

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

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

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2013
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 2-17039

NATIONAL WESTERN LIFE INSURANCE COMPANY
(Exact name of Registrant as specified in its charter)

COLORADO
(State of Incorporation)

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

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

(512) 836-1010
(Telephone Number)

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

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

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

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

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

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

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

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

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

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

(In thousands, except share amounts)

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

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

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

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

For the Three Months Ended March 31, 2013 and 2012

(Unaudited)

(In thousands, except per share amounts)

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

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

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three Months Ended March 31, 2013 and 2012

(Unaudited)

(In thousands)

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

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

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CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the Three Months Ended March 31, 2013 and 2012

(Unaudited)

(In thousands)

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

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

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

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

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Months Ended March, 2013 and 2012

(Unaudited)

(In thousands)

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

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED

For the Three Months Ended March 31, 2013 and 2012

(Unaudited)

(In thousands)

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

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

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

(1) CONSOLIDATION AND BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for annual financial statements. In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments necessary to present fairly the financial position of National Western Life Insurance Company and its subsidiaries ("Company" or "National Western") as of March 31, 2013, and the results of its operations and its cash flows three months ended March 31, 2013. The results of operations for the three months ended March 31, 2013 and 2012 are not necessarily indicative of the results to be expected for the full year. It is recommended that these condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012 accessible free of charge through the Company's internet site at www.nationalwesternlife.com or the Securities and Exchange Commission internet site at www.sec.gov. The condensed consolidated balance sheet at December 31, 2012 has been derived from the audited consolidated financial statements as of that date.

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

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

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

(2) NEW ACCOUNTING PRONOUNCEMENTS

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

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

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

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

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

(3) STOCKHOLDERS' EQUITY

The Company is restricted by state insurance laws as to dividend amounts which may be paid to stockholders without prior approval from the Colorado Division of Insurance. The restrictions are based on the greater of statutory earnings from operations excluding capital gains or 10% of statutory capital and surplus of the Company. The maximum dividend payment which may be made without prior approval in 2013 is \$100.5 million. The Company did not declare or pay cash dividends on common stock during the three months ended March 31, 2013 and 2012.

(4) EARNINGS PER SHARE

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

	Three Months Ended March 31,			
	2013		2012	
	Class A	Class B	Class A	Class B
	(In thousands except per share amounts)			
Numerator for Basic and Diluted Earnings Per Share:				
Net income	\$ 16,632		19,741	
Dividends - Class A shares	—		—	
Dividends - Class B shares	—		—	
Undistributed income	\$ 16,632		19,741	
Allocation of net income:				
Dividends	\$—	—	—	—
Allocation of undistributed income	16,162	470	19,183	558
Net income	\$ 16,162	470	19,183	558
Denominator:				
Basic earnings per share - weighted-average shares	3,435	200	3,435	200
Effect of dilutive stock options	5	—	—	—
Diluted earnings per share - adjusted weighted-average shares for assumed conversions	3,440	200	3,435	200
Basic Earnings Per Share	\$4.71	2.35	5.58	2.79
Diluted Earnings Per Share	\$4.70	2.35	5.58	2.79

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(5) PENSION AND OTHER POSTRETIREMENT PLANS

(A) Defined Benefit Pension Plans

The Company sponsors a qualified defined benefit pension plan covering substantially all employees. The plan provides benefits based on the participants' years of service and compensation. The Company makes annual contributions to the plan that complies with the minimum funding provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). On October 19, 2007, the Company's Board of Directors approved an amendment to freeze the Pension Plan as of December 31, 2007. The freeze ceased future benefit accruals to all participants and closed the plan to any new participants. In addition, all participants became immediately 100% vested in their accrued benefits as of that date. Going forward, future pension expense is projected to be minimal. Fair values of plan assets and liabilities are measured as of the prior December 31 for each respective year. The following table summarizes the components of net periodic benefit cost.

	Three Months Ended March 31, 2013		2012
	(In thousands)		
Service cost	\$47		44
Interest cost	218		232
Expected return on plan assets	(283	)	(268)
Amortization of prior service cost	1		1
Amortization of net loss	203		196
Net periodic benefit cost	\$186		205

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

The Company's minimum required contribution for the 2013 plan year is \$0.7 million of which it expects to contribute approximately \$0.4 million during 2013 with the remainder to be contributed in 2014. In addition, the Company had a remaining contribution payable for the 2012 plan year of \$0.1 million which it paid during the first quarter of 2013. As of March 31, 2013, the Company had contributed a total of \$0.1 million to the plan for the 2012 and 2013 plan years.

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

resulting from these items. Amendments were made to the plan to allow an additional employee to participate and to change the benefit formula for the Chairman of the Company. As previously mentioned, these additional obligations are a liability to the Company. Effective December 31, 2004, this plan was frozen with respect to the continued accrual of benefits of the Chairman and the President of the Company in order to comply with law changes under the American Jobs Creation Act of 2004 ("Act").

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

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

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

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

	Three Months Ended March 31, 2013		2012
	(In thousands)		
Service cost	\$44		42
Interest cost	200		228
Amortization of prior service cost	15		15
Amortization of net loss	294		285
Net periodic benefit cost	\$553		570

The Company expects to contribute \$2.0 million to these plans in 2013. As of March 31, 2013, the Company has contributed \$0.4 million to the plans.

(B) Defined Benefit Postretirement Healthcare Plans

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

	Three Months Ended March 31, 2013		2012
	(In thousands)		
Interest cost	\$29		32
Amortization of prior service cost	26		26
Amortization of net loss	8		11
Net periodic benefit cost	\$63		69

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

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

(6) SEGMENT AND OTHER OPERATING INFORMATION

The Company defines its reportable operating segments as domestic life insurance, international life insurance, and annuities. These segments are organized based on product types and geographic marketing areas. A summary of segment information for the quarters ended March 31, 2013 and March 31, 2012 is provided below.

Selected Segment Information:

	Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
	(In thousands)				
March 31, 2013					
Selected Condensed Consolidated Balance Sheet Items:					
Deferred policy acquisition costs and sales inducements	\$41,026	227,263	595,713	—	864,002
Total segment assets	496,778	1,148,773	8,418,536	257,309	10,321,396
Future policy benefits	427,006	861,854	7,436,521	—	8,725,381
Other policyholder liabilities	12,547	10,139	132,796	—	155,482
Three Months Ended March 31, 2013					
Condensed Consolidated Income Statements:					
Premiums and contract revenues	\$9,610	28,019	4,134	—	41,763
Net investment income	7,773	18,630	150,378	4,033	180,814
Other revenues	12	43	39	6,048	6,142
Total revenues	17,395	46,692	154,551	10,081	228,719
Life and other policy benefits	3,030	3,645	6,015	—	12,690
Amortization of deferred acquisition costs	2,035	5,787	22,982	—	30,804
Universal life and annuity contract interest	7,191	21,991	111,118	—	140,300
Other operating expenses	3,767	6,708	6,086	5,363	21,924
Federal income taxes (benefit)	470	2,930	2,857	1,615	7,872
Total expenses	16,493	41,061	149,058	6,978	213,590
Segment earnings (loss)	\$902	5,631	5,493	3,103	15,129

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

Selected Segment Information:

	Domestic Life Insurance	International Life Insurance	Annuities (In thousands)	All Others	Totals
March 31, 2012					
Selected Condensed Consolidated Balance Sheet Items:					
Deferred policy acquisition costs and sales inducements	\$36,432	230,753	601,414	—	868,599
Total segment assets	413,630	1,076,573	8,100,477	226,709	9,817,389
Future policy benefits	351,915	796,354	7,116,918	—	8,265,187
Other policyholder liabilities	10,738	18,457	121,373	—	150,568
Three Months Ended March 31, 2012					
Condensed Consolidated Income Statements:					
Premiums and contract revenues	\$10,539	23,431	6,312	—	40,282
Net investment income	5,818	15,397	124,389	3,954	149,558
Other revenues	7	32	61	5,555	5,655
Total revenues	16,364	38,860	130,762	9,509	195,495
Life and other policy benefits	1,648	3,480	8,550	—	13,678
Amortization of deferred acquisition costs	2,391	5,608	23,712	—	31,711
Universal life and annuity contract interest	7,213	14,812	79,518	—	101,543
Other operating expenses	4,768	5,818	4,028	5,404	20,018
Federal income taxes (benefit)	115	3,063	5,010	1,375	9,563
Total expenses	16,135	32,781	120,818	6,779	176,513
Segment earnings (loss)	\$229	6,079	9,944	2,730	18,982

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

	Three Months Ended March 31, 2013 2012 (In thousands)	
Premiums and Other Revenues:		
Premiums and contract revenues	\$41,763	40,282
Net investment income	180,814	149,558
Other revenues	6,142	5,655
Realized gains (losses) on investments	2,313	1,167
Total condensed consolidated premiums and other revenues	\$231,032	196,662
	Three Months Ended March 31, 2013 2012 (In thousands)	
Federal Income Taxes:		
Total segment Federal income taxes	\$7,872	9,563
Taxes on realized gains (losses) on investments	810	408
Total condensed consolidated Federal income taxes	\$8,682	9,971
	Three Months Ended March 31, 2013 2012 (In thousands)	
Net Earnings:		
Total segment earnings	\$15,129	18,982
Realized gains (losses) on investments, net of taxes	1,503	759
Total condensed consolidated net earnings	\$16,632	19,741

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	March 31, 2013 (In thousands)	2012
Assets:		
Total segment assets	\$ 10,321,396	9,817,389
Other unallocated assets	155,105	67,216
Total condensed consolidated assets	\$ 10,476,501	9,884,605

(7) SHARE-BASED PAYMENTS

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

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

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

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

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The Company uses the current fair value method to measure compensation cost. As of March 31, 2013 and 2012, the liability balance was \$4.1 million and \$1.6 million, respectively. A summary of shares available for grant and stock option activity is detailed below.

	Shares Available For Grant	Options Outstanding Shares	Weighted- Average Exercise Price
Stock Options:			
Balance at January 1, 2013	291,000	82,468	\$186.19
Exercised	—	(2,850)	) 150.00
Forfeited	—	(400)	) 255.13
Expired	—	—	—
Stock options granted	—	—	—
Balance at March 31, 2013	291,000	79,218	\$187.14
Stock Appreciation Rights Outstanding			
	Awards	Weighted- Average Exercise Price	
Stock Appreciation Rights:			
Balance at January 1, 2013	66,461	\$125.03	
Exercised	(800)	) 114.64	
Forfeited	(400)	) 251.49	
Granted	—	—	
Balance at March 31, 2013	65,261	\$124.38	

Stock options and stock appreciation rights (SARs) shown as forfeited in the above tables represent vested and unvested awards not exercised by plan participants prior to their termination from the Company. Forfeited stock options during the three months ended March 31, 2013 were awarded under the 1995 Plan. As the 1995 Plan terminated during calendar year 2010, the forfeited shares are not shown as being added back to the "Shares Available For Grant" balance.

The total intrinsic value of options exercised was \$0.1 million and \$0 for the three months ended March 31, 2013 and 2012, respectively. The total share-based liabilities paid were \$126,337 and \$17,000 for the three months ended March 31, 2013 and 2012, respectively. The total fair value of shares vested during the three months ended March 31, 2013 and 2012 was \$0.3 million and \$0.3 million, respectively. For the quarters ended March 31, 2013 and 2012, the total cash received from the exercise of options under the Plans was \$0 and \$0, respectively.

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The following table summarizes information about stock options and SARs outstanding at March 31, 2013.

	Options/SARs Outstanding	Weighted-Average Remaining Contractual Life	Options Exercisable
	Number Outstanding		
Exercise prices:			
\$150.00	47,200	1.1 years	47,200
255.13	23,018	5.1 years	9,208
208.05	9,000	5.2 years	7,200
236.00	250	5.4 years	100
114.64	31,243	5.8 years	15,558
132.56	33,768	8.7 years	1,800
Totals	144,479		81,066
Aggregate intrinsic value (in thousands)	\$4,611		\$2,260

The aggregate intrinsic value in the table above is based on the closing stock price of \$176.00 per share on March 31, 2013.

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

	March 31, 2013	December 31, 2012
Expected term of options	1 to 9 years	0 to 9 years
Expected volatility:		
Range	18.86% to 33.49%	19.54% to 34.93%
Weighted-average	24.93 %	25.96 %
Expected dividend yield	20.20 %	23.00 %
Risk-free rate:		
Range	0.42% to 1.64%	0.39% to 1.49%
Weighted-average	0.84 %	0.84 %

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

The pre-tax compensation cost (benefit) recognized in the financial statements related to the two plans defined above was \$1.5 and \$0 million for the three months ended March 31, 2013 and 2012, respectively. The related tax expense (benefit) recognized was \$0.5 million and \$0.0 million for the three months ended March 31, 2013 and 2012, respectively.

As of March 31, 2013, the total compensation cost related to nonvested options not yet recognized was \$1.8 million. This amount is expected to be recognized over a weighted-average period of 1.4 years. The Company recognizes compensation cost over the graded vesting periods.

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(8) COMMITMENTS AND CONTINGENCIES

(A) Legal Proceedings

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

The Company is currently a defendant in a class action lawsuit pending as of June 12, 2006, in the U.S. District Court for the Southern District of California. The case is titled *In Re National Western Life Insurance Deferred Annuities Litigation*. The complaint asserts claims for RICO violations, Financial Elder Abuse, Violation of Cal. Bus. & Prof. Code 17200, et seq, Violation of Cal. Bus. & Prof. Code 17500, et seq, Breach of Fiduciary Duty, Aiding and Abetting Breach of Fiduciary Duty, Fraudulent Concealment, Cal. Civ. Code 1710, et seq, Breach of the Duty of Good Faith and Fair Dealing, and Unjust Enrichment and Imposition of Constructive Trust. On July 12, 2010 the Court certified a nationwide class of policyholders under the RICO allegation and a California class under all of the remaining causes of action except breach of fiduciary duty. The Company believes that it has meritorious defenses in this cause and intends to vigorously defend itself against the asserted claims. In addition, given the speculative and vague damage theories presented by the plaintiffs in the matter, the inability to ascertain any financial harm to the class of policyholders, and the current status of the case before the Court, the Company is unable to reasonably estimate a possible range of loss for disclosure in the accompanying financial statements. Therefore, no amounts have been provided in the financial statements of the Company as of March 31, 2013 for this matter. The trial date has been vacated and a pretrial conference is scheduled for May 31, 2013.

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

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

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

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(B) Financial Instruments

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

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

The Company had \$5.7 million of commitments to extend credit relating to mortgage loans at March 31, 2013. The Company evaluates each customer's creditworthiness on a case-by-case basis.

(9) INVESTMENTS

(A) Investment Gains and Losses

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

	Three Months Ended March 31,	
	2013	2012
	(In thousands)	
Available for sale debt securities:		
Realized gains on disposal	\$1,796	1,628
Realized losses on disposal	—	—
Held to maturity debt securities:		
Realized gains on disposal	329	116
Realized losses on disposal	(69	) (374
Equity securities realized gains (losses)	318	(4
Real estate gains (losses)	—	—
Mortgage loans write-downs	—	—
Other	—	—
Totals	\$2,374	1,366

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The Company uses the specific identification method in computing realized gains and losses. Approximately 15.5% of the gains on bonds are due to calls of securities rather than sales. This includes calls out of the Company's available for sale portfolio of debt securities.

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

	Three Months Ended March 31,	
	2013	2012
	(In thousands)	
Total other-than-temporary impairment gains (losses) on debt securities	\$382	(253)
Portion of loss (gain) recognized in comprehensive income	(443)	) 78
Net impairment losses (gains) on debt securities recognized in earnings	(61)	) (175)
Equity securities impairments	—	(24)
Totals	\$(61)	) (199)

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

	Three months ended March 31, 2013	Twelve Months Ended December 31, 2012
Beginning balance, cumulative credit losses related to other-than-temporary impairments	\$2,247	1,122
Reductions for securities sold during current period	\$—	(118)
Additions for credit losses not previously recognized in other-than-temporary impairments	61	1,243
Ending balance, cumulative credit losses related to other-than-temporary impairment	\$2,308	2,247

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(B)Debt and Equity Securities

The table below presents amortized costs and fair values of securities held to maturity at March 31, 2013.

	Securities Held to Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Debt securities:				
U.S. agencies	\$23,107	2,551	—	25,658
U.S. Treasury	1,909	617	—	2,526
States and political subdivisions	415,553	40,932	(718	) 455,767
Foreign governments	9,990	507	—	10,497
Public utilities	778,321	86,375	(181	) 864,515
Corporate	3,052,451	260,064	(5,675	) 3,306,840
Mortgage-backed	1,766,021	121,769	(484	) 1,887,306
Home equity	21,057	4,556	(359	) 25,254
Manufactured housing	9,732	779	—	10,511
Totals	\$6,078,141	518,150	(7,417) 6,588,874

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The table below presents amortized costs and fair values of securities available for sale at March 31, 2013.

	Securities Available for Sale			
	Amortized	Gross	Gross	Fair
	Cost	Unrealized	Unrealized	Value
	(In thousands)	Gains	Losses	
Debt securities:				
States and political subdivisions	\$598	—	(32	) 566
Foreign governments	9,925	570	—	10,495
Public utilities	257,807	25,107	(9	) 282,905
Corporate	2,259,238	211,922	(1,915	) 2,469,245
Mortgage-backed	101,497	8,789	—	110,286
Home equity	12,222	17	(394	) 11,845
Manufactured housing	4,695	223	—	4,918
	2,645,982	246,628	(2,350	) 2,890,260
Equity public	10,326	3,654	(38	) 13,942
Totals	\$2,656,308	250,282	(2,388	) 2,904,202

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

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

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

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

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 March 31, 2013.

	Securities Held to Maturity				Total Fair Value	Unrealized Losses	
	Less than 12 Months		12 Months or Greater				
	Fair	Unrealized	Fair	Unrealized			
	Value	Losses	Value	Losses			
	(In thousands)						
Debt securities:							
U.S. agencies	\$—	—	—	—	—	—	
U.S. Treasury	—	—	—	—	—	—	
States and political subdivisions	21,683	(712	) 579	(6	) 22,262	(718)
Foreign governments	—	—	—	—	—	—	
Public utilities	23,292	(181	) —	—	23,292	(181)
Corporate	381,377	(3,924	) 28,235	(1,751	) 409,612	(5,675)
Mortgage-backed	30,917	(484	) —	—	30,917	(484)
Home equity	—	—	6,386	(359	) 6,386	(359)
Manufactured housing	—	—	—	—	—	—	
Total temporarily impaired securities	\$457,269	(5,301) 35,200	(2,116) 492,469	(7,417)

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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 March 31, 2013.

	Securities Available for Sale				Total	Unrealized
	Less than 12 Months		12 Months or Greater			
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Debt securities:						
U.S. agencies	\$—	—	—	—	—	—
U.S. Treasury	—	—	—	—	—	—
States and political subdivisions	566	(32)	—	—	566	(32)
Foreign governments	—	—	—	—	—	—
Public utilities	1,008	(9)	—	—	1,008	(9)
Corporate	116,702	(1,428)	14,475	(487)	131,177	(1,915)
Mortgage-backed	—	—	—	—	—	—
Home equity	—	—	6,913	(394)	6,913	(394)
Manufactured housing	—	—	—	—	—	—
	118,276	(1,469)	21,388	(881)	139,664	(2,350)
Equity public	214	(21)	159	(17)	373	(38)
Total temporarily impaired securities	\$118,490	(1,490)	21,547	(898)	140,037	(2,388)

Liquidity in the bond market improved in 2012 and 2013 as economic and market conditions stabilized. Although the unrealized losses declined substantially in 2012 and held at the 2012 level through the first quarter of 2013, 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 as the Company does not intend to sell these securities nor does it think it will be forced to sell until recovery in fair value or maturity, and expects to receive all amounts due relative to principal and interest.

The Company does not consider securities to be other-than-temporarily impaired when the market decline is attributable to factors such as market volatility, liquidity, spread widening and credit quality and when recovery of all amounts due under the contractual terms of the security is anticipated. Based on the review and the Company's ability and intent not to sell these securities until maturity, the Company does not consider these investments to be other-than-temporarily impaired at March 31, 2013. The Company will monitor the investment portfolio for future changes in issuer facts and circumstances that could result in future impairments beyond those currently identified.

During the first quarter of 2013, the Company recorded an other-than-temporary impairment on two asset-backed securities. The securities had \$0.1 million of credit impairment which is reported in the Condensed Consolidated Statements of Earnings and \$0.4 million of liquidity gains which did not affect current earnings. The Company intends

to hold the securities until recovery of fair market value or maturity.

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Debt securities. The gross unrealized losses for debt securities are made up of 96 individual issues, or 7.6% of the total debt securities held by the Company. The market value of these bonds as a percent of amortized cost averages 98.5%. Of the 96 securities, 10, or approximately 10.3%, fall in the 12 months or greater aging category; and 91 were rated investment grade at March 31, 2013. 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. No securities had a gross unrealized loss.

State and political subdivisions. The unrealized losses on these investments are the result of holdings in 14 securities. Of these securities, all are rated A or above except 1 which is rated BBB+ and 1 is rated BB. Based on these facts and the Company's intent to hold to maturity, no other-than-temporary loss was recognized as of March 31, 2013.

Foreign governments. No securities had a gross unrealized loss.

Public utilities. Of the 3 securities, all are rated BBB- or above. At this time, the Company does not consider any of these unrealized losses as other-than-temporary.

Corporate. 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 70 securities had unrealized losses, with 2 issues rated below investment grade. More extensive analysis was performed on these 2 issues. Based on the analysis performed, none of these securities are considered other-than-temporarily impaired at March 31, 2013.

Mortgage-backed securities. Of the 4 securities, all are rated AA+. 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. Based on cash flow analysis, none of the unrealized losses are considered other-than-temporary at March 31, 2013.

Home equity. Of the 5 securities, all are rated B or above except 1 which is rated CC. The Company performs a quarterly cash flow analysis on asset-backed securities that are rated below AA. Based on cash flow analysis, 1 security was other-than-temporarily impaired at March 31, 2013.

Manufactured housing. No securities had a gross unrealized loss.

Equity securities. The gross unrealized losses for equity securities are made up of 9 individual issues. These holdings are reviewed quarterly for impairment. None of the equity securities were considered other-than-temporarily impaired at March 31, 2013, in accordance with Company policy.

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

	Securities Held to Maturity				Total	Unrealized
	Less than 12 Months		12 Months or Greater			
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Losses
	(In thousands)					
Debt securities:						
U.S. agencies	\$—	—	—	—	—	—
U.S. Treasury	—	—	—	—	—	—
States and political subdivisions	19,745	(401)	1,470	(31)	21,215	(432)
Foreign governments	—	—	—	—	—	—
Public utilities	24,271	(80)	1,982	(23)	26,253	(103)
Corporate	303,645	(1,776)	38,078	(1,977)	341,723	(3,753)
Mortgage-backed	15,010	(261)	—	—	15,010	(261)
Home equity	—	—	6,435	(548)	6,435	(548)
Manufactured housing	—	—	—	—	—	—
Total temporarily impaired securities	\$362,671	(2,518)	47,965	(2,579)	410,636	(5,097)

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

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

(C) Transfer of Securities

During the three months ended March 31, 2013 and 2012, the Company made no transfers to the held to maturity category from securities available for sale. Lower holdings of securities available for sale reduces the Company's exposure to market price volatility while still providing securities available for liquidity and asset/liability management purposes.

(D) Mortgage Loans and Real Estate

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

Credit and default risk is minimized through strict underwriting guidelines and diversification of underlying property types and geographic locations. In addition to being secured by the property, mortgage loans with leases on the underlying property are often guaranteed by the lease payments and also by the borrower. This approach has proven to result in quality mortgage loans with few defaults. Mortgage loan interest income is recognized on an accrual basis

with any premium or discount amortized over the life of the loan. Prepayment and late fees are recorded on the date of collection.

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

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

March 31, 2013		December 31, 2012	
Amount	%	Amount	%
(In thousands)		(In thousands)	