-K for the year ended December 31, 1995).
Exhibit 10(f)	-	First Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective December 17, 1996 (incorporated by reference to Exhibit 10(f) to the Company's Form 10-K for the year ended December 31, 1996).
Exhibit 10(g)	-	Second Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective December 17, 1996 (incorporated by reference to Exhibit 10(g) to the Company's Form 10-K for the year ended December 31, 1996).
Exhibit 10(h)	-	Second Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective December 17, 1996 (incorporated by reference to Exhibit 10(h) to the Company's Form 10-K for the year ended December 31, 1996).
Exhibit 10(i)	-	Third Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective December 17, 1996 (incorporated by reference to Exhibit 10(i) to the Company's Form 10-K for the year ended December 31, 1996).
Exhibit 10(j)	-	Fourth Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective June 20, 1997 (incorporated by reference to Exhibit 10(j) to the Company's Form 10-K for the year ended December 31, 1997).
Exhibit 10(k)	-	First Amendment to the National Western Life Insurance Company 1995 Stock and Incentive Plan effective June 19, 1998 (incorporated by reference to Exhibit 10(k) to the Company's Form 10-Q for the quarter ended June 30, 1998).
Exhibit 10(m)	-	Fifth Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective July 1, 1998 (incorporated by reference to Exhibit 10(m) to the Company's Form 10-Q for the quarter ended September 30, 1998).

Exhibit 10(n)	-	Sixth Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective August 7, 1998 (incorporated by reference to Exhibit 10(n) to the Company's Form 10-K for the year ended December 31, 1998).
Exhibit 10(o)	-	Third Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective August 7, 1998 (incorporated by reference to Exhibit 10(o) to the Company's Form 10-K for the year ended December 31, 1998).
Exhibit 10(p)	-	Exchange Agreement by and among National Western Life Insurance Company, NWL Services, Inc., Alternative Benefit Management, Inc., and American National Insurance Company effective November 23, 1998 (incorporated by reference to Exhibit 10(p) to the Company's Form 10-K for the year ended December 31, 1998).
Exhibit 10(s)	-	Seventh Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective August 7, 1998 (incorporated by reference to Exhibit 10(s) to the Company's Form 10-K for the year ended December 31, 2000).
Exhibit 10(u)	-	Eighth Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective December 1, 2000 (incorporated by reference to Exhibit 10(u) to the Company's Form 10-K for the year ended December 31, 2000).

Exhibit 10(v)	-	Fourth Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective December 1, 2000 (incorporated by reference to Exhibit 10(v) to the Company's Form 10-K for the year ended December 31, 2000).
Exhibit 10(w)	-	Second Amendment to the National Western Life Insurance Company 1995 Stock and Incentive Plan (incorporated by reference to Exhibit 10(w) to the Company's Form 10-Q for the quarter ended September 30, 2001).
Exhibit 10(z)	-	Fifth Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective January 1, 2001 (incorporated by reference to Exhibit 10(z) to the Company's Form 10-K for the year ended December 31, 2001).
Exhibit 10(ae)	-	Sixth Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective August 23, 2002 (incorporated by reference to Exhibit 10(ae) to the Company's Form 10-Q for the quarter ended September 30, 2002).
Exhibit 10(af)	-	Seventh Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective October 18, 2002 (incorporated by reference to Exhibit 10(af) to the Company's Form 10-Q for the quarter ended September 30, 2002).
Exhibit 10(ai)	-	Eighth Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective January 1, 2003 (incorporated by reference to Exhibit 10(ai) to the Company's Form 10-K for the year ended December 31, 2002).
Exhibit 10(am)	-	Ninth amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective November 1, 2003 (incorporated by reference to Exhibit 10(am) to the Company's Form 10-K for the year ended December 31, 2003).
Exhibit 10(an)	-	Ninth amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective December 5, 2003 (incorporated by reference to Exhibit 10(an) to the Company's Form 10-K for the year ended December 31, 2003.)
Exhibit 10(ar)	-	Third Amendment to the National Western Life Insurance Company 1995 Stock and Incentive Plan (incorporated by reference to Exhibit 10(ar) to the Company's Form 10-Q for the quarter ended September 30, 2004).
Exhibit 10(as)	-	Amendment to the National Western Life Insurance Company Group Excess Benefit Plan effective December 15, 2004 (incorporated by reference to Exhibit 10(as) to the Company's Form 10-K for the year ended December 31, 2004).

Exhibit 10(at)	-	The National Western Life Insurance Company Employee Health Plan was amended and restated effective August 20, 2004 (incorporated by reference to Exhibit 10(at) to the Company's Form 10-K for the year ended December 31, 2004).
Exhibit 10(au)	-	Tenth Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective December 31, 2004 (incorporated by reference to Exhibit 10(au) to the Company's Form 10-K for the year ended December 31, 2004).
Exhibit 10(az)	-	National Western Life Insurance Company Non-Qualified Defined Benefit Plan for Robert L. Moody (Exhibit 10(az) to 8-K dated July 1, 2005).
Exhibit 10(ba)	-	First Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan for Robert L. Moody (Exhibit 10(ba) to 8-K dated August 22, 2005).
Exhibit 10(bb)	-	Second Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan for Robert L. Moody (Exhibit 10(bb) to 8-K dated December 15, 2005).

56

Exhibit 10(bc)	-	Tenth Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan (Exhibit 10(bc) to 8-K dated December 15, 2005).
Exhibit 10(bd)	-	National Western Life Insurance Company Retirement Bonus Program for Robert L. Moody (Exhibit 10(bd) to 8-K dated December 15, 2005).
Exhibit 10(be)	-	Eleventh Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan (Exhibit 10(be) to 8-K dated December 15, 2005).
Exhibit 10(bf)	-	Non-Qualified Defined Benefit Plan for the President of the National Western Life Insurance Company (Exhibit 10(bf) to 8-K dated December 15, 2005).
Exhibit 10(bg)	-	National Western Life Insurance Company 2006 Executive Officer Bonus Program (Exhibit 10(bg) to 8-K dated February 17, 2006).
Exhibit 10(bh)	-	National Western Life Insurance Company 2006 Executive Officer Bonus Program (as amended) (Exhibit 10(bh) to 8-K dated April 21, 2006).
Exhibit 10(bi)	-	2006 International Marketing Officer Bonus Program (Exhibit 10(bi) to 8-K dated June 23, 2006).
Exhibit 10(bj)	-	2006 Domestic Marketing Officer Bonus Program (Exhibit 10(bj) to 8-K dated June 23, 2006).
Exhibit 10(bk)	-	National Western Life Insurance Company Harvest Nonqualified Deferred Compensation Plan (Exhibit 10(bk) to 8-K dated June 23, 2006).
Exhibit 10(bl)	-	Amendment No. 16 to Loan Agreement (Exhibit 10(bl) to 8-K dated July 31, 2006).
Exhibit 10(bm)	-	Life Systems, Incorporated Termination Agreement (Exhibit 10(bm) to 8-K dated March 30, 2007).
Exhibit 10(bn)	-	National Western Life Insurance Company 2007 Executive Officer Bonus Program (Exhibit 10(bn) to 8-K dated April 19, 2007).
Exhibit 10(bo)	-	National Western Life Insurance Company 2007 Domestic Marketing Officer Bonus Program (Exhibit 10(bo) to 8-K dated April 19, 2007).
Exhibit 10(bp)	-	National Western Life Insurance Company 2007 International Marketing Officer Bonus Program (Exhibit 10(bp) to 8-K dated April 19, 2007).
Exhibit 10(bq)	-	National Western Life Insurance Company 2008 Executive Officer Bonus Program (Exhibit 10(bq) to 8-K dated March 17, 2008).
	-	

Exhibit 10(br)		National Western Life Insurance Company 2008 Domestic Marketing Officer Bonus Program (Exhibit 10(br) to 8-K dated August 22, 2008).
Exhibit 10(bs)	-	National Western Life Insurance Company 2008 International Marketing Officer Bonus Program (Exhibit 10(bs) to 8-K dated August 22, 2008).
Exhibit 10(bt)	-	National Western Life Insurance Company 2008 Domestic Marketing Officer Bonus Program (as amended) (Exhibit 10(bt) to 8-K dated October 16, 2008).
Exhibit 10(bu)	-	National Western Life Insurance Company 2008 Incentive Plan (Exhibit 10(bu) to S-8 dated September 2, 2008).
Exhibit 10(bv)	-	National Western Life Insurance Company 2008 Senior Vice President Bonus Program Program (Exhibit 10(bv) to Form 10-K dated December 31, 2008).

Exhibit 10(bw)	-	National Western Life Insurance Company 2009 Executive Officer Bonus Program (Exhibit 10(bw) to 8-K dated February 19, 2009).
Exhibit 10(bx)	-	National Western Life Insurance Company 2009 Domestic Marketing Officer Bonus Program (Exhibit 10(bx) to 8-K dated February 19, 2009).
Exhibit 10(by)	-	National Western Life Insurance Company 2009 International Marketing Officer Bonus Program (Exhibit 10(by) to 8-K dated February 19, 2009).
Exhibit 10(bz)	-	National Western Life Insurance Company 2009 Senior Vice President Bonus Program (Exhibit 10(bz) to 8-K dated February 19, 2009).
Exhibit 10(ca)	-	National Western Life Insurance Company Non-Qualified Defined Benefit Plan for Robert L. Moody As Amended and Restated Effective as of January 1, 2009 (Exhibit 10(ca) to Form 10-K dated December 31, 2008).
Exhibit 10(cb)	-	Non-Qualified Defined Benefit Plan for the President of National Western Life Insurance Company As Amended and Restated Effective as of January 1, 2009 (Exhibit 10(cb) to Form 10-K dated December 31, 2008).
Exhibit 10(cc)	-	National Western Life Insurance Company Grandfathered Non-Qualified Defined Benefit Plan As Amended and Restated Effective as of December 31, 2004 (Exhibit 10(cc) to Form 10-K dated December 31, 2008).
Exhibit 10(cd)	-	National Western Life Insurance Company Non-Qualified Defined Benefit Plan As Amended and Restated Effective as of January 1, 2009 (Exhibit 10(cd) to Form 10-K dated December 31, 2008).
Exhibit 10(ce)	-	National Western Life Insurance Company Grandfathered Non-Qualified Deferred Compensation Plan As Amended and Restated Effective as of December 31, 2004 (Exhibit 10(ce) to Form 10-K dated December 31, 2008).
Exhibit 10(cf)	-	National Western Life Insurance Company Non-Qualified Deferred Compensation Plan As Amended and Restated Effective as of January 1, 2009 (Exhibit 10(cf) to Form 10-K dated December 31, 2008).
Exhibit 10(cg)	-	First Amendment to The National Western Life Insurance Company Pension Plan As Amended and Restated Effective as of January 1, 2007 (Exhibit 10(cg) to Form 10-K dated December 31, 2008).
Exhibit 10(ch)	-	Amended National Western Life Insurance Company Group Excess Benefit Plan, effective May 1, 2009 (Exhibit 10(ch) to Form 10-Q dated March 31, 2009).
Exhibit 10(ci)	-	Revolving Credit Loan Agreement with Moody National Bank (Exhibit 10(ci) to 8-K dated August 31, 2009).
	-	

Exhibit 10(cj)		National Western Life Insurance Company 2009 Executive Officer Bonus Program (Exhibit 10(cj) to 8-K dated December 16, 2009).
Exhibit 10(ck)	-	National Western Life Insurance Company 2009 Domestic Marketing Officer Bonus Program (Exhibit 10(ck) to 8-K dated December 16, 2009).
Exhibit 10(cl)	-	National Western Life Insurance Company 2009 International Marketing Officer Bonus Program (Exhibit 10(cl) to 8-K dated December 16, 2009).
Exhibit 10(cm)	-	National Western Life Insurance Company 2009 Officer President Bonus Program (Exhibit 10(cm) to 8-K dated December 16, 2009).
Exhibit 10(cp)	-	Management/Consultant Agreement dated March 29, 2000 by and between Regent Care Operations, Limited Partnership and Regent Management Services, Limited Partnership.

Exhibit 10(cq)		Management Agreement dated October 1, 2008 by and between Regent Care San Marcos B-3, Limited Partnership and Regent Management Services, Limited Partnership.
Exhibit 10(cr)		Administrative Services Only Agreement dated January 1, 2001 by and between National Western Life Insurance Company and American National Insurance Company (ANICO) pertaining to ANICO Excess Benefit Plan.
Exhibit 10(cs)		Premium Payment Agreement dated January 1, 2001 by and between National Western Life Insurance Company and American National Insurance Company (ANICO) pertaining to ANICO Excess Benefit Plan.
Exhibit 10(ct)		Administrative Services Only Agreement dated January 1, 2001 by and between National Western Life Insurance Company and American National Insurance Company (ANICO) pertaining to ANICO Excess Benefit Plan.
Exhibit 10(cu)		Premium Payment Agreement dated January 1, 2001 by and between National Western Life Insurance Company and American National Insurance Company (ANICO) pertaining to ANICO Excess Benefit Plan.
Exhibit 21	-	Subsidiaries of the Registrant.
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)	-	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Exhibits

Exhibits required by Regulation S-K are listed as to location in the Listing of Exhibits in Item 15.(a)3 above. Exhibits not referred to have been omitted as inapplicable or not required.

(c) Financial Statement Schedules

The financial statement schedules required by Regulation S-K are listed as to location in Attachment A, Index to Financial Statements and Schedules, on page 60 of this report.

ATTACHMENT A

Index to Financial Statements and Schedules

All other schedules are omitted because they are not applicable, not required, or because the information required by the schedule is included elsewhere in the consolidated financial statements or notes.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
National Western Life Insurance Company:

We have audited the accompanying consolidated balance sheets of National Western Life Insurance Company and subsidiaries (the Company) as of December 31, 2009 and 2008, and the related consolidated statements of earnings, comprehensive income (loss), stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2009. In connection with our audits of the consolidated financial statements, we also have audited financial statement schedules I and V. These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Western Life Insurance Company and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for other-than-temporary impairments in 2009 and deferred acquisition costs in connection with modifications or exchanges of insurance contracts in 2007.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), National Western Life Insurance Company's internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 16, 2010 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

KPMG LLP
Dallas, Texas
March 16, 2010

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2009 and 2008
(In thousands)

ASSETS	2009	2008
Investments:		
Securities held to maturity, at amortized cost (fair value: $4,331,077 and $3,727,353)	$4,176,661	3,831,417
Securities available for sale, at fair value (cost: $1,967,365 and $1,904,053)	2,050,079	1,745,266
Mortgage loans, net of allowance for possible losses ($5,033 and $4,587)	98,200	90,733
Policy loans	78,336	79,277
Derivatives, index options	89,915	11,920
Other long-term investments	32,829	14,168
Total Investments	6,526,020	5,772,781
Cash and short-term investments	108,866	67,796
Deferred policy acquisition costs	626,440	701,984
Deferred sales inducements	122,232	120,955
Accrued investment income	71,572	64,872
Federal income tax receivable	-	1,820
Other assets	63,605	56,272
	$7,518,735	6,786,480

See accompanying notes to consolidated financial statements.

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2009 and 2008
(In thousands except share amounts)

LIABILITIES AND STOCKHOLDERS' EQUITY	2009	2008
LIABILITIES:		
Future policy benefits:		
Traditional life and annuity contracts	$ 133,169	137,530
Universal life and annuity contracts	5,988,665	5,424,968
Other policyholder liabilities	128,931	131,963
Deferred Federal income tax liability	32,818	26,506
Federal income tax payable	13,197	-
Other liabilities	107,902	79,300
Total liabilities	6,404,682	5,800,267
COMMITMENTS AND CONTINGENCIES (Notes 4, 7, and 9)		
STOCKHOLDERS' EQUITY:		
Common stock:		
Class A - $1 par value; 7,500,000 shares authorized; 3,425,966 shares issued and outstanding in 2009 and 2008	3,426	3,426
Class B - $1 par value; 200,000 shares authorized, issued, and outstanding in 2009 and 2008	200	200
Additional paid-in capital	36,680	36,680
Accumulated other comprehensive income (loss)	17,760	(65,358)
Retained earnings	1,055,987	1,011,265
Total stockholders' equity	1,114,053	986,213
	$ 7,518,735	6,786,480

See accompanying notes to consolidated financial statements.

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
For the Years Ended December 31, 2009, 2008 and 2007
(In thousands except per share amounts)

	2009	2008	2007
Premiums and other revenue:			
Traditional life and annuity premiums	$17,043	17,752	19,513
Universal life and annuity contract charges	145,651	133,424	119,677
Net investment income	393,531	273,362	318,137
Other revenues	17,348	12,769	13,683
Net realized investment (losses) gains:			
Total other-than-temporary impairment (“OTTI”) losses	(13,847)	(27,215)	(67)
Portion of OTTI losses recognized in other comprehensive income	8,326	-	-
Net OTTI losses recognized in earnings	(5,521)	(27,215)	(67)
Other net investment gains	354	987	3,564
Total net realized investment (losses) gains	(5,167)	(26,228)	3,497
Total revenues	568,406	411,079	474,507
Benefits and expenses:			
Life and other policy benefits	48,997	39,759	41,326
Amortization of deferred policy acquisition costs and deferred sales inducements	115,163	127,161	88,413
Universal life and annuity contract interest	242,816	138,960	164,391
Other operating expenses	92,192	55,630	55,130
Total benefits and expenses	499,168	361,510	349,260
Earnings before Federal income taxes	69,238	49,569	125,247
Federal income taxes	23,754	15,927	39,876
Net earnings	$45,484	33,642	85,371
Basic Earnings Per Share:			
Class A	12.90	9.54	24.24
Class B	6.45	4.77	12.12
Diluted Earnings Per Share:			
Class A	12.87	9.48	23.95
Class B	6.45	4.77	12.12

See accompanying notes to consolidated financial statements.

64

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the Years Ended December 31, 2009, 2008 and 2007
(In thousands)

	2009	2008	2007
Net earnings	$45,484	33,642	85,371
Other comprehensive income (loss), net of effects of deferred costs and taxes:			
Unrealized gains (losses) on securities:			
Net unrealized holding gains (losses) arising during period	82,686	(66,789)	1,035
Net unrealized liquidity losses	(3,312)	-	-
Reclassification adjustment for net amounts included in net earnings	2,756	11,866	(3,103)
Amortization of net unrealized (gains) losses related to transferred securities	(34)	(31)	104
Net unrealized gains (losses) on securities	82,096	(54,954)	(1,964)
Foreign currency translation adjustments	(73)	(112)	(44)
Benefit plans:			
Amortization of net prior service cost and net gain	1,095	(3,227)	1,235
Net loss arising during the period	-	-	(2,561)
Other comprehensive income (loss)	83,118	(58,293)	(3,334)
Comprehensive income (loss)	$128,602	(24,651)	82,037

See accompanying notes to consolidated financial statements.

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2009, 2008 and 2007
(In thousands)

	2009	2008	2007
Common stock:			
Balance at beginning of period	$ 3,626	3,622	3,621
Shares exercised under stock option plan	-	4	1
Balance at end of period	3,626	3,626	3,622
Additional paid-in capital:			
Balance at beginning of period	36,680	36,236	36,110
Shares exercised under stock option plan	-	444	126
Balance at end of period	36,680	36,680	36,236
Accumulated other comprehensive income (loss):			
Unrealized (losses) gains on non-impaired securities:			
Balance at beginning of period	(53,770)	1,184	3,148
Change in unrealized gains (losses) during period	85,409	(54,954)	(1,964)
Balance at end of period	31,639	(53,770)	1,184
Unrealized losses on impaired held to maturity securities:			
Balance at beginning of period	-	-	-
Cumulative effect of change in accounting principle (See Note 1)	(507)	-	-
Amortization	43	-	-
Other-than-temporary impairments	(2,287)	-	-
Balance at end of period	(2,751)	-	-
Unrealized losses on impaired available for sale securities:			
Balance at beginning of period	-	-	-
Other-than-temporary impairments	(581)	-	-
Recoveries	19	-	-
Balance at end of period	(562)	-	-
Foreign currency translation adjustments:			
Balance at beginning of period	2,966	3,078	3,122
Change in translation adjustments during period	(73)	(112)	(44)
Balance at end of period	2,893	2,966	3,078
Benefit plan liability adjustment:			
Balance at beginning of period	(14,554)	(11,327)	(10,001)
Amortization of net prior service cost and net gain	1,095	(3,227)	(1,326)

Balance at end of period	(13,459)	(14,554)	(11,327)
Accumulated other comprehensive income (loss) at end of period	17,760	(65,358)	(7,065)

(Continued on next page)

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY, CONTINUED
For the Years Ended December 31, 2009, 2008 and 2007
(In thousands)

	2009	2008	2007
Retained earnings:			
Balance at beginning of period	1,011,265	978,892	896,984
Cumulative effect of change in accounting principle, net of tax (See Note 1)	507	-	(2,195)
Net earnings	45,484	33,642	85,371
Stockholder dividends	(1,269)	(1,269)	(1,268)
Balance at end of period	1,055,987	1,011,265	978,892
Total stockholders' equity	$1,114,053	986,213	1,011,685

See accompanying notes to consolidated financial statements.

NATIONAL WESTERN LIFE INSURANCE COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2009, 2008 and 2007
(In thousands)

	2009	2008	2007
Cash flows from operating activities:			
Net earnings	$45,484	33,642	85,371
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Universal life and annuity contract interest	242,816	142,707	175,768
Surrender charges and other policy revenues	(54,588)	(41,027)	(36,191)
Realized losses (gains) on investments	4,145	26,228	(3,497)
Accrual and amortization of investment income	(2,095)	(4,520)	(4,693)
Depreciation and amortization	(502)	2,292	1,467
(Increase) decrease in value of derivatives	(93,085)	17,480	56,204
(Increase) decrease in deferred policy acquisition and sales inducement costs	(34,348)	16,418	(38,151)
(Increase) decrease in accrued investment income	(6,699)	162	(642)
(Increase) decrease in other assets	(8,544)	(9,394)	8,378
(Decrease) increase in liabilities for future policy benefits	(4,361)	(1,142)	290
Increase in other policyholder liabilities	35,037	11,563	7,951
(Decrease) increase in Federal income tax liability	(23,898)	2,572	18,893
Increase (decrease) in other liabilities	37,415	(2,108)	(11,247)
Other, net	748	(248)	25
Net cash provided by operating activities	137,525	194,625	259,926
Cash flows from investing activities:			
Proceeds from sales of:			
Securities held to maturity	-	-	5,934
Securities available for sale	19,781	1,722	33,616
Other investments	1,920	1,404	5,684
Proceeds from maturities and redemptions of:			
Securities held to maturity	958,491	520,839	136,752
Securities available for sale	91,378	206,510	340,681
Derivatives	56,808	53,805	44,047
Purchases of:			
Securities held to maturity	(1,245,032)	(566,764)	(321,609)
Securities available for sale	(243,824)	(218,874)	(366,238)
Derivatives	(41,718)	(58,010)	(53,073)
Other investments	(21,245)	(261)	(289)
Principal payments on mortgage loans	11,533	16,609	22,561
Cost of mortgage loans acquired	(21,551)	(14,239)	(19,578)
Decrease in policy loans	941	4,495	3,084
Other, net	-	-	(2,205)

Net cash used in investing activities	(432,518)	(52,764)	(170,633)

(Continued on next page)

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED
For the Years Ended December 31, 2009, 2008 and 2007
(In thousands)

	2009	2008	2007
Cash flows from financing activities:			
Stockholders dividends	$(1,269)	(1,269)	(1,268)
Deposits to account balances for universal life and annuity contracts	900,773	472,776	510,647
Return of account balances on universal life and annuity contracts	(563,371)	(591,114)	(603,450)
Issuance of common stock under stock option plan	-	448	127
Net cash provided by (used in) financing activities	336,133	(119,159)	(93,944)
Effect of foreign exchange	(70)	(112)	(44)
Net increase (decrease) in cash and short-term investments	41,070	22,590	(4,695)
Cash and short-term investments at beginning of year	67,796	45,206	49,901
Cash and short-term investments at end of year	$108,866	67,796	45,206

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

	2009	2008	2007
Cash paid during the year for:			
Interest	$33	41	41
Income taxes	47,659	11,687	19,298
Noncash operating activities:			
Deferral of sales inducements	22,917	3,747	11,377

See accompanying notes to consolidated financial statements.

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Principles of Consolidation. The accompanying consolidated financial statements include the accounts of National Western Life Insurance Company and its wholly owned subsidiaries (“National Western” or "Company"), The Westcap Corporation, Regent Care San Marcos Holdings, LLC, NWL Investments, Inc., NWL Services, Inc., NWLSM, Inc., and NWL Financial, Inc. All significant intercorporate transactions and accounts have been eliminated in consolidation.

(B) Basis of Presentation. The accompanying consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") which require 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 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) commitments and contingencies, (5) valuation allowances for deferred tax assets, (6) other-than-temporary impairment losses on debt securities, and (7) valuation allowances for mortgage loans and real estate.

The Company also files financial statements with insurance regulatory authorities which are prepared on the basis of statutory accounting practices prescribed or permitted by the Colorado Division of Insurance which are significantly different from consolidated financial statements prepared in accordance with GAAP. These differences are described in detail in the statutory information section of this note.

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

(C) Investments. Investments in debt securities the Company purchases with the intent to hold to maturity are classified as securities held to maturity. The Company has the ability to hold the securities until maturity, as it would be unlikely that forced sales of securities would be required, prior to maturity, to cover payments of liabilities. As a result, securities held to maturity are carried at amortized cost less declines in fair value that are deemed other-than-temporary.

Investments in debt and equity securities that are not classified as securities held to maturity are reported as securities available for sale. Securities available for sale are reported in the accompanying consolidated financial statements at fair value. Valuation changes resulting from changes in the fair value of the securities are reflected as a component of stockholders' equity in accumulated other comprehensive income (loss). These unrealized gains or losses in stockholders' equity are reported net of taxes and adjustments to deferred policy acquisition costs.

Transfers of securities between categories are recorded at fair value at the date of transfer.

Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to yield using the effective interest method. For mortgage-backed and asset-backed securities, the effective interest method is used based on anticipated prepayments and the estimated economic life of the securities. When estimates of prepayments change, the effective yield is recalculated to reflect actual payments to date and anticipated future payments. The net investment in the securities is adjusted to the amount that would have existed had the new effective yield been applied at the time of acquisition. This adjustment is reflected in net investment income.

Quarterly the Company reviews its investment portfolio for market value changes to identify changes caused by issuer credit deterioration, changes in market interest rates and changes in economic conditions. If this review indicates a decline in fair value that is other-than-temporary, the Company's carrying amount in the investment is reduced to its estimated fair value. In accordance with GAAP guidance the estimated credit versus non-credit components are bifurcated. The credit component is taken through earnings. The non-credit component is reclassified as unrealized loss in other comprehensive income. The Company would not recognize impairment of securities due to changing of interest rates or market dislocations unless the Company had the intent to sell the securities prior to recovery or maturity.

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company considers a number of factors in determining whether the impairment is other-than-temporary. These include, but are not limited to: 1) actions taken by rating agencies, 2) default by the issuer, 3) the significance of the decline in fair value, 4) the intent and ability to hold the investment until recovery, 5) the time period during which the decline has occurred, 6) an economic analysis of the issuer's industry, and 7) the financial strength, liquidity, and recoverability of the issuer. Management performs a security-by-security review each quarter in evaluating the need for any other-than-temporary impairments. Although no set formula is used in this process, the investment performance, collateral position, and continued viability of the issuer are significant measures considered.

Realized gains and losses for securities available for sale and securities held to maturity are included in earnings and are derived using the specific identification method for determining the cost of securities sold or called. Decline in the fair value below cost that is deemed other-than-temporary is charged to earnings. The decline in fair value is then bifurcated in credit and noncredit declines. The noncredit related declines are reclassified as unrealized losses in accumulated other comprehensive income (loss). Credit losses result in the establishment of a new cost basis for the security. The new discount or reduced premium amount is amortized over the remaining life of the impaired debt security prospectively based on the amount and timing of future estimated cash flows.

Mortgage loans and other long-term investments are stated at cost, less unamortized discounts, deferred fees, and allowances for possible losses. Policy loans are stated at their aggregate unpaid balances. Real estate is stated at the lower of cost or fair value less estimated costs to sell.

Impaired loans are those loans where it is probable that all amounts due according to contractual terms of the loan agreement will not be collected. The Company has identified these loans through its normal loan review procedures. Impaired loans include (1) nonaccrual loans, (2) loans which are 90 days or more past due, unless they are well secured and are in the process of collection, and (3) other loans which management believes are impaired. Impaired loans are measured based on (1) the present value of expected future cash flows discounted at the loan's effective interest rate, (2) the loan's observable market price, or (3) the fair value of the collateral if the loan is collateral dependent. Substantially all of the Company's impaired loans are measured at the fair value of the collateral. In limited cases, the Company may use other methods to determine the level of impairment of a loan if such loan is not collateral dependent.

While the Company closely manages its investment portfolio, future changes in issuer facts and circumstances can result in impairments beyond those currently identified.

(D) Cash and Short-Term Investments. For purposes of the consolidated statements of cash flows, the Company considers all short-term investments with a maturity at the date of purchase of three months or less to be cash equivalents.

(E) Derivatives. Fixed-indexed products combine features associated with traditional fixed annuities and universal life contracts, with the option to have interest rates linked in part to an underlying equity index. The equity return component of such policy contracts is identified separately and accounted for in future policy benefits as embedded derivatives on the consolidated balance sheet. The remaining portions of these policy contracts are considered the host contracts and are recorded separately as fixed annuity or universal life contracts. The host contracts are accounted for under debt instrument type accounting. The host contracts 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 indexed options, which are derivative financial instruments, to hedge the equity return component of its indexed annuity and life products. The amounts which may be credited to policyholders are linked, in part, to the returns of the underlying Index. The indexed options act as hedges to match closely the returns on the underlying Index. Cash is exchanged upon purchase of the indexed options and no principal or interest payments are made by either party during the option periods. Upon maturity or expiration of the options, cash is paid to the Company based on the underlying Index performance and terms of the contract. As a result, amounts credited to policyholders' account balances are substantially offset by changes in the value of the options.

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company does not elect hedge accounting relative to derivative instruments. The derivatives are reported at fair value in the accompanying consolidated financial statements. Changes in the values of the indexed options and changes in the policyholder liabilities are both reflected in the statement of earnings. Any gains or losses from the sale or expiration of the options, as well as period-to-period changes in values, are reflected as net investment income in the statement of earnings. Any changes relative to the embedded derivatives associated with policy contracts are reflected in contract interest in the consolidated statement of earnings.

Although there is credit risk in the event of nonperformance by counterparties to the indexed options, the Company does not expect any counterparties to fail to meet their obligations, given their high credit ratings. 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. At December 31, 2009 and 2008, the fair values of indexed options owned by the Company totaled $89.9 million and $11.9 million, respectively.

(F) Insurance Revenues and Expenses. Premiums on traditional life insurance products are recognized as revenues as they become due from policyholders. Benefits and expenses are matched with premiums in arriving at profits by providing for policy benefits over the lives of the policies and by amortizing acquisition costs over the premium-paying periods of the policies. For universal life and annuity contracts, revenues consist of policy charges for the cost of insurance, policy administration, and surrender charges assessed during the period. Expenses for these policies include interest credited to policy account balances, benefit claims incurred in excess of policy account balances and amortization of deferred policy acquisition costs and sales inducements.

Under GAAP, commissions, sales inducements, and certain expenses related to policy issuance and underwriting, all of which generally vary with and are related to the production of new business, are deferred. For traditional products, these costs are amortized over the premium-paying period of the related policies in proportion to the ratio of the premium earned to the total premium revenue anticipated, using the same assumptions as to interest, mortality, and withdrawals as were used in calculating the liability for future policy benefits. For universal life and annuity contracts, these costs are amortized in relation to the present value of expected gross profits on these policies. The Company evaluates the recoverability of deferred policy acquisition and sales inducement costs on a quarterly basis. In this evaluation, the Company considers estimated future gross profits or future premiums, as applicable for the type of contract. The Company also considers expected mortality, interest earned and credited rates, persistency, and expenses.

A summary of information relative to deferred policy acquisition costs is provided in the table below.

	Years Ended December 31,		
	2009	2008	2007
		(In thousands)	
Deferred policy acquisition costs, beginning of year	$701,984	664,805	643,964
Policy acquisition costs deferred:			
Agents' commissions	121,138	100,254	109,323
Other	5,758	6,742	7,180
Total costs deferred	126,896	106,996	116,503

Amortization of deferred policy acquisition costs	(115,163)	(127,161)	(88,413)
Adjustments for unrealized (gains) losses			
on investment securities	(87,277)	57,344	(3,928)
Change in accounting principal	-	-	(3,321)
Deferred policy acquisition costs, end of year	$626,440	701,984	664,805

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A summary of information relative to deferred sales inducements is provided in the table below.

	Years Ended December 31,		
	2009	2008	2007
		(In thousands)	
Deferred sales inducements, beginning of year	$120,955	104,029	93,139
Sales inducement costs deferred	36,755	19,462	20,837
Amortization of sales inducements	(13,838)	(15,715)	(9,460)
Adjustments for unrealized (gains) losses on investment securities	(21,640)	13,179	(487)
Deferred sales inducements, end of year	$122,232	120,955	104,029

Amortization of deferred policy acquisition costs decreased to $115.2 million for the year ended December 31, 2009 compared to $127.1 million reported in 2008, while up from $88.4 million in 2007. An unlocking adjustment was recorded in the current year which resulted in an increase of amortization of $5.2 million. This unlocking adjustment was based upon changes to future mortality assumptions reflecting current experience studies and assumption changes to future policy maintenance expenses. An unlocking adjustment was recorded in 2008 which resulted in an increase of amortization of $6.3 million. This unlocking adjustment was based upon changes to future annuitizations and full surrenders reflecting current experience studies. An unlocking adjustment was recorded in 2007 which resulted in a decrease in amortization of $10.4 million. This unlocking adjustment was based upon changes to future mortality assumptions reflecting current experience studies and assumption changes to future cost of insurance rates. True-up adjustments were also recorded in 2009, 2008 and 2007 relative to partial surrender rates, mortality rates, credited interest rates and earned rates for the current year's experience resulting in $8.4 million, $16.2 million and $1.0 million increases in amortization, respectively.

Under GAAP, the liability for future policy benefits on traditional products has been calculated using assumptions as to future mortality (based on the 1965-1970 and 1975-1980 Select and Ultimate mortality tables), interest ranging from 4% to 8%, and withdrawals based on Company experience. For universal life and annuity contracts, the liability for future policy benefits represents the account balance. Fixed-indexed products combine features associated with traditional fixed annuities and universal life contracts, with the option to have interest rates linked in part to an equity index. In accordance with GAAP guidance, the equity return component of such policy contracts must be identified separately and accounted for as embedded derivatives. The remaining portions of these policy contracts are considered the host contracts and are recorded separately as fixed annuity or universal life contracts. The host contracts are accounted for under GAAP guidance provisions that require debt instrument type accounting. The host contracts 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 embedded derivatives are recorded at fair values.

(G) Deferred Federal Income Taxes. Federal income taxes are accounted for under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance for deferred tax assets is provided if all or some portion of the deferred tax asset may not be realized. An increase or decrease in a valuation allowance that results from a change in circumstances that affects the realizability of the related deferred tax asset is included in income in the period the change occurs.

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(H) Depreciation of Property, Equipment, and Leasehold Improvements. Depreciation is based on the estimated useful lives of the assets and is calculated on the straight-line and accelerated methods. Leasehold improvements are amortized over the lesser of the economic useful life of the improvement or the term of the lease.

(I) Statutory Information. Domiciled in Colorado, the Company prepares its statutory financial statements in accordance with accounting practices prescribed or permitted by the Colorado Division of Insurance. The Colorado Division of Insurance has adopted the provisions of the National Association of Insurance Commissioners' ("NAIC") Statutory Accounting Practices ("SSAP") as the basis for its statutory accounting practices.

The following are major differences between GAAP and accounting practices prescribed or permitted by the Colorado Division of Insurance ("statutory accounting practices").

1. The Company accounts for universal life and annuity contracts based on the provisions of GAAP guidance. The basic difference between GAAP guidance and statutory accounting practices with respect to certain long-duration contracts is that deposits for universal life and annuity contracts are not reflected as revenues, and surrenders and certain other benefit payments are not reflected as expenses. Only contracts with no insurance risk qualify for such treatment under statutory accounting practices. For all other contracts, statutory accounting practices do reflect such items as revenues and expenses.

A summary of direct premiums and deposits collected is provided below.

	Years Ended December 31,		
	2009	2008	2007
		(In thousands)	
Annuity deposits	$837,577	410,133	437,765
Universal life insurance deposits	173,167	170,933	168,279
Traditional life and other premiums	19,580	20,698	22,310
Totals	$1,030,324	601,764	628,354

2. Statutory accounting practices require commissions and related costs to be expensed as incurred, whereas under GAAP, these items are deferred and amortized.

3. For statutory accounting purposes, liabilities for future policy benefits for life insurance policies are calculated by the net level premium method or the commissioners reserve valuation method. Future policy benefit liabilities for annuities are calculated based on the continuous commissioners annuity reserve valuation method and provisions of Actuarial Guidelines 33 and 35.

4. Deferred Federal income taxes are provided for temporary differences which are recognized in the consolidated financial statements in a different period than for Federal income tax purposes. Deferred taxes are also recognized in statutory accounting practices; however, there are limitations as to the amount of deferred tax assets that may be reported as admitted assets. The change in the deferred taxes is recorded in surplus, rather than as a component of income tax expense.

5. For statutory accounting purposes, debt securities are recorded at amortized cost, except for securities in or near default, which are reported at fair value. Under GAAP, debt securities are carried at amortized cost or fair value based on their classification as either held to maturity or available for sale.

6. Investments in subsidiaries are recorded at their respective SSAP investment value, whereas the financial statements of the subsidiaries have been consolidated with those of the Company under GAAP.

7. Compensation costs related to the Company's share based compensation plans are not recognized in income under statutory accounting. Share based compensation costs are recognized as a charge to additional paid in capital when exercised.

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. The calculation of pension liabilities and net periodic benefit costs are recognized for both statutory and GAAP accounting. However, in accordance with SSAP No. 89, the accumulated benefit obligation in excess of the fair value of plan assets, including unfunded accrued pension costs, is recognized as an additional minimum liability with an equal amount recognized as a non-admitted intangible asset.

9. The asset valuation reserve and interest maintenance reserve, which are investment valuation reserves prescribed by statutory accounting practices, have been eliminated, as they are not required under GAAP.

10. The table below provides the Company's net gain from operations, net income, unassigned surplus (retained earnings) and capital and surplus (stockholder's equity), on the statutory basis used to report to regulatory authorities for the years ended December 31.

	2009	2008	2007
		(In thousands)	
Net gain from operations	$140,226	48,853	37,369
Net income	72,944	9,643	32,290
Unassigned surplus	763,134	659,490	672,793
Capital and surplus	817,042	696,574	710,935

(J) Stock Compensation. The Company accounts for its share-based compensation for GAAP reporting using liability accounting, and measures compensation cost using the fair value method at each reporting date. For stock options, fair value is determined using an option pricing model that takes into account various information and assumptions including the Company's stock price, volatility, option price, vesting dates, exercise dates and projected option lapses. Under the intrinsic value based method, compensation cost is the excess, if any, of the quoted market price of the stock at grant date or other measurement date over the amount an employee must pay to acquire the stock.

(K) Accounting Standards and Changes in Accounting

In September 2006, the Financial Accounting Standards Board ("FASB") issued new guidance to provide a single definition of fair value, a framework for measuring fair value, and required additional disclosure about the use of fair value to measure assets and liabilities. The Company adopted it for its reporting of financial assets and financial liabilities on January 1, 2008. The effective date for implementation to non financial assets and non financial liabilities was delayed by the FASB until the first reporting period after November 15, 2008. The Company adopted this portion of the guidance effective January 1, 2009. The adoption of fair value measurements did not have a material impact on the Company's consolidated financial statements and results of operations.

In February 2007, the FASB issued new guidance whereby entities are permitted to choose upon adoption, or at specified election dates, to measure at fair value many financial instruments and certain other items. The Company adopted this guidance effective January 1, 2008, with no impact to the Company's consolidated financial statements as no eligible financial assets or liabilities were elected to be measured at fair value upon initial adoption. Management will continue to evaluate eligible financial assets and liabilities on their election dates, and will disclose any future elections in accordance with provisions outlined in this guidance.

In December 2007, the FASB issued new guidance establishing accounting and reporting standards for entities that have equity investments that are not attributable directly to the parent, called noncontrolling interests or minority interests. More specifically, the guidance addresses where and how to report noncontrolling interests in the consolidated statements of financial position and operations, how to account for changes in noncontrolling interests and provides disclosure requirements. The Company adopted it effective January 1, 2009, and it did not have a material impact on the Company's consolidated financial condition and results of operations.

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In December 2007, the FASB issued new guidance establishing how an entity accounts for the identifiable assets acquired, liabilities assumed, and any noncontrolling interests acquired, how to account for goodwill acquired and determines what disclosures are required as part of a business combination, and it applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company adopted this guidance effective January 1, 2009. Adoption of this guidance did not have an impact on the Company's consolidated financial condition or results of operations.

In October 2008, the FASB issued guidance clarifying the application of fair value in a market that is not active and illustrates key considerations including the use of an entity's own assumptions about future cash flows and appropriately risk-adjusted discount rates, appropriate risk adjustments for nonperformance and liquidity risks, and the reliance that an entity should place on quotes that do not reflect the result of market transactions. This guidance was preceded by a press release that was jointly issued by the Office of the Chief Accountant of the SEC and the FASB staff on September 30, 2008 which provided immediate clarification on fair value accounting. The guidance was effective upon issuance and did not have a material impact on the Company's consolidated financial statements. See Note 14, Fair Values of Financial Instruments, for disclosures regarding the Company's fair value measurements.

In March 2008, the FASB issued new guidance to require companies with derivative instruments to disclose information about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for, and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. This guidance became effective for financial statements issued for fiscal years beginning after November 15, 2008. The Company adopted it on January 1, 2009 with no material impact on the consolidated financial statements. See Note 14, Fair Values of Financial Instruments, for additional information pertaining to this guidance.

In April 2008, the FASB issued guidance amending the prior factors to be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The provisions of this guidance are to be applied prospectively to intangible assets acquired after January 1, 2009, although the disclosure provisions are required for all intangible assets as of or subsequent to January 1, 2009. The adoption of this guidance did not impact the Company's consolidated financial condition and results of operations.

In September 2008, the FASB issued new guidance establishing disclosure requirements by entities that assume credit risk through the sale of credit derivatives, including credit derivatives embedded in a hybrid instrument, to enable users of financial statements to assess the potential effect on its financial position, financial performance, and cash flows from these credit derivatives, and requires additional disclosure about the current status of the payment/performance risk of a guarantee. The Company adopted the guidance effective January 1, 2009 and adoption of this guidance did not have a material effect on the Company's consolidated financial condition and results of operations.

In December 2008, the FASB issued new guidance which requires information to be disclosed on an annual basis pertaining to postretirement benefit plan assets. The Company would be required to separate plan assets into the three fair value hierarchy levels and provide a rollforward of the changes in fair value of plan assets classified as Level 3. The disclosures about plan assets are effective for fiscal years ending after December 15, 2009, but will have no effect on the Company's consolidated financial condition and results of operations.

In January 2009, the FASB issued new guidance to enhance guidance on impairments to remove the exclusive reliance on a "market participant" estimate of future cash flows to a holder's estimate of whether there has been a "probable" adverse change in estimated cash flows. This allows management to apply reasonable judgment in assessing whether an other-than-temporary impairment has occurred. It was effective for the Company as of December 31, 2008 and its adoption did not have a significant impact on the consolidated financial statements of the Company.

In March 2009, the FASB issued new guidance establishing enhanced disclosures regarding an entity's derivative and hedging activity to enable investors to better understand the effects on an entity's financial position, financial performance, and cash flows. The Company adopted the guidance as of January 1, 2009. See Note 15, Derivative Investments, for disclosures regarding derivative instruments and hedging activities.

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On April 9, 2009 the FASB issued new guidance for estimating fair value when the volume and level of activity for an asset or liability have significantly decreased, and includes guidance on identifying circumstances that indicate a transaction is not orderly. This guidance emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability, and regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. This guidance is effective for interim and annual reporting periods ending after June 15, 2009. As further discussed in Note 14, Fair Values of Financial Instruments, the adoption of this guidance did not have a material impact on the Company’s consolidated financial condition and results of operations.

On April 9, 2009 the FASB issued new guidance to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. It was effective for the Company as of June 30, 2009 and did not have a significant impact on the consolidated financial position or results of operations. See Note 14, Fair Values of Financial Instruments, for additional disclosures.

On April 9, 2009 the FASB issued new guidance which amended the other-than-temporary impairment guidance for debt securities to make the guidance more operational, and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. It did not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. This guidance was effective for the Company as of June 30, 2009. The impact of its adoption is discussed in Note 3, Investments.

On May 28, 2009 the FASB issued new guidance establishing general standards of accounting for the disclosure of events that occur after the balance sheet date, but before the financial statements are issued or are available to be issued. It was effective for the Company as of June 30, 2009 and did not have a significant impact on the consolidated financial position or results of operations. See Note 18, Subsequent Events, for additional disclosures.

On June 12, 2009 the FASB issued new guidance that changes the way entities account for securitizations and special purpose entities. The guidance is effective as of the beginning of the Company’s first annual reporting period beginning after November 15, 2009 and is not expected to have a significant impact on the consolidated financial position, results of operations, or disclosures.

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

Change in Accounting

During the second quarter of 2009, the Company reviewed all previously recorded other-than-temporary impairments of securities, in compliance with new FASB GAAP guidance, and estimated the credit versus the non-credit component consistent with the methodology used in the current period to analyze and bifurcate impairments into credit and non-credit components. As a result, the Company determined that $0.8 million in previously recorded other-than-temporary impairments had been due to non-credit impairments.

For each security, the Company developed its best estimate of the net present value of the cash flows expected to be received. The credit component of the impairment for these securities was determined to be the difference between the amortized cost of the security and the projected net cash flows. The non-credit component was determined to be the difference between projected net cash flows and fair value. The Company also determined whether management had the intent to sell the security, or if it was more likely than not that it will be required to sell the security, prior to the recovery of the non-credit component.

As a result of the implementation, during the second quarter of 2009, the Company recorded a net of tax opening balance adjustment that increased retained earnings in the amount of $0.5 million and increased accumulated other comprehensive loss in the amount of $0.5 million.

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In September 2005, the FASB issued new GAAP guidance regarding internal replacements occurring in fiscal years beginning after December 15, 2006. An internal replacement is a modification in product benefits, features, rights, or coverages that occurs by the exchange of a contract for a new contract, or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. The adoption of this new guidance impacted the accounting for contracts which have annuitized and reinstatements of contracts. Under the new guidance the unamortized deferred acquisition costs and deferred sales inducement assets must now be written-off at the time of annuitization and may not be continued for reinstatements. The new guidance resulted in changes in assumptions relative to estimated gross profits which affects unamortized deferred acquisition costs, unearned revenue liabilities, and deferred sales inducement balances as of the beginning of the year. The effect of this new guidance was a $2.2 million decrease (net of tax) on beginning retained earnings as of January 1, 2007.

	Amounts (In thousands)
Write-off of deferred acquisition costs	$ 3,321
Adjustment to deferred annuity revenue	56
	3,377
Federal income tax	(1,182)
Cumulative effect of change in accounting for internal replacements and investment contracts	$ 2,195

(2) DEPOSITS WITH REGULATORY AUTHORITIES

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

	December 31, 2009	December 31, 2008
	(In thousands)	
Debt securities held to maturity	$15,584	13,633
Debt securities available for sale	669	557
Short-term investments	500	500
Totals	$16,753	14,690

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(3) INVESTMENTS

(A) Investment Income

The major components of net investment income are as follows:

	Years Ended December 31,		
	2009	2008	2007
		(In thousands)	
Gross investment income:			
Debt securities	$332,207	321,234	315,271
Mortgage loans	6,346	7,223	8,513
Policy loans	5,901	6,096	6,302
Derivative gains (losses)	45,345	(65,676)	(16,662)
Money market investments	116	956	1,496
Other investment income	6,982	5,934	6,087
Total investment income	396,897	275,767	321,007
Investment expenses	3,366	2,405	2,870
Net investment income	$393,531	273,362	318,137

The Company had real estate investments that were non-income producing for the preceding twelve months totaling $2.8 million, $1.5 million and $1.8 million at December 31, 2009, 2008 and 2007, respectively.

(B) Mortgage Loans and Real Estate

Concentrations of credit risk arising from mortgage loans exist in relation to certain groups of borrowers. A group concentration arises when a number of counterparties have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Company does not have a significant exposure to any individual customer or counterparty.

Mortgage loans with carrying values totaling $4.2 million, $4.6 million and $3.3 million, were considered impaired as of December 31, 2009, 2008 and 2007, respectively. For the years ended December 31, 2009, 2008 and 2007, average investments in impaired mortgage loans were $3.9 million, $3.7 million and $4.7 million, respectively. Interest income recognized on impaired loans for the years ended December 31, 2009, 2008 and 2007, was $451,000, $497,000 and $469,000, respectively. Impaired loans are typically placed on nonaccrual status, and no interest income is recognized. However, if cash is received on the impaired loan, it is applied to principal and interest on past due payments, beginning with the most delinquent payment.

At December 31, 2009 and 2008, the Company owned investment real estate totaling $20.1 million and $10.8 million, respectively, which is reflected in other long-term investments in the accompanying consolidated financial statements. The Company records real estate at the lower of cost or fair value less estimated costs to sell. Real estate values are monitored and evaluated at least annually by the use of independent appraisals or internal evaluations. Changes in market values affecting carrying values are recorded as a valuation allowance which is reflected in realized gains or losses on investments.

79

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(C) Debt and Equity Securities

The table below presents amortized costs and fair values of securities held to maturity at December 31, 2009.

	Securities Held to Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Debt securities:				
U.S. Agencies	$ 103,176	2,450	810	104,816
U.S. Treasury	1,916	401	-	2,317
States and political subdivisions	140,393	2,379	1,054	141,718
Foreign governments	9,963	792	-	10,755
Public utilities	625,661	33,345	897	658,109
Corporate	1,511,565	71,255	27,804	1,555,016
Mortgage-backed	1,730,319	83,911	3,515	1,810,715
Home equity	28,910	196	5,853	23,253
Manufactured housing	24,758	384	764	24,378
Totals	$ 4,176,661	195,113	40,697	4,331,077

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The table below presents amortized costs and fair values of securities available for sale at December 31, 2009.

	Securities Available for Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Debt securities:				
U.S. Agencies	$ -	-	-	-
U.S. Treasury	-	-	-	-
States and political subdivisions	20,490	-	1,519	18,971
Foreign governments	10,358	959	-	11,317
Public utilities	322,653	16,845	769	338,729
Corporate	1,349,878	72,862	12,880	1,409,860
Mortgage-backed	233,841	8,661	5,518	236,984
Home equity	13,508	-	4,757	8,751
Manufactured housing	10,684	794	25	11,453
	1,961,412	100,121	25,468	2,036,065
Equity private	195	6,962	-	7,157
Equity public	5,758	1,277	178	6,857
Totals	$ 1,967,365	108,360	25,646	2,050,079

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The table below presents amortized costs and fair values of securities held to maturity at December 31, 2008.

	Securities Held to Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Debt securities:				
U.S. Agencies	$119,674	3,975	-	123,649
U.S. Treasury	1,923	592	-	2,515
States and political subdivisions	23,123	3	801	22,325
Foreign governments	9,955	438	-	10,393
Public utilities	527,277	5,073	31,530	500,820
Corporate	1,334,157	13,580	118,204	1,229,533
Mortgage-backed	1,747,104	44,213	8,210	1,783,107
Home equity	37,808	37	9,533	28,312
Manufactured housing	30,396	93	3,790	26,699
Totals	$3,831,417	68,004	172,068	3,727,353

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The table below presents amortized costs and fair values of securities available for sale at December 31, 2008.

	Securities Available for Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Debt securities:				
U.S. Agencies	$ -	-	-	-
U.S. Treasury	-	-	-	-
States and political subdivisions	77,160	332	13,653	63,839
Foreign governments	10,418	907	-	11,325
Public utilities	287,927	300	25,085	263,142
Corporate	1,239,712	6,503	126,968	1,119,247
Mortgage-backed	255,910	5,739	7,693	253,956
Home equity	13,877	-	4,726	9,151
Manufactured housing	11,942	-	1,019	10,923
Total debt securities	1,896,946	13,781	179,144	1,731,583
Equity securities - private	195	6,995	-	7,190
Equity securities - public	6,912	486	905	6,493
Totals	$ 1,904,053	21,262	180,049	1,745,266

The Company's investment policy is to invest in high quality securities with the primary intention of holding these securities until the stated maturity. Such as, the portfolio has exposure to interest rate risk which is the risk that funds are invested today at a market interest rate and in the future interest rates rise causing the current market price on that investment to be lower. This risk is not a significant factor relative to the Company's buy and hold portfolio, since the original intention was to receive the stated interest rate and principal at maturity to match liability requirements to policyholders. Also, the Company takes steps to manage these risks. For example, the Company purchases the type of mortgage-backed securities that have more predictable cash flow patterns.

In addition, the Company is exposed to credit risk which is continually monitored relating to security holdings. Credit risk is the risk that an issuer of a security will not be able to fulfill their obligations relative to a security payment schedule. The Company has reviewed relative information for all issuers in an unrealized loss position at December 31, 2009 including market pricing history, credit ratings, analyst reports, as well as data provided by the issuers themselves. The Company then made a determination on each specific issuer relating to other-than-temporary impairment. For the securities that have not been impaired at December 31, 2009, the Company does not intend to sell these securities until recovery in fair value and expects to receive all amounts due relative to principal and interest.

The Company held below investment grade debt securities totaling $155.3 million and $72.2 million at December 31, 2009 and 2008, respectively. These amounts represent 2.4% and 1.2% of total invested assets for December 31, 2009 and 2008, respectively. Below investment grade holdings are the result of downgrades subsequent to purchase, as the Company only invests in high quality securities with ratings quoted as investment grade. Below investment grade securities generally have greater default risk than higher rated corporate debt. The issuers of these securities are usually more sensitive to adverse industry or economic conditions than are investment grade issuers.

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2009, 2008 and 2007, the Company recorded realized losses totaling $5.1 million, $21.8 million and $0.1 million, respectively, for other-than-temporary impairment write-downs on investments in debt securities.

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, 2009.

	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. Government agencies	$69,188	810	-	-	69,188	810
U.S. Treasury	-	-	-	-	-	-
State and political subdivisions	60,382	954	3,284	100	63,666	1,054
Foreign governments	-	-	-	-	-	-
Public utilities	48,130	308	19,364	589	67,494	897
Corporate bonds	130,981	1,510	236,663	26,294	367,644	27,804
Mortgage-backed	33,917	489	57,337	3,026	91,254	3,515
Home equity	3,030	976	13,815	4,877	16,845	5,853
Manufactured housing	1,341	69	7,423	695	8,764	764
Total temporarily impaired securities	$346,969	5,116	337,886	35,581	684,855	40,697

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 December 31, 2009.

	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. Government agencies	$-	-	-	-	-	-
U.S. Treasury	-	-	-	-	-	-
State and political subdivisions	-	-	18,971	1,519	18,971	1,519
Foreign governments	-	-	-	-	-	-
Public utilities	16,597	272	17,118	497	33,715	769
Corporate bonds	18,730	166	199,968	12,714	218,698	12,880
Mortgage-backed	21,953	370	21,036	5,148	42,989	5,518
Home equity	-	-	8,751	4,757	8,751	4,757
Manufactured housing	3,774	24	119	1	3,893	25
	61,054	832	265,963	24,636	327,017	25,468
Equity public	196	21	1,316	157	1,512	178
Total temporarily impaired securities	$61,250	853	267,279	24,793	328,529	25,646

Liquidity in the bond market improved in 2009 as economic and market conditions started to stabilize. Although the unrealized losses declined substantially in 2009, there continues to be uncertainty in the bond markets regarding the economic recovery and some unrealized losses remain in the Company’s portfolio. The Company does not consider these investments to be other-than-temporarily impaired because the Company does not intend to sell these securities until recovery in fair value and expects to receive all amounts due relative to principal and interest.

The Company does not consider securities to be other-than-temporarily impaired where the market decline is attributable to factors such as market volatility, liquidity, spread widening and credit quality where we anticipate a recovery of all amounts due under the contractual terms of the security and have the intent and ability to hold until recovery or maturity. Based on the Company’s review in concert with 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 December 31, 2009. 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.

Debt securities. The gross unrealized losses for debt securities are made up of 180 individual issues, or 21.4% of the total debt securities held by the Company. The market value of these bonds as a percent of amortized cost averages 93.7%. Of the 180 securities, 106, or approximately 58.9%, fall in the 12 months or greater aging category; and 163 were rated investment grade at December 31, 2009. Additional information on debt securities by investment category is summarized below.

U.S. treasury. No securities had a gross unrealized loss.

U.S. government agencies. Four securities had unrealized losses. All are rated AAA.

State and political subdivisions. The unrealized losses on these investments are the result of holdings in 53 securities. Of these securities, all are rated A or above except 2 which are rated BB and BBB+. Based on these facts and the Company's intent to hold to maturity, no other-than-temporary loss was recognized as of December 31, 2009.

Foreign governments. No securities had a gross unrealized loss.

Public utilities. Of the 17 securities, all are rated BBB or above except 1, which is priced at 96.2% of par. At this time, the Company does not consider any of these unrealized losses as other-than-temporary.

Corporate bonds. Corporate securities with unrealized losses are reviewed based on monitoring procedures described previously; including review of the amount of the unrealized loss, the length of time that the issue has been in an unrealized loss position, credit ratings, analyst reports, and recent issuer financial information. A total of 72 securities had unrealized losses; with 10 issues rated below investment grade. More extensive analysis was performed on these 10 issues. Based on the work performed, none of the unrealized losses are considered other-than-temporarily impaired at December 31, 2009.

Mortgage-backed securities. Of the 18 securities, all are rated AAA except 2, which are rated CCC. The Company generally purchases these investments at a discount relative to their face amount and it is expected that the securities will not be settled at a price less than the stated par. Because the decline in market value is attributable to the current illiquidity in the market and not credit quality, and because the Company has the ability and intent to hold these securities until a recovery of fair value, which may be maturity, and based on the lack of adverse changes in expected cash flows, the Company does not consider these AAA rated investments and 1 CCC rated investment to be other-than-temporarily impaired at December 31, 2009. The Company recognized an other-than-temporary loss in 2009 for the other CCC rated security.

Home equity. Of the 9 securities, 7 are rated AAA, 1 is rated AA and 1 is rated CC. The Company performs a quarterly cash flow analysis on asset-backed securities that are rated below AA. Based on the lack of adverse changes in expected cash flows, the 1 issue rated below AA is not considered impaired. One AAA security was other-than-temporarily impaired due to adverse cash flows.

Manufactured housing. Of the 7 securities with an unrealized loss, 3 are rated AAA and 4 are rated A or below. Based on lack of adverse changes in expected cash flows, 3 of the securities below A are not considered other-than-temporarily impaired. One security was other-than-temporarily impaired due to adverse cash flows.

Equity securities. The gross unrealized losses for equity securities are made up of 28 individual issues. These holdings are reviewed for impairment quarterly. As of December 31, 2009, 19 equity securities were other-than-temporarily impaired. Total other-than-temporary impairments taken in 2009 on equities were $0.4 million.

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2008.

	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. Government agencies	$-	-	-	-	-	-
U.S. Treasury	-	-	-	-	-	-
State and political subdivisions	9,687	631	2,635	170	12,322	801
Foreign governments	-	-	-	-	-	-
Public utilities	312,575	21,485	84,474	10,045	397,049	31,530
Corporate bonds	518,841	52,581	278,975	65,623	797,816	118,204
Mortgage-backed	4,624	299	54,582	7,911	59,206	8,210
Home equity	5,901	559	19,657	8,974	25,558	9,533
Manufactured housing	17,507	1,404	7,024	2,386	24,531	3,790
Total temporarily impaired securities	$869,135					