

National Western Life Group, Inc.
Form 10-Q
August 05, 2016

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

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2016
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 000-55522

NATIONAL WESTERN LIFE GROUP, INC.
(Exact name of Registrant as specified in its charter)

DELAWARE 47-3339380
(State of Incorporation) (I.R.S. Employer Identification Number)

850 EAST ANDERSON LANE
AUSTIN, TEXAS 78752-1602 (512) 836-1010
(Address of Principal Executive Offices) (Telephone Number)

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

Edgar Filing: National Western Life Group, Inc. - Form 10-Q

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). :

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of August 4, 2016, the number of shares of Registrant's common stock outstanding was: Class A – 3,436,166 and Class B - 200,000.

TABLE OF CONTENTS

	Page
<u>Part I. Financial Information:</u>	<u>3</u>
<u>Item 1. Financial Statements</u>	<u>3</u>
<u>Condensed Consolidated Balance Sheets</u> June 30, 2016 (Unaudited) and December 31, 2015	<u>3</u>
<u>Condensed Consolidated Statements of Earnings</u> For the Three Months Ended June 30, 2016 and 2015 (Unaudited)	<u>5</u>
<u>Condensed Consolidated Statements of Earnings</u> For the Six Months Ended June 30, 2016 and 2015 (Unaudited)	<u>6</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Loss)</u> For the Three Months Ended June 30, 2016 and 2015 (Unaudited)	<u>7</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Loss)</u> For the Six Months Ended June 30, 2016 and 2015 (Unaudited)	<u>8</u>
<u>Condensed Consolidated Statements of Changes in Stockholders' Equity</u> For the Six Months Ended June 30, 2016 and 2015 (Unaudited)	<u>9</u>
<u>Condensed Consolidated Statements of Cash Flows</u> For the Six Months Ended June 30, 2016 and 2015 (Unaudited)	<u>11</u>
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	<u>13</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>48</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>84</u>
<u>Item 4. Controls and Procedures</u>	<u>84</u>
<u>Part II. Other Information:</u>	<u>84</u>
<u>Item 1. Legal Proceedings</u>	<u>84</u>
<u>Item 1A. Risk Factors</u>	<u>84</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>84</u>
<u>Item 4. Removed and Reserved</u>	<u>85</u>
<u>Item 6. Exhibits</u>	<u>85</u>
<u>Signatures</u>	<u>86</u>

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NATIONAL WESTERN LIFE GROUP, INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (In thousands)

ASSETS	(Unaudited)	
	June 30, 2016	December 31, 2015
Investments:		
Securities held to maturity, at amortized cost (fair value: \$7,634,961 and \$7,335,436)	\$7,177,135	7,173,967
Securities available for sale, at fair value (cost: \$2,863,039 and \$2,847,414)	3,030,659	2,879,583
Mortgage loans, net of allowance for possible losses (\$650 and \$650)	130,677	108,311
Policy loans	60,587	61,957
Derivatives, index options	63,319	38,409
Other long-term investments	48,056	26,787
Short-term investments	69,255	—
Total investments	10,579,688	10,289,014
Cash and cash equivalents	93,981	106,007
Deferred policy acquisition costs	794,406	853,451
Deferred sales inducements	141,103	159,166
Accrued investment income	98,963	99,619
Federal income tax receivable	—	12,512
Other assets	93,076	92,807
Total assets	\$11,801,217	11,612,576

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

Table of Contents

NATIONAL WESTERN LIFE GROUP, INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (In thousands, except share amounts)

	(Unaudited)	
LIABILITIES AND STOCKHOLDERS' EQUITY	June 30, 2016	December 31, 2015
LIABILITIES:		
Future policy benefits:		
Universal life and annuity contracts	\$9,622,852	9,561,358
Traditional life reserves	136,469	138,000
Other policyholder liabilities	149,301	155,261
Deferred Federal income tax liability	83,413	49,333
Federal income tax payable	9,938	—
Other liabilities	98,835	96,638
Total liabilities	10,100,808	10,000,590
COMMITMENTS AND CONTINGENCIES (Note 8)		
STOCKHOLDERS' EQUITY:		
Common stock:		
Class A - \$.01 par value; 7,500,000 shares authorized; 3,436,166 issued and outstanding in 2016 and 2015	34	34
Class B - \$.01 par value; 200,000 shares authorized, issued, and outstanding in 2016 and 2015	2	2
Additional paid-in capital	41,716	41,716
Accumulated other comprehensive income	45,207	329
Retained earnings	1,613,450	1,569,905
Total stockholders' equity	1,700,409	1,611,986
Total liabilities and stockholders' equity	\$11,801,217	11,612,576

Note: The Condensed Consolidated Balance Sheet at December 31, 2015 has been derived from the audited Consolidated Financial Statements as of that date.

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

Table of Contents

NATIONAL WESTERN LIFE GROUP, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

For the Three Months Ended June 30, 2016 and 2015

(Unaudited)

(In thousands, except per share amounts)

	2016	2015
Premiums and other revenues:		
Universal life and annuity contract charges	\$41,448	38,345
Traditional life premiums	4,917	5,162
Net investment income	113,251	102,259
Other revenues	4,696	5,194
Net realized investment gains (losses):		
Total other-than-temporary impairment (“OTTI”) gains (losses)	27	(2)
Portion of OTTI (gains) losses recognized in other comprehensive income	(27)	(105)
Net OTTI losses recognized in earnings	—	(107)
Other net investment gains (losses)	2,782	4,365
Total net realized investment gains (losses)	2,782	4,258
 Total revenues	 167,094	 155,218
Benefits and expenses:		
Life and other policy benefits	15,540	16,120
Amortization of deferred policy acquisition costs	28,966	28,070
Universal life and annuity contract interest	62,799	49,431
Other operating expenses	19,403	18,802
 Total benefits and expenses	 126,708	 112,423
 Earnings before Federal income taxes	 40,386	 42,795
 Federal income taxes	 14,100	 13,937
 Net earnings	 \$26,286	 28,858
Basic earnings per share:		
Class A	\$7.43	\$ 8.16
Class B	\$3.72	\$ 4.08
Diluted earnings per share:		
Class A	\$7.43	\$ 8.16
Class B	\$3.72	\$ 4.08

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

Table of Contents

NATIONAL WESTERN LIFE GROUP, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

For the Six Months Ended June 30, 2016 and 2015

(Unaudited)

(In thousands, except per share amounts)

	2016	2015
Premiums and other revenues:		
Universal life and annuity contract charges	\$83,458	75,658
Traditional life premiums	9,090	9,509
Net investment income	208,751	202,182
Other revenues	9,574	10,523
Net realized investment gains (losses):		
Total other-than-temporary impairment (“OTTI”) gains (losses)	53	158
Portion of OTTI (gains) losses recognized in other comprehensive income	(53) (265)
Net OTTI losses recognized in earnings	—	(107)
Other net investment gains (losses)	5,163	5,343
Total net realized investment gains (losses)	5,163	5,236
 Total revenues	 316,036	 303,108
Benefits and expenses:		
Life and other policy benefits	31,141	35,386
Amortization of deferred policy acquisition costs	64,186	55,722
Universal life and annuity contract interest	111,816	98,470
Other operating expenses	42,710	39,312
 Total benefits and expenses	 249,853	 228,890
 Earnings before Federal income taxes	 66,183	 74,218
 Federal income taxes	 22,638	 24,034
 Net earnings	 \$43,545	 50,184
Basic earnings per share:		
Class A	\$12.31	\$14.19
Class B	\$6.16	\$7.10
Diluted earnings per share:		
Class A	\$12.31	\$14.19
Class B	\$6.16	\$7.10

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

Table of Contents

NATIONAL WESTERN LIFE GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the Three Months Ended June 30, 2016 and 2015

(Unaudited)

(In thousands)

	2016	2015
Net earnings	\$26,286	28,858
Other comprehensive income (loss), net of effects of deferred costs and taxes:		
Unrealized gains (losses) on securities:		
Net unrealized holding gains (losses) arising during period	21,457	(21,202)
Net unrealized liquidity gains (losses)	9	32
Reclassification adjustment for net amounts included in net earnings	(113)	(1,855)
Net unrealized gains (losses) on securities	21,353	(23,025)
Foreign currency translation adjustments	(203)	(53)
Benefit plans:		
Amortization of net prior service cost and net gain (loss)	(284)	(304)
Other comprehensive income (loss)	20,866	(23,382)
Comprehensive income (loss)	\$47,152	5,476

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

Table of Contents

NATIONAL WESTERN LIFE GROUP, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
 For the Six Months Ended June 30, 2016 and 2015
 (Unaudited)
 (In thousands)

	2016	2015
Net earnings	\$43,545	50,184
Other comprehensive income, net of effects of deferred costs and taxes:		
Unrealized gains (losses) on securities:		
Net unrealized holding gains (losses) arising during period	46,103	(11,830)
Net unrealized liquidity gains (losses)	18	93
Reclassification adjustment for net amounts included in net earnings	(573)	(2,020)
Net unrealized gains (losses) on securities	45,548	(13,757)
Foreign currency translation adjustments	(103)	(12)
Benefit plans:		
Amortization of net prior service cost and net gain (loss)	(567)	(607)
Other comprehensive income (loss)	44,878	(14,376)
Comprehensive income (loss)	\$88,423	35,808

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

Table of Contents

NATIONAL WESTERN LIFE GROUP, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN
 STOCKHOLDERS' EQUITY

For the Six Months Ended June 30, 2016 and 2015

(Unaudited)

(In thousands)

	2016	2015
Common stock:		
Balance at beginning of period	\$ 36	3,636
Shares exercised under stock option plan	—	—
Balance at end of period	36	3,636
Additional paid-in capital:		
Balance at beginning of period	41,716	38,116
Shares exercised under stock option plan	—	—
Balance at end of period	41,716	38,116
Accumulated other comprehensive income:		
Unrealized gains on non-impaired securities:		
Balance at beginning of period	12,347	54,229
Change in unrealized gains (losses) during period, net of tax	45,530	Ø13,850
Balance at end of period	57,877	40,379
Unrealized losses on impaired held to maturity securities:		
Balance at beginning of period	(240)	Ø1,262
Amortization	34	172
Other-than-temporary impairments, non-credit, net of tax	—	—
Additional credit loss on previously impaired securities	—	—
Change in shadow deferred policy acquisition costs	(16)	Ø79
Balance at end of period	(222)	Ø1,169
Unrealized losses on impaired available for sale securities:		
Balance at beginning of period	(1)	Ø1
Other-than-temporary impairments, non-credit, net of tax	—	—
Change in shadow deferred policy acquisition costs	—	—
Recoveries, net of tax	—	—
Balance at end of period	(1)	Ø1

Continued
 on Next
 Page

Table of Contents

NATIONAL WESTERN LIFE GROUP, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS'
 EQUITY (continued)

For the Six Months Ended June 30, 2016 and 2015

(Unaudited)

(In thousands)

	2016	2015
Foreign currency translation adjustments:		
Balance at beginning of period	2,825	2,685
Change in translation adjustments during period	(103) (12)
Balance at end of period	2,722	2,673
Benefit plan liability adjustment:		
Balance at beginning of period	(14,602) (13,865)
Amortization of net prior service cost and net loss, net of tax	(567) (607)
Balance at end of period	(15,169) (14,472)
Accumulated other comprehensive income at end of period	45,207	27,410
Retained earnings:		
Balance at beginning of period	1,569,905	1,472,782
Net earnings	43,545	50,184
Stockholder dividends	—	—
Balance at end of period	1,613,450	1,522,966
Total stockholders' equity	\$1,700,409	\$1,592,128

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

Table of Contents

NATIONAL WESTERN LIFE GROUP, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 For the Six Months Ended June 30, 2016 and 2015
 (Unaudited)
 (In thousands)

	2016	2015
Cash flows from operating activities:		
Net earnings	\$43,545	50,184
Adjustments to reconcile net earnings to net cash from operating activities:		
Universal life and annuity contract interest	111,816	98,470
Surrender charges and other policy revenues	(11,782)	Ø8,302
Realized (gains) losses on investments	(5,163)	Ø5,236
Accretion/amortization of discounts and premiums, investments	4	102
Depreciation and amortization	4,012	1,671
(Increase) decrease in value of derivatives	10,806	17,069
(Increase) decrease in deferred policy acquisition and sales inducement costs	11,677	Ø2,190
(Increase) decrease in accrued investment income	656	Ø3,311
(Increase) decrease in other assets	(3,373)	Ø6,938
Increase (decrease) in liabilities for future policy benefits	(533)	2,588
Increase (decrease) in other policyholder liabilities	(5,960)	4,558
Increase (decrease) in Federal income taxes liability	22,450	Ø10,882
Increase (decrease) in deferred Federal income tax	9,914	15,735
Increase (decrease) in other liabilities	(2,605)	4,658
Net cash provided by operating activities	185,464	158,176
Cash flows from investing activities:		
Proceeds from sales of:		
Securities held to maturity	—	—
Securities available for sale	7,966	13,131
Other investments	3,712	—
Proceeds from maturities and redemptions of:		
Securities held to maturity	188,498	257,063
Securities available for sale	98,929	163,057
Derivatives, index options	2,090	64,619
Purchases of:		
Securities held to maturity	(185,189)	Ø534,663
Securities available for sale	(122,013)	Ø310,637
Derivatives, index options	(38,376)	Ø40,977
Other investments	(23,231)	Ø420
Net change in short-term investments	(69,255)	—

Continued
 on Next
 Page

Table of Contents

NATIONAL WESTERN LIFE GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS, (continued)

For the Six Months Ended June 30, 2016 and 2015

(Unaudited)

(In thousands)

	2016	2015
Principal payments on mortgage loans	16,254	18,962
Cost of mortgage loans acquired	(38,550)	(1,632)
Decrease (increase) in policy loans	1,370	1,712
 Net cash used in investing activities	 (157,795)	 (369,785)
Cash flows from financing activities:		
Deposits to account balances for universal life and annuity contracts	429,101	452,124
Return of account balances on universal life and annuity contracts	(468,639)	(445,871)
 Net cash provided by (used in) financing activities	 (39,538)	 6,253
 Effect of foreign exchange	 (157)	 (12)
 Net increase (decrease) in cash and cash equivalents	 (12,026)	 (205,368)
Cash and cash equivalents at beginning of period	106,007	277,078
 Cash and cash equivalents at end of period	 \$93,981	 \$71,710
 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid (received) during the period for:		
Interest	\$23	20
Income taxes	\$(10,000)	22,647
 Noncash operating activities:		
Deferral of sales inducements	\$(5,366)	(6,895)

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

Table of Contents

NATIONAL WESTERN LIFE GROUP, INC.
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (UNAUDITED)

(1) CONSOLIDATION AND BASIS OF PRESENTATION

On October 1, 2015, National Western Life Insurance Company ("National Western", "NWLIC", or "company") completed its previously announced holding company reorganization. As a result of the reorganization, National Western became a wholly owned subsidiary of National Western Life Group, Inc. ("NWLGI"), a Delaware Corporation, and NWLGI replaced National Western as the publicly held company.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for annual financial statements. In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments necessary to present fairly the financial position of NWLGI and its subsidiaries ("Company") as of June 30, 2016, and the results of its operations and its cash flows for the three and six months ended June 30, 2016 and 2015. Such adjustments are of a normal recurring nature. The results of operations for the six months ended June 30, 2016 are not necessarily indicative of the results to be expected for the full year. It is recommended that these condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 and are accessible free of charge through the Company's internet site at www.nwlg.com or the Securities and Exchange Commission internet site at www.sec.gov. The Condensed Consolidated Balance Sheet at December 31, 2015 has been derived from the audited consolidated financial statements as of that date.

Prior to the reorganization, the accompanying consolidated financial statements included the accounts of National Western and its wholly owned subsidiaries: The Westcap Corporation, Regent Care San Marcos Holdings, LLC, NWL Investments, Inc., NWL Services, Inc., NWLSM, Inc., and NWL Financial, Inc. During the fourth quarter of 2015, subsequent to the reorganization, National Western transferred ownership of Regent Care San Marcos Holdings, LLC, NWL Investments, Inc., and NWL Services, Inc. to NWLGI via a dividend transaction resulting in those entities becoming wholly owned subsidiaries of NWLGI.

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

The table below shows the unrealized gains and losses on available-for-sale securities that were reclassified out of accumulated other comprehensive income for the three and six months ended June 30, 2016 and 2015.

Affected Line Item in the Statements of Earnings	Amount Reclassified From Accumulated Other Comprehensive Income
--	---

Edgar Filing: National Western Life Group, Inc. - Form 10-Q

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2016	
	2015	2015	2015	2015
	(In thousands)			
Other net investment gains (losses)	\$174	2,961	882	3,215
Net OTTI losses recognized in earnings	—	(107)	—	(107)
Earnings before Federal income taxes	174	2,854	882	3,108
Federal income taxes	61	999	309	1,088
Net earnings	\$113	1,855	573	2,020

Table of Contents

NATIONAL WESTERN LIFE GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(2) NEW ACCOUNTING PRONOUNCEMENTS

In June 2014, the Financial Accounting Standards Board ("FASB") issued guidance that applies to all reporting entities that grant their employees share-based payments in which the terms of the award provide that a performance target that affects vesting could be achieved after the requisite service period. It requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition and follows existing accounting guidance for the treatment of performance conditions. The standard is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015, with early adoption permitted. The Company adopted this standard during the three month period ended March 31, 2016. The adoption of this standard did not have a material impact on the Company's financial position, results of operations or cash flows.

In January 2016, the FASB released accounting standards update 2016-01 Recognition and Measurement of Financial Assets and Liabilities. The main provisions of the update are to eliminate the available for sale classification of accounting for equity securities and to adjust the fair value disclosures for financial instruments carried at amortized costs such that the disclosed fair values represent an exit price as opposed to an entry price. The provisions of this update will require that equity securities be carried at fair market value on the balance sheet and any periodic changes in value will be adjustments to the income statement. The provisions of this update become effective for interim and annual periods beginning after December 15, 2017. The Company does not expect the requirements of this update to have a material impact on the Company's financial position, results of operations or cash flows.

In June 2016, the FASB released accounting standards update 2016-13, Financial Instruments-Credit Losses, which revises the credit loss recognition criteria for certain financial assets measured at amortized cost. The new guidance replaces the existing incurred loss recognition model with an expected loss recognition model. The objective of the expected credit loss model is for the reporting entity to recognize its estimate of expected credit losses for affected financial assets in a valuation allowance deducted from the amortized cost basis of the related financial assets that results in presenting the net carrying value of the financial assets at the amount expected to be collected. The guidance is effective for interim and annual periods beginning after December 15, 2019, and for most affected instruments must be adopted using a modified retrospective approach, with a cumulative effect adjustment recorded to beginning retained income. Adoption of the guidance is not expected to have a material effect on the Company's results of operations or financial position.

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

(3) STOCKHOLDERS' EQUITY

NWLIC is restricted by state insurance laws as to dividend amounts which may be paid to stockholders without prior approval from the Colorado Division of Insurance. The restrictions are based on the greater of statutory earnings from operations excluding capital gains or 10% of statutory surplus of the company. The maximum dividend payment which may be made without prior approval in 2016 is \$117.1 million. National Western did not declare or pay cash dividends on its common stocks during the six months ended June 30, 2016 and 2015.

As discussed in Note 1, Consolidation and Basis of Presentation, on October 1, 2015, NWLIC completed its previously announced holding company reorganization and became a wholly owned subsidiary of NWLGI. While

remaining under the same Colorado Division of Insurance restrictions pertaining to dividend amounts, dividends declared by NWLIC from that date forward are payable entirely to NWLGI as the sole owner of NWLIC.

The reorganization effective October 1, 2015 provided for the conversion of each share of Class A common stock, par value \$1.00 per share, and each share of Class B common stock, par value \$1.00 per share, of NWLIC issued and outstanding immediately prior to the effective time of the merger, into one duly issued, fully paid and non-assessable share of Class A common stock, par value \$0.01 per share, and Class B common stock, par value \$0.01 per share, of NWLGI. Consequently, NWLGI replaced NWLIC as the publicly held company and is the successor issuer to NWLIC.

Table of Contents

NATIONAL WESTERN LIFE GROUP, INC.
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (UNAUDITED)

(4) EARNINGS PER SHARE

Basic earnings per share of common stock are computed by dividing net income by the weighted-average basic common shares outstanding during the period. Diluted earnings per share assumes the issuance of common shares applicable to stock options in the denominator. Net income for the periods shown is allocated between Class A shares and Class B shares based upon (1) the proportionate number of shares issued and outstanding as of the end of the period, and (2) the per share share dividend rights of the two classes under the Company's Restated Certificate of Incorporation (the Class B dividend per share is equal to one-half the Class A dividend per share).

Three Months Ended June
 30,
 2016 2015
 Class A Class B Class A Class B
 (In thousands except per
 share amounts)

Numerator for Basic and Diluted Earnings Per Share:

Net income	\$26,286	28,858
Dividends - Class A shares	—	—
Dividends - Class B shares	—	—
Undistributed income	\$26,286	28,858

Allocation of net income: