STATE STREET Corp
Form 8-K
February 10, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): February 10, 2011

State Street Corporation

(Exact name of registrant as specified in its charter)

Massachusetts	**001-07511**	**04-2456637**
(State of Incorporation)	**(Commission File Number)**	**(IRS Employer Identification Number)**

One Lincoln Street, Boston, Massachusetts	**02111**
(Address of principal executive offices)	**(Zip code)**

Registrant s telephone number, including area code: (617) 786-3000

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

¨ Written communications pursuant to Rule 425 under the Securities Act

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act

Item 7.01. Regulation FD Disclosure.
On February 10, 2011, at 12:30 p.m. (EST), Joseph L. Hooley, Chairman, President and Chief Executive Officer of State Street Corporation, Edward J. Resch, Executive Vice President and Chief Financial Officer, Scott F. Powers, President and Chief Executive Officer of State Street Global Advisors, and James S. Phalen, State Street s Executive Vice President of Operations and Technology, will provide a presentation to investors and analysts. The presentation slides that Messrs. Hooley, Resch, Powers and Phalen will present are furnished herewith as Exhibit 99.1 and are incorporated herein by reference. The presentation will be accessible, in listen-only mode, on State Street s investor relations home page, at www.statestreet.com/stockholder, and via telephone, at +1 (706) 679-5594 (Conference ID # 36958577) and +1 (888) 391-4233 (Conference ID# 36958577). Recorded replays of the presentation will be available on the website and by telephone +1 (706) 645-9291 (Conference ID # 36958577) and +1 (800) 642-1687 (Conference ID# 36958577) beginning at 5:30 p.m. (EST) that day. The telephone replay will be available for approximately two weeks following the presentation.

The information in this Item 7.01, and in Exhibit 99.1 attached to this Form 8-K, shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, nor shall this Item 7.01, such Exhibit 99.1 or any of the information contained therein be deemed incorporated by reference in any filing under the Securities Exchange Act of 1934 or the Securities Act of 1933, except as shall be expressly set forth by specific reference in such filing.

Item 9.01. Exhibits.

(d) Exhibits

99.1 Slides for the presentation by Joseph L. Hooley, Edward J. Resch, Scott F. Powers and James S. Phalen to investors and analysts on February 10, 2011 (such Exhibit 99.1 is furnished and not filed).

SIGNATURES

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

STATE STREET CORPORATION

By:	/s/ JAMES J. MALERBA
Name:	**James J. Malerba**
Title:	**Executive Vice President,**
	Corporate Controller and
	Chief Accounting Officer

Date: February 10, 2011

EXHIBIT INDEX

Exhibit No.	Description
99.1	Slides for the presentation by Joseph L. Hooley, Edward J. Resch, Scott F. Powers and James S. Phalen to investors and analysts on February 10, 2011 (such Exhibit 99.1 is furnished and not filed).

FONT-FAMILY: times new roman">Realized gains on disposal $146 887 88 830

Realized losses on disposal	(180)	-	(30)	-
Held to maturity debt securities:				
Realized gains on disposal	114	149	35	27
Realized losses on disposal	(19)	-	(14)	-
Equity securities realized gains	62	79	103	72
Real estate writedown	(52)	-	(52)	-
Mortgage loans writedowns	(12)	(4)	(6)	(4)
Other	69	28	68	233
Totals	$128	1,139	192	1,158

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

	Six months ended June 30,		Three months ended June 30,	
	2009	2008	2009	2008
	(In thousands)			
Total other-than-temporary impairment losses on debt securities	$ (6,714)	-	(1,839)	-
Portion of loss recognized in comprehensive income	1,823	-	1,823	-
Net impairment losses on debt securities recognized in earnings	(4,891)	-	(16)	-
Equity securities impairments	(416)	(1,450)	(10)	(1,425)
Totals	$ (5,307)	(1,450)	(26)	(1,425)

In the second quarter of 2009, the Company recognized $1,839,000 as an other-than-temporary impairment on an available for sale mortgage-backed security, of which $16,000 was recognized in earnings as a credit loss and $1,823,000 was recognized in other comprehensive income as a non-credit loss. The credit component of the impairment was determined to be the difference between amortized cost and the present value of the cash flows expected to be received, discounted at the original yield.

Continued on Next Page

Table of Contents

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

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

		Three Months Ended June 30, 2009 (In thousands)
Credit losses on securities held at beginning of period in other comprehensive loss, as of April 1, 2009	$	28
Additions for credit losses not previously recognized in other-than-temporary impairment		16
Credit losses on securities held at the end of period in other comprehensive loss	$	44

(B) Debt and Equity Securities

The tables below present amortized cost and fair values of securities held to maturity and securities available for sale at June 30, 2009.

	Securities Held to Maturity				
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)			
Debt securities:					
U.S. Agencies	$	48,186	2,721	-	50,907
U.S. Treasury		1,920	430	-	2,350
States and political subdivisions		67,104	703	801	67,006
Foreign governments		9,959	548	-	10,507
Public utilities		602,780	17,668	8,418	612,030
Corporate		1,483,144	34,447	71,503	1,446,088
Mortgage-backed		1,709,241	75,264	3,767	1,780,738
Home equity		36,835	-	14,596	22,239
Manufactured housing		27,196	179	3,360	24,015

Totals	$ 3,986,365	131,960	102,445	4,015,880

A total of $0.7 million of non-credit other-than-temporary impairment on held to maturity manufactured housing securities is included in accumulated other comprehensive income, net of tax, as of June 30, 2009.

Continued on Next Page

Table of Contents

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

	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	46,348	-	4,775	41,573
Foreign governments	10,388	810	-	11,198
Public utilities	318,203	6,407	7,200	317,410
Corporate	1,248,280	22,565	62,915	1,207,930
Mortgage-backed	242,731	8,926	4,977	246,680
Home equity	13,886	-	6,896	6,990
Manufactured housing	11,277	86	980	10,383
Equity securities – private	195	6,962	-	7,157
Equity securities – public	6,610	618	811	6,417
Totals	$ 1,897,918	46,374	88,554	1,855,738

Included in gross unrealized losses at June 30, 2009 is $1.8 million of non-credit other-than-temporary impairment on a mortgage backed security. This impairment is included in accumulated other comprehensive loss, net of tax and deferred acquisition costs.

During the quarter ended June 30, 2009, the Company made transfers totaling $30.7 million to the held to maturity category from securities available for sale. Lower holdings of securities available for sale reduce the Company's exposure to market price volatility while still providing securities for liquidity and asset/liability management purposes. The transfers of securities were recorded at fair value in accordance with GAAP, which requires that the $0.6 million unrealized holding gain at the date of the transfer continue to be reported in a separate component of stockholders' equity and be amortized over the remaining life of the security as an adjustment of yield in a manner consistent with the amortization of any premium or discount.

Continued on Next Page

31

Table of Contents

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

The tables below present amortized cost and fair values of securities held to maturity and securities available for sale 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

Continued on Next Page

Table of Contents

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

	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
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

Continued on Next Page

Table of Contents

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

The following tables show the gross unrealized losses and fair values of the Company's investments by investment category and length of time the individual securities have been in a continuous unrealized loss position at June 30, 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. Agencies	$ -	-	-	-	-	-
U.S. Treasury	-	-	-	-	-	-
State and political subdivisions	28,608	484	9,318	317	37,926	801
Foreign governments	-	-	-	-	-	-
Public utilities	26,012	962	169,774	7,456	195,786	8,418
Corporate bonds	214,405	4,225	456,562	67,278	670,967	71,503
Mortgage-backed	-	-	60,236	3,767	60,236	3,767
Home equity	3,232	552	17,426	14,044	20,658	14,596
Manufactured housing	6,684	507	16,834	2,853	23,518	3,360
Total	$ 278,941	6,730	730,150	95,715	1,009,091	102,445

Continued on Next Page

Table of Contents

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

	Available For Sale					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Debt securities:						
U. S. Agencies	$ -	-	-	-	-	-
U.S. Treasury	-	-	-	-	-	-
State and political subdivisions	2,481	224	39,093	4,551	41,574	4,775
Foreign governments	-	-	-	-	-	-
Public utilities	-	-	142,976	7,200	142,976	7,200
Corporate bonds	153,377	10,949	567,443	51,966	720,820	62,915
Mortgage-backed	-	-	47,418	4,977	47,418	4,977
Home equity	-	-	6,990	6,896	6,990	6,896
Manufactured housing	800	87	8,537	893	9,337	980
	156,658	11,260	812,457	76,483	969,115	87,743
Equity securities – public	2,526	467	1,455	344	3,981	811
Total	$ 159,184	11,727	813,912	76,827	973,096	88,554

Debt securities. The gross unrealized losses for debt securities at June 30, 2009 are made up of 329 individual issues, or 40.8% of the total debt securities held by the Company. The market value of these bonds as a percent of amortized cost averages 91.2%. Of the 329 securities, 256, or approximately 77.8%, fall in the 12 months or greater aging category; of the 329 debt securities, 306 were rated investment grade at June 30, 2009. Additional information on debt securities by investment category is summarized below:

State and political subdivisions. The unrealized losses on these investments are the result of holdings in 54 securities. Of these securities, all are rated A or above except two which are rated BBB+ and BB. Based on these facts and the Company's intent not to sell, and belief that it is not more likely than not to be required to sell, prior to a market price recovery, no other-than-temporary loss was recognized as of June 30, 2009.

Public utilities. Of the 53 securities, all are rated BBB or above except one, which is priced at 79.9% 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 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 181 securities had unrealized losses; with 16 issues rated below investment grade. More extensive analysis was performed on these 16 issues and based on the work performed, none of the unrealized losses are considered other-than-temporarily impaired at June 30, 2009.

Continued on Next Page

Table of Contents

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

Mortgage-backed securities. These securities are all rated AAA except one which is rated B. 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 investments to have other-than-temporary impairments at June 30, 2009. The Company recognized an other-than-temporary loss in the second quarter of 2009 on the B rated security.

Home equity. Of the 15 securities, 9 are rated AAA, 2 are rated AA and 4 are rated below AA. 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 4 issues rated below AA are not considered other-than-temporarily impaired.

Manufactured housing. Of the 12 securities, 8 are rated AAA, 1 is rated AA and 3 are rated below AA. 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 3 issues rated below AA are not considered other-than-temporarily impaired.

Equity securities - public. The gross unrealized losses for equity securities are made up of 58 individual issues. These holdings are reviewed for impairment quarterly. During the six months ended June 30, 2009, the Company recorded other-than-temporary impairments on 19 equity securities.

Management believes the unrealized declines in fair values are temporary. Accordingly, realized credit losses have not been recorded by the Company.

The following tables show the gross unrealized losses and fair values of the Company's 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. 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	76,959	447,347	95,109	1,316,482	172,068

Continued on Next Page

Table of Contents

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

	Available For Sale					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Debt securities:						
U.S. Agencies	$ -	-	-	-	-	-
U.S. Treasury	-	-	-	-	-	-
State and political subdivisions	45,848	8,675	13,486	4,978	59,334	13,653
Foreign governments	-	-	-	-	-	-
Public utilities	148,901	9,286	105,498	15,799	254,399	25,085
Corporate bonds	560,028	56,214	367,933	70,754	927,961	126,968
Mortgage-backed	-	-	48,540	7,693	48,540	7,693
Home equity	2,289	2,624	6,862	2,102	9,151	4,726
Manufactured housing	9,456	988	1,467	31	10,923	1,019
	766,522	77,787	543,786	101,357	1,310,308	179,144
Equity securities – public	2,057	577	1,205	328	3,262	905
Total temporarily impaired securities	$ 768,579	78,364	544,991	101,685	1,313,570	180,049

Continued on Next Page

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

(10) FAIR VALUE MEASUREMENTS

Effective January 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and requires additional disclosures about fair value measurements.

In compliance with SFAS No. 157, the Company has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three level hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument.

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

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

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

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

Continued on Next Page

Table of Contents

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

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

		June 30, 2009		
Description	Total	Level 1	Level 2	Level 3
		(In thousands)		
Debt securities, available for sale	$ 1,842,164	-	1,834,619	7,545
Equity securities, available for sale	13,574	4,488	1,929	7,157
Derivatives	27,018	-	27,018	-
Total assets	$ 1,882,756	4,488	1,863,566	14,702
Policyholder account balances (a)	$ 30,273	-	30,273	-
Other liabilities (b)	2,557	-	-	2,557
Total liabilities	$ 32,830	-	30,273	2,557

		December 31, 2008		
Description	Total	Level 1	Level 2	Level 3
		(In thousands)		
Debt securities, available for sale	$ 1,731,583	-	1,721,341	10,242
Equity securities, available for sale	13,683	4,558	1,935	7,190
Derivatives	11,920	-	11,920	-
Total assets	$ 1,757,186	4,558	1,735,196	17,432
Policyholder account balances (a)	$ 19,377	-	19,377	-
Other liabilities (b)	3,787	-	-	3,787
Total liabilities	$ 23,164	-	19,377	3,787

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

Continued on Next Page

Table of Contents

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

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

	For the Three Months Ended June, 2009				
		Debt Securities, Available For Sale	Equity Securities, Available For Sale	Total Assets	Other Liabilities
		(In thousands)			
Beginning balance, April 1, 2009	$	6,976	7,157	14,133	1,573
Total realized and unrealized gains (losses):					
Included in net income		-	-	-	1,033
Included in other comprehensive income		1,104	-	1,104	-
Purchases, sales, issuances and settlements, net		(535)	-	(535)	(49)
Transfers into (out of) Level 3		-	-	-	-
Ending balance, June 30, 2009	$	7,545	7,157	14,702	2,557
Amount of total gains (losses) for the period included in net income attributable to the change in unrealized gains (losses) relating to assets still held as of June 30, 2009	$	-	-	-	983

	For the Three Months Ended June 30, 2008				
		Debt Securities, Available For Sale	Equity Securities, Available For Sale	Total Assets	Other Liabilities
		(In thousands)			
Beginning balance, April 1, 2008	$	1,616	7,190	8,806	6,387
Total realized and unrealized gains (losses):					
Included in net income		-	-	-	617
Included in other comprehensive loss		(199)	-	(199)	-
Purchases, sales, issuances and settlements, net		(522)	-	(522)	(701)
Transfers into (out of) Level 3		11,924	-	11,924	-
Ending balance, June 30, 2008	$	12,819	7,190	20,009	6,303
Amount of total gains (losses) for the period included in net income attributable to the change in unrealized gains (losses) relating to assets still					

held as of June 30, 2008	$	-	-	-	617

Continued on Next Page

40

Table of Contents

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

	For the Six Months Ended June 30, 2009			
	Debt Securities, Available For Sale	Equity Securities, Available For Sale	Total Assets	Other Liabilities
	(In thousands)			
Beginning balance, January 1, 2009	$ 10,242	7,190	17,432	3,787
Total realized and unrealized gains (losses):				
Included in net income	-	-	-	(1,241)
Included in other comprehensive loss	(2,160)	(33)	(2,193)	-
Purchases, sales, issuances and settlements, net	(537)	-	(537)	11
Transfers into (out of) Level 3	-	-	-	-
Ending balance, June 30, 2009	$ 7,545	7,157	14,702	2,557
Amount of total gains (losses) for the period included in net income attributable to the change in unrealized gains (losses) relating to assets still held as of June 30, 2009	$ -	-	-	(1,230)

	For the Six Months Ended June 30, 2008			
	Debt Securities, Available For Sale	Equity Securities, Available For Sale	Total Assets	Other Liabilities
	(In thousands)			
Beginning balance, January 1, 2008	$ 1,618	7,147	8,765	7,712
Total realized and unrealized gains (losses):				
Included in net income	-	-	-	559
Included in other comprehensive loss	(199)	43	(156)	-
Purchases, sales, issuances and settlements, net	(524)	-	(524)	(1,968)
Transfers into (out of) Level 3	11,924	-	11,924	-
Ending balance, June 30, 2008	$ 12,819	7,190	20,009	6,303
Amount of total gains (losses) for the period included in net income attributable to the change in unrealized gains (losses) relating to assets still held as of June 30, 2008	$ -	-	-	559

Realized gains (losses) on debt and equity securities are reported in the consolidated statements of earnings as net investment gains (losses), unrealized gains (losses) on available for sale debt and equity securities are reported as other comprehensive income (loss) within stockholders' equity.

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

Continued on Next Page

Table of Contents

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

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

	June 30, 2009		December 31, 2008	
	Carrying Values	Fair Values	Carrying Values	Fair Values
	(In thousands)			
ASSETS				
Investments in debt and equity securities:				
Securities held to maturity	$ 3,986,365	4,015,880	3,831,417	3,727,353
Securities available for sale	1,855,738	1,855,738	1,745,266	1,745,266
Cash and short-term investments	54,850	54,850	67,796	67,796
Mortgage loans	93,016	94,174	90,733	90,884
Policy loans	77,928	77,928	79,277	79,277
Other loans	7,959	9,584	1,541	1,572
Derivatives	27,018	27,018	11,920	11,920
Life interest in Libbie Shearn Moody Trust	1,142	12,775	1,302	12,775
LIABILITIES				
Deferred annuity contracts	$ 4,418,468	4,073,973	4,324,702	3,997,005
Immediate annuity and supplemental contracts	428,735	439,890	388,486	409,553

Investment securities. Fair values for investments in debt and equity securities are based on quoted market prices, where available. For securities not actively traded, fair values are estimated using values obtained from various independent pricing services. In the cases where prices are unavailable from these sources, values are estimated by discounting expected future cash flows using a current market rate applicable to the yield, credit quality, and maturity of the investments.

Cash and short-term investments. The carrying amounts reported in the balance sheet for these instruments approximate their fair values.

Mortgage and other loans. The fair values of performing mortgage and other loans are estimated by discounting scheduled cash flows through the scheduled maturities of the loans, using interest rates currently being offered for similar loans to borrowers with similar credit ratings. Fair values for significant nonperforming loans are based on recent internal or external appraisals. If appraisals are not available, estimated cash flows are discounted using a rate commensurate with the risk associated with the estimated cash flows. Assumptions regarding credit risk, cash flows, and discount rates are judgmentally determined using available market information and specific borrower information.

Policy Loans. The carrying value of policy loans approximates fair values.

Derivatives. Fair values for indexed options are based on counterparty market prices.

Life interest in Libbie Shearn Moody Trust. The fair value of the life interest is estimated based on assumptions as to future distributions from the Trust over the life expectancy of Mr. Robert L. Moody. These estimated cash flows were discounted at a rate consistent with uncertainties relating to the amount and timing of future cash distributions. However, the Company has limited the fair value to the maximum amount to be received from insurance proceeds in the event of Mr. Moody's death.

Continued on Next Page

Table of Contents

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

Annuity and supplemental contracts. Fair values for the Company's insurance contracts other than annuity contracts are not required to be disclosed. This includes the Company's traditional and universal life products. Fair values for immediate annuities without mortality features are based on the discounted future estimated cash flows using current market interest rates for similar maturities. Fair values for deferred annuities, including fixed-indexed annuities, are determined using estimated projected future cash flows discounted at the rate that would be required to transfer the liability in an orderly transaction. The fair values of liabilities under all insurance contracts are taken into consideration in the Company's overall management of interest rate risk, which minimizes exposure to changing interest rates through the matching of investment maturities with amounts due under insurance and annuity contracts.

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

(11) Derivative Investments

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

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

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

Although there is credit risk in the event of nonperformance by counterparties to the index options, the Company does not expect any counterparties to fail to meet their obligations, given their high credit ratings. 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 June 30, 2009 and 2008, the fair values of index options owned by the Company totaled $27.0 million and $6.9 million, respectively.

Continued on Next Page

Table of Contents

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

The tables below present the fair value of derivative instruments as of June 30, 2009 and December 31, 2008, respectively.

	June 30, 2009			
	Asset Derivatives		Liability Derivatives	
Derivatives not designated as hedging instruments under SFAS No. 133	Balance Sheet Location	Fair Value (In thousands)	Balance Sheet Location	Fair Value (In thousands)
Equity index options	Derivatives, Index Options	$ 27,018		
Fixed-indexed products			Universal Life and Annuity Contracts	$ 30,273
Total		$ 27,018		$ 30,273

	December 31, 2008			
	Asset Derivatives		Liability Derivatives	
Derivatives not designated as hedging instruments under SFAS No. 133	Balance Sheet Location	Fair Value (In thousands)	Balance Sheet Location	Fair Value (In thousands)
Equity index options	Derivatives, Index Options	$ 11,920		
Fixed-indexed products			Universal Life and Annuity Contracts	$ 19,377
Total		$ 11,920		$ 19,377

Continued on Next Page

44

Table of Contents

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

The table below presents the effect of derivative instruments in the condensed consolidated statement of earnings for the six months ended June 30, 2009.

.

Derivatives Not Designated as Hedging Instruments Under SFAS No. 133	Location of Gain or (Loss) Recognized In Income on Derivative		Amount of Gain or (Loss) Recognized In Income on Derivative (In thousands)
Equity index options	Net investment income	$	(6,061)
Fixed-indexed products	Universal life and annuity contract interest		(14,246)
		$	(20,307)

(12) SUBSEQUENT EVENTS

The Company allowed its $40 million bank line of credit with JP Morgan Chase Bank to expire at the end of its three-year term effective July 31, 2009. A new $40 million line of credit with Moody National Bank is expected to be established during August 2009. Robert L. Moody, the Company's Chairman and Chief Executive Officer, serves as Chairman of the Board and Chief Executive Officer of Moody National Bank. The terms of the new line of credit are subject to the appropriate approvals by the Company's Board of Directors.

Subsequent events have been evaluated through August 10, 2009, which is the date that the financial statements have been issued.

Table of Contents

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

FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for forward-looking statements. Certain information contained herein or in other written or oral statements made by or on behalf of National Western Life Insurance Company or its subsidiaries is or may be viewed as forward-looking. Although the Company has 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 and six months ended June 30, 2009 follows. This discussion should be read in conjunction with the Company’s condensed consolidated financial statements and related notes beginning on page 3 of this report.

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 contractholders both domestically and internationally. The Company accepts funds from policyholders or contractholders 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, the underlying economics and relevant factors affecting the life insurance industry include the following:

- level of premium revenues collected
- persistency of policies and contracts
- returns on investments
- investment credit quality
- levels of policy benefits and costs to acquire business
- effect of interest rate changes on revenues and investments including asset and liability matching
- adequate levels of capital and surplus

The Company monitors these factors continually as key business indicators. The discussion that follows in this Item 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.

Insurance Operations - Domestic

The Company is currently licensed to do business in all states except for New York. Products marketed are annuities, universal life insurance, fixed-indexed annuities and fixed-indexed universal life, and traditional life insurance, which include both term and whole life products. The Company's domestic sales have historically been more heavily weighted toward annuity products, which include single and flexible premium deferred annuities, single premium immediate annuities, and fixed-indexed annuities. Most of these annuities can be sold as tax qualified or nonqualified products. At June 30, 2009, the Company maintained approximately 117,460 annuity policies in force.

Table of Contents

National Western markets and distributes its domestic products primarily through independent national marketing organizations ("NMOs"). These NMOs assist the Company in recruiting, contracting, and managing independent agents. The Company currently has approximately 5,600 independent agents contracted. Roughly 27% of these contracted agents have submitted policy applications to the Company in the past twelve months.

Insurance Operations - International

The Company's international operations focus on foreign nationals in upper socioeconomic classes. Insurance products are issued primarily to residents of countries in Central and South America, the Caribbean, Eastern Europe, Asia and the Pacific Rim. Issuing policies to residents of countries in these different regions provides diversification that helps to minimize large fluctuations that could arise due to various economic, political, and competitive pressures that may occur from one country to another. Products issued to international residents are almost entirely universal life and traditional life insurance products. However, certain annuity and investment contracts are also available. At June 30, 2009, the Company had approximately 72,650 international life insurance policies in force representing approximately $15.7 billion in face amount of coverage.

International applications are submitted by independent contractor consultants and broker-agents. The Company has approximately 4,700 independent international consultants and brokers currently contracted, 42% of which have submitted policy applications to the Company in the past twelve months.

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

SALES

Life Insurance

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In thousands)			
International:				
Universal life	$ 753	2,049	1,826	3,642
Traditional life	944	1,379	2,292	2,733
Equity-indexed life	4,536	5,689	8,802	11,433
	6,233	9,117	12,920	17,808

Domestic:					
Universal life		911	2,033	1,143	2,932
Traditional life		27	33	73	71
Equity-indexed life		318	892	818	3,224
		1,256	2,958	2,034	6,227
Totals	$	7,489	12,075	14,954	24,035

47

Table of Contents

Life insurance sales as measured by annualized first year premiums declined 38% in the second quarter of 2009 as compared to the second quarter of 2008 and declined by the same percentage for the first six months of 2009 compared to the same period in 2008. Both of the Company's life insurance lines of business, international and domestic, posted decreases over the comparable results in 2008 with international sales 32% and 27% lower for the three and six month periods ended June 30, 2009, respectively, and domestic life sales down 58% and 67% for the same three and six month periods.

Management has placed considerable emphasis on building domestic life insurance sales over the past several years as a strategic focus for future growth. This focus was partially in response to comments from outside rating agencies who expressed a preference for a greater proportion of overall Company earnings to derive from the life insurance line of business. The Company’s domestic operations have historically been more heavily skewed toward annuity sales than life insurance sales. The Company spent the greater part of 2003 and 2004 revamping its domestic life operations by changing the way it contracts distribution for life business, eliminating products and distribution that had not contributed significantly to earnings, and creating new and competitive products. A single premium universal life ("SPUL") product was launched at the end of 2003 beginning a diversification of the Company's product portfolio away from smaller dollar face amount policies. The Company released its first fixed equity-indexed universal life ("EIUL") product for its domestic markets at the end of 2005 and this product has subsequently accounted for 40% to 60% of domestic life insurance sales.

The Company developed hybrids of the initial EIUL and SPUL products, combining features, and discontinued the marketing of smaller premium and volume life insurance policies. As a result, the Company attracted new independent distributors with access to customers purchasing larger face amounts of insurance per policy. During the latter part of 2008, the Company’s internal checking and monitoring procedures detected potential instances of rebating in certain domestic geographic markets and instituted commission caps and other preventive procedures to discourage this practice. Although not illegal in these markets, the practice of rebating is particularly prone to large face amount policies not renewing premium payments beyond the initial year of the policy. The Company’s actions discouraged sales of larger face amounts resulting in lower sales levels and amounts of insurance per policy as shown below.

	Average New Policy Face Amount	
	Domestic	International
Year ended December 31, 2004	101,700	234,500
Year ended December 31, 2005	137,900	245,900
Year ended December 31, 2006	315,800	254,700
Year ended December 31, 2007	416,800	251,000
Year ended December 31, 2008	455,200	272,000
Six months ended June 30, 2009	194,600	296,000

In addition to the action taken above by the Company, the U.S. economic climate has had a significant impact upon life insurance sales industry wide. The financial burdens associated with the current climate evidenced by loss of employment, higher debt levels, a reduction in wealth through home and financial holdings declines in value, and a higher propensity to save versus spending have resulted in dramatically reduced purchases of life insurance in the first half of 2009.

The Company's international life business consists of applications submitted from residents in various regions outside of the United States, the volume of which typically varies based upon changes in the socioeconomic climates of these regions. Historically, the Company has experienced a simultaneous combination of rising and declining sales in various countries; however, the appeal of the Company's dollar-denominated life insurance products overcomes many of the local and national difficulties. In the “financial crisis” economic climate of the past 12 to 18 months, individuals in countries outside of the United States have become increasingly leery of the U.S. economy and the stability of financial institutions and markets. These concerns have manifested in the past several quarters via reduced international sales.

Table of Contents

Applications submitted from residents of Latin America and the Pacific Rim perennially have comprised the majority of the Company's international life insurance sales. Over the past few years, new sales efforts were directed toward the sale of a traditional endowment form of life insurance product for residents of Eastern European and the Commonwealth of Independent States (former Soviet Union). As noted previously, the Company’s international sales by geographic market tend to fluctuate with the socio and economic climates in these regions. The Company’s mix of international sales by geographic region is as follows.

	Six Months Ended June 30, 2009	2008
Percentage of International Sales:		
Latin America	69.2%	65.9%
Pacific Rim	21.4	20.9
Eastern Europe	9.4	13.2
Totals	100.0%	100.0%

Year-to-date, the Company has recorded sales to residents outside of the United States in over thirty different countries with Brazil (22%), Taiwan (18%), and Colombia (10%) making up the largest markets.

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

		Insurance In Force as of June 30, 2009	2008
		($ in thousands)	
Universal life:			
Number of policies		68,110	71,850
Face amounts	$	7,677,170	7,977,850
Traditional life:			
Number of policies		48,300	50,450
Face amounts	$	2,222,790	1,931,080
Fixed-indexed life:			
Number of policies		27,880	27,230
Face amounts	$	6,452,230	6,265,720
Rider face amounts	$	2,112,870	2,142,040
Total life insurance:			
Number of policies		144,290	149,530
Face amounts	$	18,465,060	18,316,690

Table of Contents

Annuities

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

		Three Months Ended June 30,		Six Months Ended June 30,	
		2009	2008	2009	2008
		(In thousands)			
Fixed-indexed annuities	$	116,474	83,979	223,339	156,987
Other deferred annuities		60,980	18,734	105,073	44,556
Immediate annuities		3,482	878	9,296	2,606
Totals	$	180,936	103,591	337,708	204,149

Annuity sales for the second quarter of 2009 were 75% higher than the comparable period in 2008 and increased 65% for the six months ended June 30, 2009 versus the same period in 2008. Since 2003 when the Company achieved nearly $1.2 billion in sales, annuity new business has trended lower due to a combination of declining interest rates, investors returning to alternative investment vehicles, rating agency concerns regarding the percentage of new business derived from the annuity line of business, and the Company managing its targeted levels of risk and statutory capital and surplus. In addition, during a large portion of the past several years the interest rate yield curve has either been inverted (shorter term rates higher than longer term rates) or relatively flat. In such an interest rate environment, consumers tend toward short term investment vehicles such as bank certificates of deposits rather than longer term choices which include fixed rate annuities.

The recessionary contraction and financial market crisis that began in the latter half of 2007 has impacted many annuity carriers in the industry. Losses from investment impairments as well as equity exposure through variable annuity product offerings have crippled the capital position of numerous insurers and limited their ability to write new business. The Company’s substantial capital position achieved through ongoing operating profitability and limited investment loss exposure has positioned it to write additional levels of annuity new business. The sales increase in the first six months of 2009 over the first six months of 2008 is indicative of the Company’s enhanced competitive position in the marketplace. In addition, during the second quarter of 2009 the Company received a rating increase from A.M. Best to “A” (Excellent) further advancing the attractiveness of the Company’s product offerings. Management has performed analyses of the capital strain associated with incrementally higher levels of annuity new business and determined that the Company’s capital position is more than sufficient to handle increased sales activity.

The Company's mix of annuity sales tends to shift with interest rate levels and the relative performance of the equity market. Over the past several years, sales of fixed-indexed products have consistently accounted for more than one-half of all annuity sales and were 66% of annuity activity during the first six months of 2009. For all fixed-indexed products, the Company purchases over the counter options to hedge the equity return feature. The options are purchased relative to the issuance of the annuity contracts in such a manner to minimize timing risk. Generally, the index return during the indexing period (if the underlying index increases) becomes a component in a formula (set forth in the annuity), the result of which is credited as interest to contract holders electing the index formula crediting method at the beginning of the indexing period. The formula result can never be less than zero with these products. The Company does not deliberately mismatch or under hedge for the equity feature of the products. Fixed-indexed products also provide the contractholder the alternative to elect a fixed interest rate crediting option. With the performance of the equity markets over the past eighteen months, an increasing percentage of fixed-indexed contractholders have elected this crediting option.

The level of annuity sales volume the past several years has required a greater level of asset/liability analysis. The Company monitors its asset/liability matching within the self-constraints of desired capital levels and risk tolerance. Despite the amounts of new business, the Company's capital level remains substantially above industry averages and regulator targets.

Table of Contents

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

	Annuities In Force as of June 30, 2009	2008
	($ in thousands)	
Fixed-indexed annuities		
Number of policies	34,220	32,630
GAAP annuity reserves	$ 2,118,960	1,978,350
Other deferred annuities		
Number of policies	67,930	71,870
GAAP annuity reserves	$ 2,299,510	2,401,570
Immediate annuities		
Number of policies	15,310	13,860
GAAP annuity reserves	$ 353,370	276,360
Total annuities		
Number of policies	117,460	118,360
GAAP annuity reserves	$ 4,771,840	4,656,280

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) whether the Company has the intent to sell, or if it is more likely than not that it will be required to sell, the investment prior to a market price 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 non credit related events in earnings only if it had the intent to sell or believes that is more likely than not that it will be required to sell the securities prior to market price recovery or maturity. When a security is deemed to be impaired, the portion of the impairment that is deemed to be credit is charged to the income statement and the cost basis of the investment is reduced. The portion of the impairment that is deemed to be non-credit is charged to other comprehensive income (loss). 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 Acquisition Costs ("DAC"). The Company is required to defer certain policy acquisition costs and amortize them over future periods. These costs include commissions and certain other expenses that vary with and are primarily associated with acquiring new business. The deferred costs are recorded as an asset commonly referred to as deferred policy acquisition costs. The DAC asset balance is subsequently charged to income over the lives of the underlying contracts in relation to the anticipated emergence of revenue or profits. Actual revenue or profits can vary from Company estimates resulting in increases or decreases in the rate of amortization. The Company does regular evaluations 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 assumptions regarding the emergence of future revenues or profits (commonly referred to as "unlocking"), the Company would record a charge or credit to bring its DAC balance to the level it would have been if using the new assumptions from the inception date of each policy.

Table of Contents

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

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

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

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

Investment activities of the Company are integral to its insurance operations. Since life insurance benefits may not be paid until many years into the future, the accumulation of cash flows from premium receipts are invested with income reported as revenue when earned. Anticipated yields on investments are reflected in premium rates, contract liabilities, and other product contract features. These anticipated yields are implied in the interest required on the Company's net insurance liabilities (future policy benefits less deferred acquisition costs) and contractual interest obligations in its insurance and annuity products. The Company benefits to the extent actual net investment income exceeds the required interest on net insurance liabilities and manages the rates it credits on its products to maintain the targeted excess or "spread" of investment earnings over interest credited. The Company will continue to be required to provide for future contractual obligations in the event of a decline in investment yield. For more information concerning revenue recognition, investment accounting, and interest sensitivity, please refer to Note 1, Summary of Significant Accounting Policies and Note 9, Investments, in the Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K.

Pension Plans and Other Postretirement Benefits. The Company sponsors a qualified defined benefit pension plan, covering substantially all employees, which was frozen effective December 31, 2007, 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.

Table of Contents

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, based on the 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 award's fair value at the reporting date. The Black-Scholes valuation method has been 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 Notes to Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K.

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 2009. The volatility and disruption in the financial markets has caused the availability and cost of credit to be materially affected. Combined with volatile oil prices, depressed home prices, increasing foreclosures, fluctuating equity market values, declining business and consumer confidence, and higher unemployment, these factors precipitated a severe recession that continued through the first half of 2009. The combination of economic conditions began to negatively impact our sales in 2008, particularly in the international markets, and continued to adversely impact the demand for our life products during the first half of 2009. As such going forward, we also may experience a higher incidence of claims, lapses or surrenders of policies.

The fixed income markets, our primary investment source, are experiencing a high level of volatility. Although market liquidity conditions have recently shown signs of improvement in some sectors, credit downgrade events have continued and there is an increased probability of default for many fixed income instruments. 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.

Table of Contents

Credit spreads (difference between bond yields and risk-free interest rates) on fixed maturity securities remain high given the market conditions. While the increase in credit spreads generated higher yields making our products more attractive to consumers, the higher rate levels caused a reduction in the carrying value of our marked-to-market investments in 2008 negatively impacting our financial condition and reported book value per share. There are early signs that the economy and the financial markets are starting to stabilize. During the six months ended June 30, 2009, the fair value of our mark to market securities showed an increase from their year-end values.

Our operating strategy is to maintain capital levels substantially above regulatory and rating agency requirements. While not significant, our statutory capital levels were impacted during the first half of the year as a result of rating declines on some of our holdings.

RESULTS OF OPERATIONS

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

Consolidated Operations

Revenues. The following details Company revenues.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In thousands)			
Traditional life and annuity premiums	$ 4,389	4,624	8,520	8,518
Universal life and annuity contract revenues	38,862	33,593	77,433	65,811
Net investment income (excluding derivatives)	86,834	86,034	170,410	170,021
Other income	3,507	3,153	7,101	6,292
Operating revenues	133,592	127,404	263,464	250,642
Derivative income (loss)	6,909	(13,756)	(6,061)	(38,313)
Realized gains (losses) on investments	166	(267)	(5,179)	(311)

Total revenues	$	140,667	113,381	252,224	212,018

Traditional life and annuity premiums - Traditional life and annuity premiums decreased 5.1% and remained flat for the three and six months ended June 30, 2009, respectively, compared to the same periods in 2008. Traditional life insurance premiums for products such as whole life and term life are recognized as revenues over the premium-paying period. These are products that supplement the Company’s main core offering of universal life products particularly universal life products.

Table of Contents

Universal life and annuity contract revenues - Revenues for universal life and annuity contract revenues increased 15.7% and 17.7% for the three and six months ended June 30, 2009 compared to the same periods in 2008, and consist of policy charges for the cost of insurance, administration charges, and surrender charges assessed against policyholder account balances. Revenues in the form of cost of insurance charges were flat versus the prior year at \$20.8 million and \$42.1 million for the three and six months ended June 30, 2009 compared to \$20.4 million and \$40.4 million for the three and six months ended June 30, 2008. Surrender charges assessed against policyholder account balances upon withdrawal increased to \$13.5 million and \$27.1 million for the three and six months ended June 30, 2009 versus \$9.5 million and \$18.6 million for the three and six months ended June 30, 2008, indicative of a higher incidence of policy withdrawals and terminations.

Net investment income - A detail of net investment income is provided below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In thousands)			
Gross investment income:				
Debt securities	$ 81,912	80,636	162,652	160,050
Mortgage loans	1,980	1,941	3,839	3,900
Policy loans	1,443	1,534	2,919	3,054
Short-term investments	22	225	90	668
Other invested assets	2,448	2,349	2,862	3,657
Total investment income	87,805	86,685	172,362	171,329
Investment expenses	971	651	1,952	1,308
Net investment income (excluding derivatives)	86,834	86,034	170,410	170,021
Derivative gain (loss)	6,909	(13,756)	(6,061)	(38,313)
Net investment income	$ 93,743	72,278	164,349	131,708

Income from other invested assets for the six months ended June 30, 2008 includes a settlement payment of \$0.9 million from a previously impaired and sold security. Derivative income and losses are recorded as a component of investment income but may fluctuate substantially from period to period based on the performance of the underlying indices. See the discussion that follows this section relating to index options and derivatives.

To ensure the Company will be able to pay future commitments to policyholders and provide a financial return, the funds received as premium payments and deposits are invested in high quality investments, primarily fixed maturity debt securities. The income from these investments is closely monitored by the Company due to its significant impact on the business. For the six months ended June 30, 2009, the Company’s insurance operations purchased \$366.2 million of debt securities with a weighted average yield to maturity of 6.4% and average Standard and Poor’s credit rating of “A”.

Table of Contents

Net investment income performance is summarized as follows:

		Six Months Ended June 30, 2009	2008
		(In thousands)	
Excluding derivatives:			
Net investment income	$	170,410	170,021
Average invested assets, at amortized cost	$	5,919,547	5,822,201
Annual yield on average invested assets		5.76%	5.84%
Including derivatives:			
Net investment income	$	164,349	131,708
Average invested assets, at amortized cost	$	5,938,561	5,876,907
Annual yield on average invested assets		5.53%	4.48%

As the Company's invested assets are substantially held in debt securities, the yield on average invested assets tends to move in conjunction with the yield on the debt securities portfolio. Although long-term interest rate levels were lower in the first six months of 2009 compared to the first six months of 2008, the relative increase in corporate spreads over treasury rates substantially offset the lower interest rate level such that long-term investment yields remained largely the same. Net investment income performance is analyzed excluding the derivative income which is a common practice in the insurance industry in order to assess underlying profitability and results from ongoing operations.

Other income - Other income primarily pertains to the Company's operations involving a nursing home in Reno, Nevada. Revenues associated with this operation were $3.4 million and $3.0 million for the quarter ended June 30, 2009 and 2008, respectively, and $6.8 million and $6.1 million for the six months ended June 30, 2009 and 2008, respectively.

Derivative income (loss) - Index options are derivative financial instruments used to partially hedge the equity return component of the Company's fixed-indexed products. Index options are intended to act as economic hedges to match closely the returns on the products' underlying reference indices. With an increase or decline in this index, the index option values likewise increase or decline. Any increases or decreases in income from these options are substantially offset by corresponding increases or decreases in amounts credited to fixed-indexed annuity and life policyholders. As such, 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.

Derivative components included in net investment income and the corresponding contract interest amounts are detailed below for each date presented.

		Three Months Ended June 30, 2009	2008	Six Months Ended June 30, 2009	2008
		(In thousands)			
Derivatives:					
Unrealized income (loss)	$	19,709	(809)	18,344	(21,289)
Realized loss		(12,800)	(12,947)	(24,405)	(17,024)
Total income (loss) included in net investment income	$	6,909	(13,756)	(6,061)	(38,313)

Total contract interest	$	57,652	33,555	92,917	60,172

56

Table of Contents

Benefits and Expenses. The following details benefits and expenses.

		Three Months Ended June 30,		Six Months Ended June 30,	
		2009	2008	2009	2008
		(In thousands)			
Life and other policy benefits	$	10,248	7,655	23,276	18,111
Amortization of deferred acquisition costs		28,549	30,263	56,497	56,511
Universal life and annuity contract interest		57,651	33,555	92,917	60,172
Other operating expenses		16,631	14,627	29,344	28,057
Totals	$	113,079	86,100	202,034	162,851

Life and other policy benefits - Death claims increased from $6.2 million and $14.2 million during the three and six months ended June 30, 2008 to $7.7 million and $17.6 million for the same periods in 2009. During the quarter ended March 31, 2009, the Company reviewed and updated its Incurred But Not Reported (“IBNR”) claims reserving assumptions. The updated estimates resulted in a one-time reduction in the IBNR claim reserve that is included in the six months ended June 30, 2009 amounts. While death claim amounts are subject to variation from period to period, the Company's mortality experience generally has been consistent with its product pricing assumptions.

Amortization of deferred 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 financial statements occurs over future periods in relation to the emergence of profits priced into the products sold. This emergence of profits is based upon assumptions regarding premium payment patterns, mortality, persistency, investment performance, and expense patterns. Companies are required to review these assumptions periodically to ascertain whether actual experience has deviated significantly from that assumed. If it is determined that a significant deviation has occurred, the emergence of profits pattern is to be "unlocked" and reset based upon the actual experience. While the Company is required to evaluate its emergence of profits continually, management believes that the current amortization patterns of deferred policy acquisition costs are reflective of actual experience.

Amortization of deferred policy acquisition costs decreased $1.7 million and remained flat for the three and six months ended June 30, 2009, respectively, compared to the same periods in 2008. The changes in amortization reflects the current activity related to partial surrender rates, surrender rates, mortality rates, portfolio yield rates and crediting rates on deferred annuities and universal life products.

Universal life and annuity contract interest - The Company closely monitors its credited interest rates on interest sensitive policies, taking into consideration such factors as profitability goals, policyholder benefits, product marketability, and economic market conditions. As long term interest rates change, the Company's credited interest rates are often adjusted accordingly, taking into consideration the factors as described above. The difference between yields earned over policy credited rates is often referred to as the "interest spread".

Table of Contents

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

	June 30,		June 30,	
	2009	2008	2009	2008
	(Excluding derivative products)		(Including derivative products)	
Annuity	2.21%	2.87%	3.14%	2.06%
Interest sensitive life	1.63%	3.64%	4.75%	3.15%

Contract interest also includes the performance of the equity-indexed component of the Company's derivative products which resulted in a gain of $6.9 million and a loss of $6.1 million in the three and six months ended June 30, 2009 and losses of $13.8 million and $38.3 million in the three and six months ended June 30, 2008. As previously noted, the market performance of these equity-index features is largely included in contract interest expense while also impacting the Company's investment income given the hedge nature of the options purchased for these products.

Other operating expenses - Other operating expenses consist of general administrative expenses, licenses and fees, commissions not subject to deferral, nursing home expenses and share based compensation costs. Nursing home operation expenses included in other operating expenses were $3.3 million and $6.6 million for the three and six months ended June 30, 2009 and $2.8 million and $5.6 million for the three and six months ended June 30, 2008. Share based compensation costs for the Company's stock option plan related to outstanding vested and unvested options for the three and six months ended June 30, 2009 totaled $(1.2) million and $0.6 million compared to $0.8 million and $0.6 million for the corresponding periods in 2008.

Federal Income Taxes. Federal income taxes on earnings from continuing operations reflect effective tax rates of 32.5% and 33.7% for the six months ended June 30, 2009 and 2008, respectively. The effective tax rate is lower than the Federal rate of 35% primarily due to tax-exempt investment income related to municipal securities and dividends-received deductions on income from stocks.

Segment Operations

Summary of Segment Earnings

A summary of segment earnings for the three months and six months ended June 30, 2009 and 2008 is provided below. The segment earnings exclude realized gains and losses on investments, net of taxes.

	Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
			(In thousands)		
Segment earnings:					
Three months ended:					
June 30, 2009	$ 1,512	3,238	11,263	2,721	18,734
June 30, 2008	$ 998	4,669	10,356	2,292	18,315
Six months ended:					

June 30, 2009	$	3,812	4,714	24,963	3,747	37,236
June 30, 2008	$	975	8,541	20,165	3,109	32,790

Table of Contents

Domestic Life Insurance Operations

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

	Three Months Ended June 30,			Six Months Ended June 30,	
		2009	2008	2009	2008
			(In thousands)		
Premiums and other revenue:					
Premiums and contract revenues	$	9,418	6,691	18,957	13,310
Net investment income		4,962	5,030	10,060	10,191
Other income		6	4	20	10
Total premiums and other revenue		14,386	11,725	29,037	23,511
Benefits and expenses:					
Life and other policy benefits		4,334	2,814	8,155	7,019
Amortization of deferred policy acquisition costs		1,979	2,068	4,334	4,355
Universal life insurance contract interest		2,226	2,288	4,498	4,643
Other operating expenses		3,649	3,049	6,379	6,023
Total benefits and expenses		12,188	10,219	23,366	22,040
Segment earnings before Federal income taxes		2,198	1,506	5,671	1,471
Provision for Federal income taxes		686	508	1,859	496
Segment earnings	$	1,512	998	3,812	975

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

	Three Months Ended June 30,			Six Months Ended June 30,	
		2009	2008	2009	2008
			(In thousands)		
Universal life insurance revenues	$	8,671	6,333	17,366	12,378
Traditional life insurance premiums		1,783	1,309	3,955	2,931
Reinsurance premiums		(1,036)	(951)	(2,364)	(1,999)

Totals	$	9,418	6,691	18,957	13,310

The Company's U.S. operations have made efforts over the past several years to attract new independent agents and to promote life products to improve domestic sales.

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In thousands)			
Universal life insurance:				
First year and single premiums	$ 5,213	3,147	7,395	7,477
Renewal premiums	5,809	4,851	11,377	9,579
Totals	$ 11,022	7,998	18,772	17,056

The increased revenues and a slightly more favorable mortality experience in the first six months of 2009 compared to 2008 resulted in the increased earnings for the three and six months ended June 30, 2009 versus the comparable periods in 2008.

International Life Insurance Operations

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In thousands)			
Premiums and other revenue:				
Premiums and contract revenues	$ 26,585	24,741	52,834	48,226
Net investment income	9,822	5,005	13,880	8,044
Other income	12	13	39	25
Total premiums and other revenue	36,419	29,759	66,753	56,295
Benefits and expenses:				
Life and other policy benefits	4,374	4,286	12,098	9,599
Amortization of deferred policy acquisition costs	11,600	9,610	24,762	18,401
Universal life insurance contract interest	10,480	4,586	14,200	7,280
Other operating expenses	5,174	4,254	8,680	8,126
Total benefits and expenses	31,628	22,736	59,740	43,406
Segment earnings before Federal income taxes	4,791	7,023	7,013	12,889
Provision for Federal				

income taxes		1,553	2,354	2,299	4,348
Segment earnings	$	3,238	4,669	4,714	8,541

International applications are submitted by independent contractor consultants and broker-agents. The Company has approximately 4,700 independent international consultants and brokers currently contracted.

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In thousands)			
Universal life insurance revenues	$ 26,659	23,913	54,384	47,865
Traditional life insurance premiums	3,206	4,013	5,935	7,054
Reinsurance premiums	(3,280)	(3,185)	(7,485)	(6,693)
Totals	$ 26,585	24,741	52,834	48,226

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In thousands)			
Universal life insurance:				
First year and single premiums	$ 7,251	10,565	14,852	19,951
Renewal premiums	24,325	24,426	46,671	46,982
Totals	$ 31,576	34,991	61,523	66,933

For 2009, the Company reported decreased premiums for fixed-indexed universal life products of approximately $30.0 million versus $38.2 million for the first six months of 2009 and 2008, respectively. Contract revenues have increased as the amount of international life insurance in force has grown from $15.4 billion at June 30, 2008, to $15.7 billion at June 30, 2009.

As previously noted, net investment income and contract interest include period-to-period changes in fair values pertaining to options purchased that are tied to the performance of the products underlying reference indices. The largest selling product in the international life insurance segment for the past five years has been an equity-indexed universal life policy with the equity component linked to the underlying indices. With the growth in this block of business, the period-to-period changes in fair values of the underlying options 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.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In thousands)			
Net investment income (excluding derivatives)	$ 8,206	7,503	15,402	14,570

Derivative income (loss)		1,616	(2,498)	(1,522)	(6,526)
Net investment income	$	9,822	5,005	13,880	8,044

Amortization of deferred policy acquisition costs increased approximately 35% comparing the first six months of 2009 to the same period in 2008, and increased 21% in the second quarter of 2009 versus the second quarter of 2008 reflecting higher lapse activity due to current economic conditions.

61

Table of Contents

Annuity Operations

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In thousands)			
Premiums and other revenue:				
Premiums and contract revenues	$ 7,248	6,785	14,162	12,793
Net investment income	75,096	59,006	135,117	109,303
Other income	78	85	213	123
Total premiums and other revenue	82,422	65,876	149,492	122,219
Benefits and expenses:				
Life and other benefits	1,540	555	3,023	1,493
Amortization of deferred policy acquisition costs	14,970	18,585	27,401	33,755
Annuity contract interest	44,945	26,681	74,219	48,249
Other operating expenses	4,540	4,489	7,734	8,295
Total benefits and expenses	65,995	50,310	112,377	91,792
Segment earnings before Federal income taxes	16,427	15,566	37,115	30,427
Provision for Federal income taxes	5,164	5,210	12,152	10,262
Segment earnings	$ 11,263	10,356	24,963	20,165

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.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In thousands)			
Surrender charges	$ 5,771	5,630	11,124	10,425
Payout annuity and other revenues	1,472	1,150	3,029	2,357
Traditional annuity premiums	5	5	9	11
Totals	$ 7,248	6,785	14,162	12,793

The Company's earnings are dependent upon annuity contracts persisting or remaining in force. While premium and contract revenues increased with an increase in surrender charges, the Company's investment earnings benefit as more policies remain in force.

Table of Contents

Deposits collected on annuity contracts are not reflected as revenues in the Company's statements of earnings in accordance with GAAP. Actual annuity deposits collected for the three and six months ended June 30, 2009 and 2008 are detailed below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In thousands)			
Fixed-indexed annuities	$ 114,260	76,282	218,026	145,306
Other deferred annuities	63,285	29,276	110,834	59,004
Immediate annuities	3,526	856	8,764	2,505
Totals	$ 181,071	106,414	337,624	206,815

Fixed-indexed product sales typically follow the stock market in that sales increase when confidence is high in the stock market and decline if the stock market is showing poor performance. However, in the current environment the Company’s experience has shown a lower proportion of fixed-indexed annuity sales relative to other deferred annuity products which have a fixed interest rate of interest credited to the policy.

Other deferred annuity product sales have generally been trending lower over the past few years due to low interest rates and investor preferences. As a selling inducement, many of the deferred products, as well as the fixed-indexed annuity products, include a first year interest bonus in addition to a base interest rate. These bonus rates are deferred in conjunction with other capitalized policy acquisition costs. The amount deferred and amortized over future periods amounted to approximately $8.4 million and $16.9 million for the three and six months ended June 30, 2009, and $5.7 million and $10.2 million in the comparable periods of 2008.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In thousands)			
Net investment income (excluding derivatives)	$ 69,853	70,263	139,248	141,089
Derivative income (loss)	5,243	(11,257)	(4,131)	(31,786)
Net investment income	$ 75,096	59,006	135,117	109,303

As noted previously, derivative income and loss fluctuate from period to period based on the performance of the products’ underlying indices.

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In thousands)			
Fixed-indexed annuities	$ 33,806	(1,486)	57,876	3,431
All other annuities	16,408	29,442	26,600	47,792
Gross contract interest	50,214	27,956	84,476	51,223
Bonus interest deferred and capitalized	(8,460)	(5,672)	(16,939)	(10,156)
Bonus interest amortization	3,278	4,397	6,769	7,182
Total contract interest	$ 45,032	26,681	74,306	48,249

Contract interest includes the portion of its return on fixed interest products associated with the performance of the underlying indices.

Amortization of deferred policy acquisition costs decreased approximately 19% comparing the first three and six months of 2009 to the same periods in 2008. During the first three months of 2008 the Company experienced an increased conversion activity of deferred annuities into payout annuities. This resulted in a higher amortization for the six months ended June 30, 2008. Current amounts should be more reflective of ongoing activity.

Other Operations

National Western's primary business encompasses its domestic and international life insurance operations and its annuity operations. However, as previously noted, National Western also has small real estate, nursing home, and other investment operations through its wholly-owned subsidiaries. Nursing home operations generated $0.3 million and $0.5 million of operating earnings in the first six months of 2009 and 2008, respectively.

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.

Table of Contents

The Company's overall conservative investment philosophy is reflected in the allocation of its investments, which is detailed below as of June 30, 2009 and December 31, 2008. The Company emphasizes investment grade debt securities, with smaller holdings in mortgage loans and policy loans.

	Composition of Investments			
	June 30, 2009		December 31, 2008	
	Carrying Value (In thousands)	%	Carrying Value (In thousands)	%
Debt securities	$ 5,828,529	96.1	$ 5,563,000	96.3
Mortgage loans	93,016	1.5	90,733	1.6
Policy loans	77,928	1.3	79,277	1.4
Derivatives	27,018	0.4	11,920	0.2
Equity securities	13,574	0.2	13,683	0.2
Real estate	20,282	0.3	10,828	0.2
Other	9,369	0.2	3,340	0.1
Totals	$ 6,069,716	100.0	$ 5,772,781	100.0

Debt and Equity Securities

The Company maintains a diversified portfolio which consists primarily of corporate, mortgage-backed, and public utilities fixed income securities. Investments in mortgage-backed securities include primarily U.S. government agency pass-through securities and collateralized mortgage obligations ("CMOs"). As of June 30, 2009 and December 31, 2008, the Company's debt securities portfolio consisted of the following:

	Composition of Debt Securities			
	June 30, 2009		December 31, 2008	
	Carrying Value (In thousands)	%	Carrying Value (In thousands)	%
Corporate	$ 2,691,074	46.1	$ 2,453,404	44.0
Mortgage-backed securities	1,955,921	33.6	2,001,060	36.0
Public utilities	920,190	15.8	790,419	14.2
U.S. agencies	48,186	0.8	119,674	2.2
U.S. Treasury	1,920	-	1,923	-
Home equity	43,825	0.8	46,959	0.9
Manufactured housing	37,579	0.6	41,319	0.7
States & political subdivisions	108,677	1.9	86,962	1.6
Foreign governments	21,157	0.4	21,280	0.4
Totals	$ 5,828,529	100.0	$ 5,563,000	100.0

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

Table of Contents

Due to negative news relative to the mortgage industry, and in particular subprime mortgages, the Company has included detailed information below related to this exposure in the debt securities portfolio. The Company holds approximately $81.4 million in asset-backed securities at June 30, 2009. This portfolio includes $37.6 million of manufactured housing bonds and $43.8 million of home equity loans (also referred to as subprime securities). The Company does not have any holdings in collaterized bond obligations (CBOs), collateralized debt obligations (CDOs), or collateralized loan obligations (CLOs). 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 asset-backed portfolio includes thirteen subprime securities, totaling $43.8 million. 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 in 2007. These events caused illiquidity in the market and volatility in the market prices of subprime securities. All of the loans classified as Alt-A or subprime in the Company's portfolio as of June 30, 2009 were underwritten prior to 2005 as noted in the table below.

Investment Origination Year	June 30, 2009 Carrying Value	June 30, 2009 Market Value	December 31, 2008 Carrying Value	December 31, 2008 Market Value
	(In thousands)			
Subprime:				
1998	$ 11,534	9,829	12,125	11,157
2002	1,110	575	1,123	556
2003	6,533	3,343	6,894	3,779
2004	24,648	15,483	26,817	21,970
Subtotal subprime	$ 43,825	29,230	46,959	37,462
Alt A:				
2004	$ 3,586	3,586	3,821	3,821

As of June 30, 2009, nine of the subprime securities were rated AAA, two were rated AA, one rated A and one rated BBB.

Table of Contents

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 portfolio with 98.0% 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®.

	June 30, 2009		December 31, 2008	
	Carrying Value (In thousands)	%	Carrying Value (In thousands)	%
AAA and U.S. government	$ 2,122,581	36.4	$ 2,306,694	41.5
AA	275,180	4.7	205,729	3.7
A	1,501,730	25.8	1,431,703	25.7
BBB	1,811,130	31.1	1,546,720	27.8
BB and other below investment grade	117,908	2.0	72,154	1.3
Totals	$ 5,828,529	100.0	$ 5,563,000	100.0

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

	Below Investment Grade Debt Securities			
	Amortized Cost	Carrying Value	Estimated Fair Value	% of Invested Assets
	(In thousands except percentages)			
June 30, 2009	$ 134,685	117,908	107,747	1.9%
December 31, 2008	$ 84,229	72,154	67,375	1.2%
December 31, 2007	$ 105,067	100,221	97,618	1.7%

As of June 30, 2009, the Company's percentage of below investment grade securities compared to total invested assets totaled 1.9%. The increase from December 31, 2008 is primarily due to securities being downgraded during the first six months of 2009. The Company's holdings of below investment grade securities as a percentage of total invested assets is relatively small compared to industry averages.

Table of Contents

Holdings in below investment grade securities by category as of June 30, 2009 are summarized below, including June 30, 2009 and December 31, 2008 fair values for comparison. The Company is continually monitoring developments in these industries that may affect security valuation issues. Holdings in below investment grade securities by category are summarized below.

	Below Investment Grade Debt Securities			
	Amortized Cost	Carrying Value	Fair Value	Fair Value
	June 30, 2009	June 30, 2009	June 30, 2009	December 31, 2008
	(In thousands)			
Retail	$ 22,445	16,626	16,626	15,033
Utilities/Energy	2,098	2,043	2,043	1,839
Telecommunication	6,321	6,250	6,250	3,807
Manufactured housing	10,783	10,870	8,673	7,436
Mortgage-backed	4,920	3,097	3,098	3,661
Transportation	1,635	1,477	1,478	1,144
Manufacturing	32,066	29,091	27,881	23,222
Banking/Finance	28,928	26,591	20,479	17,094
Medical	13,000	12,604	11,960	11,050
Other	12,489	9,259	9,259	8,689
Totals	$ 134,685	117,908	107,747	92,975

The Company closely monitors its other below investment grade holdings by reviewing investment performance indicators including information such as issuer operating performance, debt ratings, analyst reports and other economic factors that may affect these specific investments. While additional losses are not currently anticipated based on the existing status and condition of these securities, continued credit deterioration of some securities is possible, which may result in further writedowns.

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 June 30, 2009, approximately 31.6% 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.

	Fair Value	Amortized Cost	Unrealized Gains (Losses)
		(In thousands)	
Securities held to maturity:			
Debt securities	$ 4,015,880	3,986,365	29,515

Securities available for sale:			
Debt securities	1,842,164	1,891,113	(48,949)
Equity securities	13,574	6,805	6,769
Totals	$ 5,871,618	5,884,283	(12,665)

During the six months ending June 30, 2009 the Company recorded other-than-temporary impairment writedowns on debt securities totaling $4.9 million and equity securities totaling $0.4 million. See Note 9 in the accompanying condensed consolidated financial statements.

Table of Contents

As of April 1, 2009, the Company adopted the new FSP FAS 115-2 and FAS 124 -2. See Note 3 in the accompanying condensed consolidated financial statement. For the three months ended June 30, 2009, the Company recognized $1.8 million of other-than-temporary impairments; $26,000 was deemed credit related and recognized as realized investment losses in earnings, $1.8 million was deemed non-credit related impairments and recognized in other comprehensive income.

Market Risk

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

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

	June 30, 2009	March 31, 2009	December 31, 2008
	(In thousands except percentages)		
Debt securities - fair value	$ 5,858,044	5,610,330	5,458,936
Debt securities - amortized cost	$ 5,877,478	5,813,308	5,728,363
Fair value as a percentage of amortized cost	99.67%	96.51%	95.30%
Unrealized loss balance	$ (19,434)	(202,978)	(269,427)
Ten-year U.S. Treasury bond - increase (decrease) in yield for the quarter	0.87%	0.45%	(1.81) %

	Unrealized Gains (Losses) Balance				
	At June 30, 2009	At March 31, 2009	At December 31, 2008	Quarter Change in Unrealized Balance	YTD Change in Unrealized Balance
Debt securities held to maturity	$ 29,515	(60,318)	(104,064)	89,833	133,579
Debt securities available for sale	(48,949)	(142,660)	(165,363)	93,711	116,414
Totals	$ (19,434)	(202,978)	(269,427)	183,544	249,993

Changes in interest rates typically have a sizable effect on the fair values of the Company's debt securities. Although the market interest rates of the ten-year U.S. Treasury bond increased approximately 87 basis points during the second quarter, the Company experienced an unrealized gain of $183.5 million on a portfolio of approximately $5.9 billion as the spread between corporate bonds and treasuries narrowed during the quarter. Since the majority of the Company's debt securities are classified as held to maturity, which are recorded at amortized cost, changes in fair values have relatively small effects on the Company's consolidated balance sheet.

The Company manages interest rate risk through on-going cash flow testing required for insurance regulatory purposes. 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 risk through surrender charges that are imposed to discourage policy surrenders. Interest rate changes can be anticipated in the business 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.

Table of Contents

The Company performed detailed sensitivity analysis as of December 31, 2008, for its interest rate-sensitive assets and liabilities. The changes in market values of the Company's debt securities in the second quarter of 2009 were reasonable given the expected range of results of this analysis.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Liquidity requirements are met primarily by funds provided from operations. Premium deposits and revenues, investment income, and investment maturities are the primary sources of funds while investment purchases, policy benefits, and operating expenses are the primary uses of funds. The Company historically has not been put in the position of liquidating invested assets to provide cash flow. However, investments consist primarily of marketable debt securities that could be readily converted to cash for liquidity needs. The Company is currently moving $40 million on its bank line of credit to a new provider. While the current facility expired July 31, 2009, the new line of credit terms have been negotiated and are expected to be in place by the end of August 2009. There are expected to be no material changes in the term of the bank credit facility.

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

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

		Three Months Ended June 30,		Six Months Ended June 30,	
		2009	2008	2009	2008
		(In thousands)			
Product Line:					
Traditional Life	$	1,175	1,060	2,454	2,132
Universal Life		14,556	9,220	30,421	18,670
Annuities		97,992	104,062	195,145	203,909
Total	$	113,723	114,342	228,020	224,711

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 $92.5 million and $98.4 million for the six months ended June 30, 2009 and 2008, respectively. The Company also has significant cash flows from both scheduled and unscheduled investment security maturities, redemptions, and prepayments. These cash flows totaled $634.6 million and $519.1 million for the six months ended June 30, 2009 and 2008, respectively. These cash flow items could change if interest rates rise. Net cash flows from the Company's universal life and investment annuity deposit product operations totaled $67.6 million and $(62.7) million during the six months ended June 30, 2009 and 2008, 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 June 30, 2009, the Company had commitments of approximately $1.8 million which were approved by the Company's Board of Directors for the construction of a nursing home facility in Central Texas. The construction of the new facility began in 2007 and is expected to be completed in the third quarter of 2009.

Table of Contents

OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

It is not Company practice to enter into off-balance sheet arrangements nor is it Company policy to issue guarantees to third parties, other than in the normal course of issuing insurance contracts. Commitments related to insurance products sold are reflected as liabilities for future policy benefits. Insurance contracts guarantee certain performances by the Company.

Insurance reserves are the means by which life insurance companies determine the liabilities that must be established to assure that future policy benefits are provided for and can be paid. These reserves are required by law and based upon standard actuarial methodologies to ensure fulfillment of commitments guaranteed to policyholders and their beneficiaries, even though the obligations may not be due for many years. Refer to Note (1) in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008 for a discussion of reserving methods.

The table below summarizes future estimated cash payments under existing contractual obligations as of June 30, 2009.

		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)	$	212	196	16	-	-
Loan commitments		1,650	1,650	-	-	-
Construction commitments		1,784	1,784	-	-	-
Life claims payable (2)		51,081	51,081	-	-	-
Other long-term reserve liabilities reflected on the balance sheet under GAAP (3)		7,922,428	809,556	1,470,586	1,796,133	3,846,153
Total	$	7,977,155	864,267	1,470,602	1,796,133	3,846,153

(1) Refer to Note 9 in the Notes to Consolidated Financial Statements relating to leases in the Company's Annual Report on Form 10-K.
(2) Life claims payable includes 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.

CHANGES IN ACCOUNTING PRINCIPLES AND CRITICAL ACCOUNTING POLICIES

Changes in Accounting Principles

Refer to Notes 2, 3, and 9 of the Notes to Condensed Consolidated Financial Statements.

Table of Contents

REGULATORY AND OTHER ISSUES

Statutory Accounting Practices

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

Risk-Based Capital Requirements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

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

There have been no changes in the Company's internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended June 30, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

There have been no changes relative to the risk factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

Table of Contents

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

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On June 19, 2009, the stockholders voted upon the following matters at the annual stockholders meeting:

(a) The election of Class A directors to the Company's Board of Directors to serve one-year terms. The results of the voting were as follows:

	For	Against
Robert L. Moody	2,843,906	394,460
Stephen E. Glasgow	3,082,958	155,408
E.J. Pederson	3,083,744	154,622

(b) The election of Class B directors to the Company's Board of Directors to serve one-year terms. The results of the voting were as follows:

	For	Against
E. Douglas McLeod	200,000	-
Charles D. Milos	200,000	-
Frances A. Moody-Dahlberg	200,000	-
Ross R. Moody	200,000	-
Russell S. Moody	200,000	-
Louis E. Pauls, Jr.	200,000	-

ITEM 6. EXHIBITS

(a) Exhibits

Exhibit 31(a)	-Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31(b)	-Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32(a)	-Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Table of Contents

SIGNATURES

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

NATIONAL WESTERN LIFE INSURANCE COMPANY
(Registrant)

Date: August 10, 2009	/S/ Ross R. Moody
	Ross R. Moody
	President, Chief Operating Officer,
	and Director
	(Authorized Officer)
Date: August 10, 2009	/S/ Brian M. Pribyl
	Brian M. Pribyl
	Senior Vice President,
	Chief Financial Officer and Treasurer
	(Principal Financial Officer)
Date: August 10, 2009	/S/ Michael G. Kean
	Michael G. Kean
	Vice President,
	Controller and Assistant Treasurer
	(Principal Accounting Officer)