NATIONAL WESTERN LIFE INSURANCE CO
Form 10-K
March 17, 2008

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

FORM 10-K

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

For the Fiscal Year Ended December 31, 2007

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

For the transition period from to

Commission File Number: 2-17039

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

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

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

(512) 836-1010
(Telephone Number)

Securities registered pursuant to Section 12 (b) of the Act:
None

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

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

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

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

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

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

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

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

The aggregate market value of the common stock (based upon the closing price) held by non-affiliates of the Registrant on June 29, 2007 was $573,134,079.

As of March 13, 2008, the number of shares of Registrant's common stock outstanding was: Class A – 3,422,324 and Class B - 200,000.

DOCUMENTS INCORPORATED BY REFERENCE

None

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PART I

ITEM 1. BUSINESS

General

National Western Life Insurance Company (hereinafter referred to as "National Western", "Company", or "Registrant") is a stock life insurance company, chartered in the State of Colorado in 1956, and doing business in forty-nine states, the District of Columbia, and four U.S. territories or possessions. National Western is also licensed in Haiti, and although not otherwise licensed, accepts applications from and issues policies to residents of various countries in Central and South America, the Caribbean, the Pacific Rim, Eastern Europe and Asia. Such policies are underwritten, accepted, and issued in the United States upon applications submitted by independent contractor broker-agents. The Company provides life insurance products for the savings and protection needs of approximately 149,000 policyholders and for the asset accumulation and retirement needs of 124,000 annuity contractholders.

During 2007, the Company's total assets increased 2.1% to $6.8 billion at December 31, 2007 from $6.7 billion at December 31, 2006. The Company generated revenues of $474.5 million, $521.9 million, and $441.0 million in 2007, 2006, and 2005, respectively. In addition, National Western generated net income of $85.4 million, $76.3 million, and $77.3 million in 2007, 2006, and 2005, respectively.

The Company's financial information, including information in this report filed on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to the above reports, are accessible free of charge through the Company's Internet site at www.nationalwesternlife.com or may be viewed at the United States Securities and Exchange Commission ("SEC") Public Reference Room in Washington, D.C. or at the SEC's Internet site at www.sec.gov.

Products

National Western offers a broad portfolio of individual whole life, universal life and term insurance plans, and annuities, including supplementary riders.

Life Products. The Company's life products provide protection for the life of the insured and, in some cases, allow for cash value accumulation on a tax-deferred basis. These product offerings include universal life insurance ("UL"), interest-sensitive whole life, and traditional products such as term insurance coverage. Interest sensitive products such as UL accept premiums that are applied to an account value. Deducted from the account value are cost of insurance charges which vary by age, gender, plan, and class of insurance, as well as various expense charges. Interest is credited to account values at a fixed interest rate generally determined in advance and guaranteed for a policy year at a time, subject to minimum guaranteed rates specified in the policy contract. A slight variation to this general interest crediting practice involves equity-indexed universal life ("EIUL") policies whose credited interest may be linked in part to an outside index such as the S&P 500® Composite Stock Price Index ("S&P 500 Index®") at the election of the policyholder. These products offer both flexible and fixed premium modes and provide policyholders with flexibility in the available coverage, the timing and amount of premium payments and the amount of the death benefit, provided there are sufficient policy funds to cover all policy charges for the coming year. Traditional products generally provide for a fixed death benefit payable in exchange for regular premium payments.

Annuity Products. Annuity products sold include flexible premium and single premium deferred annuities, fixed indexed annuities, and single premium immediate annuities. These products can be tax qualified or nonqualified annuities. A fixed single premium deferred annuity ("SPDA") provides for a single premium payment at the time of issue, an accumulation period, and an annuity payout period commencing at some future date. A flexible premium deferred annuity ("FPDA") provides the same features but allows, generally with some conditions, additional payments into the contract. Interest is credited to the account value of the annuity initially at a current rate of interest which is guaranteed for a period of time, typically the first year. After this period, the interest credited is subject to change based upon market rates and product profitability subject to a minimum guaranteed rate specified in the contract. Interest accrues during the accumulation period generally on a tax-deferred basis to the contract holder. After a number of years specified in the annuity contract, the owner may elect to have the proceeds paid as a single payment or as a series of payments over a period of time. The owner is permitted at any time during the accumulation period to withdraw all or part of the annuity account balance subject to contract provisions such as surrender charges and market value adjustments. A fixed indexed deferred annuity performs essentially in the same manner as SPDAs and FPDAs with the exception that, in addition to a fixed interest crediting option, the contract holder has the ability to elect an interest crediting mechanism that is linked, in part, to an outside index such as the S&P 500 Index®. A single premium immediate annuity ("SPIA") foregoes the accumulation period and immediately commences an annuity payout period.

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Distributions of the Company's direct premium revenues and deposits by product type are provided below.

	Years Ended December 31,		
	2007	2006	2005
		(In thousands)	
Annuities:			
Single premium deferred	$ 3,808	8,216	10,389
Flexible premium deferred	112,472	163,415	225,941
Fixed indexed deferred	316,848	303,613	298,227
Single premium immediate	4,637	10,750	23,383
Total annuities	437,765	485,994	557,940
Universal life insurance	168,279	146,742	133,579
Traditional life and other	24,915	18,046	16,629
Total direct premiums and deposits collected	$ 630,959	650,782	708,148

Operating Segments

The Company manages its business between Domestic Insurance Operations and International Insurance Operations. For segment reporting purposes, the Company's annuity business, which is predominantly domestic, is separately identified.

Domestic Insurance Operations. The Company is currently licensed to do business in all states and the District of Columbia, except for New York. Products marketed are annuities, universal life insurance, and traditional life insurance, which include both term and whole life products. The majority of domestic sales are the Company's annuities. National Western markets and distributes its domestic products primarily through independent national marketing organizations ("NMO"). These NMOs assist the Company in recruiting, contracting, and managing independent agents. The Company's agents are independent contractors who are compensated on a commission basis. At December 31, 2007, the Company's NMO relationships had contracted approximately 5,600 independent agents with the Company. Over 26% of these contracted agents submitted policy applications to the Company in the past twelve months.

International Insurance Operations. National Western's international operations generally focus on foreign nationals in upper socioeconomic classes. Insurance products are issued primarily to residents of countries in Central and South America, the Caribbean, the Pacific Rim, Eastern Europe, and Asia. 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 December 31, 2007, the Company had 72,940 international life insurance policies in force representing nearly $14.8 billion in face amount of coverage.

International applications are submitted by independent contractors, consultants and broker-agents, many of whom have been submitting policy applications to National Western for 20 or more years. The Company had relationships with approximately 5,200 independent international individuals at December 31, 2007, nearly 44% of which 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 National Western'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 and claims in United States dollars. Finally, over forty years of experience with the international products and the Company's longstanding business relationships further serve to minimize risks.

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Geographical Distribution of Business. The following table depicts the distribution of the Company's premium revenues and deposits.

	Years Ended December 31, 2007	2006	2005
	(In thousands)		
United States domestic products:			
Annuities	$ 421,497	475,867	548,967
Life insurance	60,375	35,780	36,594
Total domestic products	481,872	511,647	585,561
International products:			
Annuities	16,268	10,127	8,973
Life insurance	132,819	129,008	113,614
Total international products	149,087	139,135	122,587
Total direct premiums and deposits collected	$ 630,959	650,782	708,148

Although many agents sell National Western's products, the Company's annuity sales in any year typically reflect one or two NMOs whose agents sold 10% or more of the Company's total annuity sales. In 2007, there were two such NMOs who accounted for 24.2% and 10.7% of total annuity sales, respectively. Similarly, domestic life insurance sales in any year may include one or two NMOs who accounted for 10% or more of total domestic life insurance sales. In 2007, there were two NMOs who generated 23.8% and 19.4%, respectively, of total domestic life insurance sales. The latter NMO was also the same NMO who produced 24.2% of total annuity sales. With the independent distribution model the Company employs, the concentration of sales within a particular NMO is not as an acute concern as with other distribution relationships given the underlying agents are free to contract with the Company through any NMO the Company has a relationship with. International life insurance sales are much more diversified by independent consultants and contractors and in 2007 were geographically attributed to Latin America (70%), the Pacific Rim (13%), and Eastern Europe (17%).

Segment Financial Information. A summary of financial information for the Company's segments is as follows:

	Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
			(In thousands)		
Revenues, excluding realized gains (losses):					
2007	$ 44,783	113,598	292,402	20,227	471,010
2006	43,222	106,613	350,665	18,697	519,197
2005	42,165	93,577	277,889	17,528	431,159
Segment earnings: (A)					
2007	$ 342	20,179	56,299	6,278	83,098
2006	297	12,191	56,559	5,566	74,613
2005	2,809	13,559	47,915	6,559	70,842

Segment assets: (B)						
2007	$	399,097	796,012	5,500,226	106,039	6,801,374
2006		381,490	715,064	5,467,733	103,087	6,667,374
2005		366,939	631,477	5,256,146	94,064	6,348,626

Notes to Table:

(A) Amounts exclude realized gains and losses on investments, net of taxes.
(B) Amounts exclude other unallocated assets.

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Additional information concerning these industry segments is included in Note 13, Segment and Other Operating Information, of the accompanying consolidated financial statements.

Competition and Ratings

National Western competes with hundreds of life and health insurance company groups in the United States as well as other financial intermediaries such as banks and securities firms who market insurance products. Competitors in our international markets include Pan-American Life Insurance, American Fidelity Life Insurance, and Best Meridian Insurance while domestic market competitors include, among others, American Equity Investment Life, Sammons Financial Group, AVIVA, Allstate, Lincoln National Life, and Old Mutual Financial Network. Competitive factors are primarily the breadth and quality of products offered, established positions in niche markets, pricing, relationships with distribution, commission structures, perceived stability of the insurer, quality of underwriting and customer service, and cost efficiency. Operating results of life insurers are subject to fluctuations not only from this competitive environment but also due to economic conditions, interest rate levels and changes, performance of investments, and the maintenance of strong insurance ratings from independent rating agencies.

In order to compete successfully, life insurers have turned their attention toward distribution, technology, defined end market targets, speed to the market in terms of product development, and customer relationship management as ways of gaining a competitive edge. The Company's management believes that it competes primarily on the basis of its longstanding reputation for commitment in serving international markets, its financial strength and stability, and its ability to attract and retain distribution based upon product and compensation.

Ratings with respect to financial strength are an important factor in establishing the competitive position of insurance companies. Financial strength ratings are generally defined as a rating agency’s opinion as to a company’s financial strength and ability to meet ongoing obligations to policyholders. Accordingly, ratings are important to maintaining public confidence and impact the ability to market products. The following summarizes the Company's financial strength ratings.

Rating Agency	Rating	
Standard & Poor's	A	(Strong)
A.M. Best	A-	(Excellent)

A.M. Best and Standard & Poor’s ratings are a consideration of the Company’s claims paying ability and are not a rating of the Company’s investment worthiness. The rating agencies generally review the Company's rating on an annual basis during the second calendar quarter of the year. The above ratings were assigned during 2007 with a stable outlook from Standard & Poor’s and a positive outlook from A.M. Best. The positive outlook from A.M. Best signifies the rating agency’s bias toward a rating upgrade sometime in the future. However, there is no assurance that the Company's ratings will continue for a certain period of time. In the event the Company's ratings are downgraded, the Company's business may be negatively impacted.

Risk Management

Similar to other insurers, the Company is exposed to a wide spectrum of financial, operational, and other risks as described in Item 1A. “Risk Factors”. Effective enterprise risk management is a key concern for identifying, monitoring, measuring, communicating, and managing risks within limits and risk tolerances. The Company’s Board of Directors and senior management are knowledgeable of and accountable for key risks. The Board meets at least every other month and regularly hears reports from the President and Chief Operating Officer, the Chief Financial and Administrative Officer, the Chief Actuary, the Chief Investment Officer, and the Chief Compliance Officer. In addition, the Board has several committees which include the Audit Committee, the Investment Committee, and the Compensation and Stock Option Committee that regularly convene to address various aspects of risk.

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The Company maintains a system of disclosure controls and procedures, including internal controls designed to provide reasonable assurance that assets are safeguarded and transactions are properly authorized, executed and recorded. The Company recognizes the importance of full and open presentation of its financial position and operating results and to this end maintains a Disclosure Controls and Procedures Committee comprised of senior executives who possess comprehensive knowledge of the Company's business and operations. This Committee is responsible for evaluating disclosure controls and procedures and for the gathering, analyzing, and disclosing of information as required to be disclosed under the securities laws. It assists the Chief Executive Officer and Chief Financial Officer in their responsibilities of making the certifications required under the securities laws regarding the Company's disclosure controls and procedures. It ensures that material financial information is properly communicated up the Company's hierarchy to the appropriate person or persons and that all disclosures are made in a timely fashion. This Committee reports directly to the Audit Committee of the Company.

The Company's product designs, underwriting standards and risk management techniques are utilized to protect against disintermediation risk and greater than expected mortality and morbidity risk. Disintermediation risk is limited through the use of surrender charges, certain provisions not allowing discretionary withdrawals, and market value adjustment features. Investment guidelines including duration targets, asset allocation tolerances and return objectives help to ensure that disintermediation risk is managed within the constraints of profitability criteria. Prudent underwriting is applied to select and price insurance risks and the Company regularly monitors mortality experience relative to its product pricing assumptions. Enforcement of disciplined claims management serves to further protect against greater than expected mortality.

A significant aspect of the Company’s business is managing the linkage of its asset characteristics with the anticipated behavior of its policy obligations and liabilities, a process commonly referred to as asset-liability matching. The Company maintains an Asset-Liability Committee (“ALCO”) consisting of senior level members of the Company who assist and advise the Company’s Board of Directors in monitoring the level of risk the Company is exposed to in managing its assets and liabilities in order to attain the risk-return profile desired. Certain members of the ALCO meet as frequently as necessary, to review and recommend for board of director ratification, current period interest crediting rates to policyholders based upon existing and anticipated investment opportunities. These rates apply to new sales and to products after an initial guaranteed period, if applicable. Rates are established after the initial guaranteed period based upon asset portfolio yields and each product’s required interest spread, taking into consideration current competitive market conditions.

Substantially all international products contain a currency clause stating that premium and claim "dollars" refer to lawful currency of the United States. Policy applications submitted by international insurance brokers are generally associated with individuals in upper socioeconomic classes who desire the stability and inflationary hedge of dollar denominated insurance products issued by the Company. The favorable demographics of this group typically results in a higher average policy size, and persistency and claims experience (from natural causes) similar to that in the United States. By accepting applications submitted on residents outside the United States, the Company is able to further diversify its revenue, earnings, and insurance risk.

The Company follows the industry practice of reinsuring (ceding) portions of its insurance risks with a variety of reinsurance companies. The use of reinsurance allows the Company to underwrite policies larger than the risk it is willing to retain on any single life and to continue writing a larger volume of new business. The maximum amount of life insurance the Company normally retains is $250,000 on any one life subject to a minimum reinsurance session of $50,000. However, the use of reinsurance does not relieve the Company of its primary liability to pay the full amount of the insurance benefit in the event of the failure of a reinsurer to honor its contractual obligation. Consequently, the Company avoids concentrating reinsurance risk with any one reinsurer and only participates in reinsurance treaties with reputable carriers.

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Regulatory and Other Issues

Regulation. The Company's insurance business is subject to comprehensive state regulation in each of the states it is licensed to conduct business. The laws enforced by the various state insurance departments provide broad administrative powers with respect to licensing to transact business, licensing and appointing agents, approving policy forms, regulating unfair trade and claims practices, establishing solvency standards, fixing minimum interest rates for the accumulation of surrender values, and regulating the type, amounts, and valuations of permitted investments, among other things. The Company is required to file detailed annual statements with each of the state insurance supervisory departments in which it does business. The Company's operations and financial records are subject to examination by these departments at regular intervals. Statutory financial statements are prepared in accordance with accounting practices prescribed or permitted by the Colorado Division of Insurance, the Company's principal insurance regulator. Prescribed statutory accounting practices are largely dictated by the Statutory Accounting Principles adopted by the National Association of Insurance Commissioners ("NAIC").

The NAIC, as well as state regulators, continually evaluates existing laws and regulations pertaining to the operations of life insurers. To the extent that initiatives result as a part of this process, they may be adopted in the various states in which the Company is licensed to do business. It is not possible to predict the ultimate content and timing of new statutes and regulations adopted by state insurance departments and the related impact upon the Company's operations although it is conceivable that they may be more restrictive.

Although the federal government does not directly regulate the life insurance industry, federal measures previously considered or enacted by Congress, if revisited, could affect the insurance industry and the Company's business. These measures include the tax treatment of life insurance companies and life insurance products, as well as changes in individual income tax structures and rates. Even though the ultimate impact of any of these changes, if implemented, is uncertain, the persistency of the Company's existing products and the ability to sell products could be materially affected.

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. For each category, the RBC requirements are determined by applying specified factors to various assets, premiums, reserves, and other items, with the factor being higher for items with greater underlying risk and lower for items with less risk. The Company's statutory capital and surplus at December 31, 2007, was significantly in excess of the threshold RBC requirements.

Effects of Inflation. The rate of inflation as measured by the change in the average consumer price index has not had a material effect on the revenues or operating results of the Company during the three most recent fiscal years.

Employees. The Company had approximately 290 employees as of December 31, 2007 substantially all of which worked in the Company’s home office in Austin, Texas. None of the employees are subject to collective bargaining agreements governing their employment with the Company.

ITEM 1A. RISK FACTORS

Company performance is subject to varying risk factors. This section provides an overview of possible risk exposures at this point in time that could impact Company performance in the future. While these scenarios do not represent expectations of future experience, they are intended to illustrate the potential impacts if any of the following risks were to manifest into actual occurrences.

We are subject to changing interest rates, market volatility, and general economic conditions which may affect the risk and returns on both our investment portfolio and our products.

We are exposed to significant capital market risk related to changes in interest rates. Substantial and sustained changes, up or down, in market interest rate levels can materially affect the profitability of our products, the market value of our investments, and ultimately the reported amount of stockholders’ equity.

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A rise in interest rates will increase the net unrealized loss position of our investment portfolio and may subject the Company to disintermediation risk. Disintermediation risk is the risk that policyholders may surrender their contracts in a rising interest rate environment, requiring the Company to liquidate investments in an unrealized loss position (i.e. the market value less than the carrying value of the investments). With respect to fixed income security investments the Company maintains in an "Available for Sale" category, rising interest rates will cause declines in the market value of these securities. These declines are reported in our financial statements as an unrealized investment loss and a reduction of stockholders' equity.

There may be occasions where the Company could encounter difficulty selling some of its investments due to a lack of liquidity in the marketplace. If the Company required significant amounts of cash on short notice during such a period, it may have difficulty selling investments at attractive prices, in a timely manner or both.

A decline in interest rates could expose the Company to reduced profitability due to minimum interest rate guarantees that are required in our products by regulation. A key component of profitability is investment spread, or the difference between the yield on our investments and the rates we credit to policyholders on our products. A narrowing of investment spreads could negatively affect operating results. Although the Company has the ability to adjust the rates credited on products in order to maintain our required investment spread, a significant decline in interest rate levels could affect investment yields to the point where the investment spread is compromised due to minimum interest rate guarantees. In addition, the potential for increased policy surrenders and cash withdrawals, competitor activities, and other factors could further limit the Company's ability to maintain crediting rates on its products at levels necessary to avoid sacrificing investment spread.

The profitability of the Company's equity-indexed products linked in part to market indices is significantly affected by the cost of underlying call options purchased to fund the credits owed to contract holders selecting this form of interest crediting. If there are little or no gains on the call options purchased over the expected life of these equity-indexed products, the Company would incur expenses for credited interest over and above the option costs. In addition, if the Company does not successfully match the terms of the underlying call options purchased with the terms of the equity-indexed products, the index credits could exceed call option proceeds. This would serve to reduce the Company's spread on the products and decrease profits.

Our investment portfolio is subject to credit quality risks which may lessen the value of invested assets and the Company's book value per share.

The Company substantially invests monies received in investment grade, fixed income investment securities in order to meet its obligations to policyholders and provide a return on its deployed capital. Consequently, we are subject to the risk that issuers of these securities may default on principal and interest payments, particularly in the event of a major downturn in economic and/or business climate. At December 31, 2007, approximately 2% of the Company's $5.7 billion fixed income securities portfolio was comprised of issuers who were investment grade at the time the Company acquired them but were subsequently downgraded for various reasons. A substantial increase in defaults from these or other issuers could negatively impact the Company's financial position and results.

For the Company's equity-indexed products, over the counter derivative instruments are purchased from a number of highly rated counterparties to fund the index credit to policyholders. In the event that any of these counterparties fails to meet their contractual obligations under these derivative instruments, the Company would be financially at risk for providing the credits due that the counterparty reneged on. The failure of the counterparty to perform could negatively impact the Company's financial position and results.

We are subject to general domestic and international economic conditions that may be less favorable than currently exists or is anticipated.

The demand for financial and insurance products is subject to factors such as consumer sentiment and behavior, business investment and government spending, the volatility and strength of capital markets, inflation, and overall economic climate. Further, since we accept applications from residents in North America, Latin America, Eastern Europe and the Pacific Rim, we are exposed to economic conditions in multiple geographic locations. Economic downturns in any of these geographic locations characterized by political, social or economic instability, higher unemployment, lower family income or consumer spending could negatively affect the demand for the Company's products. Accordingly, the Company's overall success depends, in part, upon the ability to succeed despite these differing and dynamic conditions.

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We are subject to incurring difficulties in marketing and distributing our products through our current and future distribution channels.

The Company distributes its life and annuity products through independent broker-agents. There is substantial competition, particularly in the Company's domestic market, for independent broker-agents with the demonstrated ability to market and sell insurance products. Competition for these individuals or organizations typically centers on products, compensation, home office support and the insurer's financial strength ratings. The Company's future sales and financial condition are dependent upon avoiding significant interruptions in attracting and retaining independent broker-agents.

We are subject to a downgrade in our financial strength ratings which may negatively affect our ability to attract and retain independent distributors, make our products less attractive to consumers, and may have an adverse effect on our operations.

Financial strength ratings are an important criteria in establishing the competitive position of insurers. Ratings generally reflect the rating agencies' view of a particular company's financial strength, operating performance, and ability to meet its obligations to policyholders. However, some of the rating factors often relate to the particular views of the rating agency, their independent economic modeling, the general economic climate, and other circumstances outside of the insurer's control. Accordingly, we cannot predict with any certainty what actions rating agencies may take. A downgrade in our financial strength rating, or an announced potential downgrade, could affect our competitive position and make it more difficult to market our products vis-à-vis competitors with higher financial strength ratings. In extreme situations, a significant downgrade action by one or more rating agency could induce existing policyholders to cancel their policies and withdraw funds from the Company. These events could have a material adverse effect on our financial position and liquidity.

We are subject to competition from new sources as well as companies having substantially greater financial resources which could have an adverse impact upon our business levels and profitability.

In recent years, there has been considerable consolidation among companies in the insurance and financial sectors resulting in large, well-capitalized entities that offer products comparable to the Company. Frequently, these larger organizations are not domiciled in the United States or are financial services entities attempting to establish a position in the insurance industry. These larger competitors often enjoy economies of scale which produce lower operating costs and the wherewithal to absorb greater risk allowing them to price products more competitively and, in turn, attract independent distributors. Consequently, the Company may encounter additional product pricing pressures and be challenged to maintain profit margin targets and profitability criteria. Because of these competitive presences, the Company may not be able to effectively compete without negative affects on our financial position and results.

We are subject to regulation and changes to existing laws that may affect our profitability or means of operations.

The Company is subject to extensive laws and regulations which are complex and subject to change. In addition, these laws and regulations are enforced by a number of different authorities including, but not limited to, state insurance regulators, the Securities and Exchange Commission, state attorney generals, and the U.S. Department of Justice. Compliance with these laws and regulations is time consuming and any changes may materially increase our compliance costs and other expenses of doing business. The regulatory framework at the state and, increasingly, federal level pertaining to insurance products and practices is advancing and could affect not only the design of our products but our ability to continue to sell certain products.

Life insurer products generally offer tax advantages to policyholders via the deferral of income tax on policy earnings during the accumulation phase of the product, be it an annuity or a life insurance product. Taxes, if any, are payable on income attributable to a distribution under a policy/contract for the year in which the distribution is made. Periodically, Congress has considered legislation that would reduce or eliminate this tax deferral advantage inherent to the life insurance industry and subject the industry's products to treatment more equivalent with other investments. In the event that the tax-deferred status of life insurance products is revised or reduced by Congress all life insurers would be adversely impacted.

We may be subject to unfavorable judicial developments, including the time and expense of litigation, which potentially could affect our financial position and results.

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In the ordinary course of business, we are involved in various legal actions common to the life insurance industry, some of which may occasionally assert claims for large amounts. These actions, for example, could include allegations of improper sales practices in connection with the sale of life insurance or bad faith in the handling of insurance claims. While we are not a party to any lawsuit that we believe will have a material adverse effect on our financial position or operations, given the inherent unpredictability of litigation, there can be no assurance that such litigation, current or in the future, will not have such a material adverse effect on the Company's results of operation or cash flows in any particular reporting period.

We could be liable with respect to liabilities ceded to reinsurers if the reinsurers fail to meet the obligations assumed by them.

The Company cedes material amounts of insurance to other unaffiliated insurance companies through reinsurance. However, these reinsurance arrangements do not fully discharge the Company's obligation to pay benefits on the reinsured business. If a reinsurer fails to meet its obligations, the Company would be forced to cover these claims. In addition, if a reinsurer becomes insolvent, it may cause the Company to lose its reserve credits on the ceded business which require the establishment of additional reserves. To mitigate the risks associated with the use of reinsurance, the Company carefully monitors the ratings and financial condition of its reinsurers on a regular basis and attempts to avoid concentration of credit risks in order to diversify its risk exposure.

We are subject to policy claims experience which can fluctuate from period to period and vary from past results or expectations.

The Company's earnings are significantly influenced by policy claims received and will vary from period to period depending upon the amount of claims incurred. In any given quarter or year, there is very limited predictability of claims experience. The liability established for future policy benefits is based upon a number of different factors. In the event our future claim experience does not match our past results or pricing assumptions, our operating results could be materially and adversely affected.

We are subject to assumption inaccuracies regarding future mortality, persistency, and interest rates used in determining deferred policy acquisition costs.

Deferred policy acquisition costs (and deferred sales inducement amounts) are calculated using a number of assumptions related to policy persistency, mortality and interest rates. Amortization of deferred policy acquisition expenses is dependent upon actual and expected profits generated by the lines of business that incurred the related expenses. Due to the uncertainty associated with establishing these assumptions, the Company cannot, with precision, determine the exact pattern of profit emergence. Accordingly, actual results could differ from the related assumptions which could have a material and adverse impact on the Company's operating results.

We are dependent upon effective information technology systems and on development and implementation of new technologies.

The Company's business operations are technology dependent for maintaining accurate records, administering complex contract provisions, and complying with increasingly demanding regulation. While systems developments can streamline many processes and in the long term reduce the cost of doing business, these initiatives can present short-term cost and implementation risks. Projections of expenses, implementation time frames and the ultimate enhancement values may be different from expectations and escalate over time. The Company also faces rising costs and time constraints in meeting data security compliance requirements of new and proposed regulations. These increased risks and expanding requirements expose the Company to potential data loss and damages and significant increases in compliance and litigation costs.

The Company retains confidential information on its systems, including customer information and proprietary business information. The increasing volume and sophistication of computer viruses, hackers and other external threats may increase the vulnerability of the Company's systems to data breaches. Any compromise of the security of the Company's technology systems that results in the disclosure of personally identifiable customer information could damage the Company's reputation, expose it to litigation, and result in significant technical, legal and other expenses.

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Some of the Company's information technology systems are older legacy-type systems and require an ongoing commitment of resources to maintain current standards. These legacy systems are written in older programming languages with which fewer and fewer individuals are knowledgeable of and trained in. The Company's success is in large part dependent on maintaining and enhancing the effectiveness of existing legacy systems and failure of these systems for any reason could disrupt our operations, result in the loss of business and adversely impact our profitability.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company leases approximately 72,000 square feet of office space in Austin, Texas. This lease expires in 2010 and specifies lease payments that gradually increase over the term of the lease. Currently, lease payments are $0.6 million per year plus taxes, insurance, maintenance, and other operating costs. Additionally, the Company's wholly-owned subsidiary, The Westcap Corporation, owns two buildings adjacent to the Company's principal office space totaling approximately 21,000 square feet that are leased and utilized by the Company. The Company's affiliate, Regent Care Building, Limited Partnership, owns a 65,000 square foot building in Reno, Nevada, which is leased and utilized by another of the Company's affiliates, Regent Care Operations, Limited Partnership, for use in its nursing home operations. Lease costs and related operating expenses for facilities of the Company's subsidiaries are currently not significant in relation to the Company's consolidated financial statements. The intercompany lease costs related to The Westcap Corporation and the nursing home have been eliminated for consolidated reporting purposes.

ITEM 3. LEGAL PROCEEDINGS

In the course of an audit of a charitable tax-exempt foundation, the Internal Revenue Service ("IRS") raised an issue under the special provisions of the Internal Revenue Code ("IRC") governing tax-exempt private foundations as to certain interest-bearing loans from the Company to another corporation in which the tax-exempt foundation owns stock. The issue was whether such transactions constitute indirect self-dealing by the foundation, the result of which would be excise taxes on the Company by virtue of its participation in such transactions. By letter to the Company dated August 21, 2003, the IRS proposed an initial excise tax liability in the total amount approximating one million dollars as a result of such transactions. The Company disagreed with the IRS analysis. The Company contested and requested that this issue instead be referred to the IRS National Office for technical advice. The IRS audit team agreed and the matter was referred in November of 2003 to the IRS National Office. Such technical advice was subsequently issued on April 11, 2007 by the IRS National Office in the form of a memorandum, analyzing the issue, which concluded that such loans do not constitute indirect self-dealing. By letter of June 5, 2007 from the IRS to the Company, the IRS concurred that based on the results of the Technical Advice Memorandum, there was no excise tax owed by the Company for the years under review. This technical advice memorandum is binding on the IRS audit team.

The Company is a defendant in three class action lawsuits. The Court has certified a class consisting of certain California policyholders age 65 and older alleging violations under California Business and Professions Code section 17200. The Court has additionally certified a subclass of 36 policyholders alleging fraud against their agent, and vicariously, against National Western Life. Management believes that the Company has good and meritorious defenses and intends to continue to vigorously defend itself against these claims. A second class action lawsuit is in discovery with no class certification motion pending. The third class action lawsuit was certified as a class by the trail court, but ultimately reversed by the Texas Supreme Court. Thereupon the plaintiff filed a new motion for class certification which was denied by the trail court. The Plaintiff filed a notice of appeal, which has not been perfected. The Plaintiff and the Company have since filed a joint motion informing the Court of Appeals that the parties have reached a comprehensive settlement and that the parties jointly request the court to dismiss the appeal and remand the case to District Court for an agreed dismissal with prejudice to be entered by the District Court.

The Company is involved or may become involved in various other legal actions, in the normal course of business, in which claims for alleged economic and punitive damages have been or may be asserted, some for substantial amounts. Although there can be no assurances, at the present time, the Company does not anticipate that the ultimate liability arising from potential, pending, or threatened legal actions, will have a material adverse effect on the financial condition or operating results of the Company.

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

No matters were submitted to a vote of the Company's security holders during the fourth quarter of 2007.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

The principal market on which the Class A common stock of the Company trades is The NASDAQ Stock Market® under the symbol "NWLIA". The high and low sales prices for the Class A common stock for each quarter during the last two years are shown in the following table.

		High	Low
2007:	First Quarter	$ 235.25	223.05
	Second Quarter	271.60	249.05
	Third Quarter	268.00	228.56
	Fourth Quarter	246.95	199.53
2006:	First Quarter	$ 232.29	200.00
	Second Quarter	239.65	209.00
	Third Quarter	237.36	222.59
	Fourth Quarter	243.00	224.05

Equity Security Holders

The number of stockholders of record on March 10, 2008 was as follows:

Class A Common Stock	4,512
Class B Common Stock	2

Dividends

During 2007, the Company paid cash dividends on its Class A and Class B common stock in the amounts of $1,232,037 and $36,000, respectively. During 2006, the Company paid cash dividends on its Class A and Class B common stock in the amounts of $1,231,497 and $36,000, respectively. Payment of dividends is within the discretion of the Company's Board of Directors. The Company's general policy is to reinvest earnings internally to finance the development of new business.

Securities Authorized For Issuance Under Equity Compensation Plans

The Company has one equity compensation plan that was approved by security holders. Under the plan, 94,984 shares of the Company's Class A common stock may be issued upon exercise of the outstanding options at December 31, 2007. The weighted average exercise price of the outstanding options is $128.47 per option. Excluding the outstanding options, 27,668 shares of the common stock remain available for future issuance under the plan at December 31, 2007. The Company has no equity compensation plans that have not been approved by security holders.

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Performance Graph

The following graph compares the change in the Company's cumulative total stockholder return on its common stock with the NASDAQ - U.S. Companies Index and the NASDAQ Insurance Stock Index. The graph assumes that the value of the Company's common stock and each index was $100 at December 31, 2002, and that all dividends were reinvested.

Issuer Purchases of Equity Securities

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

During the months ended November and December 2007, the Company purchased 200 shares and 400 shares from option holders at an average price of $202.92 and $207.37, respectively. These purchased shares are reported in the Company's condensed consolidated financial statements as authorized and unissued.

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ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following five-year financial summary includes comparative amounts derived from the audited consolidated financial statements.

	Years Ended December 31,				
	2007	2006	2005	2004	2003
	(In thousands except per share amounts)				
Earnings Information:					
Revenues:					
Life and annuity premiums	$ 19,513	15,805	14,602	14,025	13,916
Universal life and annuity contract revenues	119,677	106,320	96,765	89,513	80,964
Net investment income	318,137	379,768	310,213	315,843	298,974
Other income	13,683	17,304	9,579	11,259	7,061
Realized gains (losses) on investments	3,497	2,662	9,884	3,506	(1,647)
Total revenues	474,507	521,859	441,043	434,146	399,268
Benefits and expenses:					
Life and other policy benefits	41,326	35,241	39,162	34,613	37,180
Amortization of deferred policy acquisition costs	88,413	90,358	87,955	88,733	53,829
Universal life and investment annuity contract interest	164,391	213,736	150,692	173,315	176,374
Other operating expenses	55,130	65,709	46,349	35,441	48,776
Total expenses	349,260	405,044	324,158	332,102	316,159
Earnings before Federal income taxes and cumulative effect of change in accounting principle	125,247	116,815	116,885	102,044	83,109
Federal income taxes	39,876	40,472	39,618	34,572	27,327
Earnings before cumulative effect of change in accounting principle	85,371	76,343	77,267	67,472	55,782
Cumulative effect of change in accounting principle, net of tax	-	-	-	54,697	-
Net earnings	$ 85,371	76,343	77,267	122,169	55,782
Diluted Earnings Per Share:					
Earnings from operations:					
Class A	$ 23.95	21.46	21.83	19.26	16.10
Class B	$ 12.12	10.84	11.00	9.68	8.09
Cumulative effect of change in accounting principle:					
Class A	$ -	-	-	15.61	-
Class B	$ -	-	-	7.85	-
Net earnings:					
Class A	$ 23.95	21.46	21.83	34.87	16.10
Class B	$ 12.12	10.84	11.00	17.53	8.09
Balance Sheet Information:					

Total assets	$ 6,835,326	6,693,443	6,369,008	5,991,685	5,297,720
Total liabilities	$ 5,823,641	5,760,459	5,495,000	5,183,013	4,617,862
Stockholders' equity	$ 1,011,685	932,984	874,008	808,672	679,858
Book value per common share	$ 279.29	257.67	241.89	225.62	191.69

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. Certain information contained herein or in other written or oral statements made by or on behalf of National Western Life Insurance Company or its subsidiaries are or may be viewed as forward-looking. Although the Company has taken appropriate care in developing any such information, forward-looking information involves risks and uncertainties that could significantly impact actual results. These risks and uncertainties include, but are not limited to, matters described in the Company's SEC filings such as exposure to market risks, anticipated cash flows or operating performance, future capital needs, and statutory or regulatory related issues. However, National Western, as a matter of policy, does not make any specific projections as to future earnings, nor does it endorse any projections regarding future performance that may be made by others. Whether or not actual results differ materially from forward-looking statements may depend on numerous foreseeable and unforeseeable events or developments. Also, the Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future developments, or otherwise.

Management's discussion and analysis of financial condition and results of operations ("MD&A") of National Western Life Insurance Company for the three years ended December 31, 2007 follows. This discussion should be read in conjunction with the Company's consolidated financial statements and related notes beginning on page 76 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:

Ÿ level of premium revenues collected
Ÿ persistency of policies and contracts
Ÿ returns on investments
Ÿ investment credit quality
Ÿ levels of policy benefits and costs to acquire business
Ÿ effect of interest rate changes on revenues and investments including asset and liability matching
Ÿ 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 2007, incorporating required disclosures in accordance with the rules and regulations of the Securities and Exchange Commission.

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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 financial conditions and near-term prospects of the issuer, (c) whether the debtor is current on contractually obligated principal and interest payments, and (d) the intent and ability of the Company to retain the investment for a period of time sufficient to allow for any anticipated 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 estimate, then an other-than-temporary impairment charge is recognized. When a security is deemed to be impaired a charge is recorded as net realized losses equal to the difference between the fair value and amortized cost basis of the security. 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.

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 regularly evaluates to determine if actual experience or other evidence suggests that earlier estimates should be revised. Assumptions considered significant include surrender and lapse rates, mortality, expense levels, investment performance, and estimated interest spread. Should actual experience dictate that the Company change its assumptions regarding the emergence of future revenues or profits (commonly referred to as "unlocking"), the Company would record a charge or credit to bring its DAC balance to the level it would have been if using the new assumptions from the inception date of each policy.

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. For more information about accounting for DAC see Note 1, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements.

Deferred Sales Inducements. Costs related to sales inducements offered on sales to new customers, principally on investment type contracts and primarily in the form of additional credits to the customer's account value or enhancements to interest credited for a specified period, which are beyond amounts currently being credited to existing contracts, are deferred and recorded as other assets. All other sales inducements are expensed as incurred and included in interest credited to contract holders' funds. Deferred sales inducements are amortized to income using the same methodology and assumptions as DAC, and are included in interest credited to contract holders' funds. Deferred sales inducements are periodically reviewed for recoverability. See the discussion of the adoption of Statement of Position ("SOP") 05-1, Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with

Modifications or Exchanges of Insurance Contracts on page 44 of this report.

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

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

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

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

The Company annually reviews its pension benefit plan 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 long-term investment policy of the plans and 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. The freeze ceased future benefit accruals to all participants and closed the Plan to any new participants. In addition, all participants became immediately 100% vested in their accrued benefits as of that date.

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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. These assumptions involve uncertainties and judgment, and therefore actual performance may not be reflective of the assumptions.

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 the Notes to Consolidated Financial Statements.

RESULTS OF OPERATIONS

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

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Consolidated Operations

Revenues. The following details Company revenues.

	Years Ended December 31, 2007	2006	2005
	(In thousands)		
Universal life and annuity contract revenues	$ 119,677	106,320	96,765
Traditional life and annuity premiums	19,513	15,805	14,602
Net investment income (excluding derivatives)	334,799	336,489	321,201
Other income	13,683	17,304	9,579
Operating revenues	487,672	475,918	442,147
Derivative income (loss)	(16,662)	43,279	(10,988)
Realized gains on investments	3,497	2,662	9,884
Total revenues	$ 474,507	521,859	441,043

Universal life and annuity contract revenues – Revenues for universal life and annuity contract revenues increased 12.6% in 2007 compared to 2006. Revenues for these products consist of policy charges for the cost of insurance, administration charges, and surrender charges assessed against policyholder account balances, less reinsurance premiums. Cost of insurance charges were $74.3 million in 2007 compared to $67.7 million in 2006, and $63.3 million in 2005. Administrative charges were $20.9 million, $17.1 million, and $15.0 million for the years ended December 31, 2007, 2006, and 2005, respectively. Surrender charges assessed against policyholder account balances upon withdrawal were $33.4 million, in 2007 compared to $28.7 million in 2006 and $25.1 million in 2005.

Traditional life and annuity premiums – Traditional life and annuity premiums increased 23.5% in 2007 compared to 2006. Increasing life sales has been a strategic focus over the past several years. Traditional life insurance premiums for products such as whole life and term life are recognized as revenues over the premium-paying period.

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

	Years Ended December 31, 2007	2006	2005
	(In thousands)		
Gross investment income:			
Debt securities	$ 309,708	306,129	293,502
Mortgage loans	8,513	8,480	9,676
Policy loans	6,302	6,354	6,409
Short-term investments	7,059	3,118	1,416
Other investment income	6,087	15,289	12,559
Total investment income	337,669	339,370	323,562
Investment expenses	2,870	2,881	2,361
Net investment income (excluding derivatives)	334,799	336,489	321,201

Derivative income (loss)	(16,662)	43,279	(10,988)
Net investment income	$ 318,137	379,768	310,213

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Investment grade debt securities generated approximately 92.5% of total investment income, excluding derivatives in 2007. Short-term investments contributed $7.1 million, $3.1 million, and $1.4 million for the years ended 2007, 2006, and 2005, respectively. The significant increase relative to short-term investment income in 2007 is attributable to higher asset holdings in these investments compared to prior years. Other investment income for 2007 includes $0.9 million related to income received on various profit participation arrangements compared to $1.2 million recorded in 2006 and $2.8 million recorded in 2005. In addition, proceeds of $4.3 million were received in 2006 from a class action settlement on a disposed debt security.

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

	Years Ended December 31,		
	2007	2006	2005
	(In thousands except percentages)		
Excluding derivatives:			
Net investment income	$ 334,799	336,489	321,201
Average invested assets, at amortized cost	$ 5,732,212	5,514,196	5,205,983
Yield on average invested assets	5.84%	6.10%	6.17%
Including derivatives:			
Net investment income	$ 318,137	379,768	310,213
Average invested assets, at amortized cost	$ 5,789,502	5,548,266	5,252,259
Yield on average invested assets	5.50%	6.84%	5.91%

The average invested asset decline in yield is due to the overall interest rate level decline and the Company obtaining lower yields on newly invested funds as well as prepayments, calls, and maturities of debt securities reinvested at lower rates. The additional income recognized from the other invested assets in 2006 and 2005, as previously discussed, also contributes to a higher yield for those years. Refer to the Derivatives discussion following this section for a more detailed explanation.

Other income - Other income revenues consists primarily of gross income associated with nursing home operations of $12.6 million, $11.2 million, and $8.9 million in 2007, 2006, and 2005, respectively. In addition, the Company received $0.5 million and $5.5 million related to lawsuit settlements during 2007 and 2006.

Derivatives income (loss) - Index options are derivative financial instruments used to fully hedge the equity return component of the Company's equity-indexed products, which were first introduced for sale in 1997. In 2002, the Company began selling an equity-indexed universal life product in addition to its fixed indexed annuities. Any income or loss from the sale or expiration of the options, as well as period-to-period changes in fair values, are reflected as a component of net investment income. However, increases or decreases in income from these options are substantially offset by corresponding increases or decreases in amounts credited to indexed annuity and life policyholders.

Income and losses from index options are due to market conditions. Index options are intended to act as hedges to match the returns on the S&P 500 Index® and the rise or decline in this index causes index option values to likewise rise or decline. While income from index options fluctuates with the index, the contract interest expense to policyholder accounts for the Company's equity-indexed products also fluctuates in a similar manner and direction. In 2007 and 2005, the S&P 500 Index® decreased resulting in index option losses and a reduction in contract interest expenses. In 2006, the S&P 500 Index® increased and the Company recorded income from index options and likewise increased contract interest expenses.

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

		Years Ended December 31,	
	2007	2006	2005
		(In thousands)	
Derivatives:			
Unrealized income (loss)	$ (56,204)	27,108	(9,579)
Realized income (loss)	39,542	16,171	(1,409)
Total income (loss) included in net investment income	$ (16,662)	43,279	(10,988)
Total contract interest	$ 164,391	213,736	150,692

Realized gains on investments - The net gains reported in 2007 of $3.5 million consisted of gross gains of $5.4 million primarily from calls and sales of debt securities, (including a $3.7 million gain recorded on a previously impaired debt security), sale of real estate during the year, offset by gross losses of $1.9 million, which includes the impairments highlighted in the table below.

In past years, the realized losses on investments have primarily resulted from impairment writedowns on investments in debt securities and valuation allowances recorded on mortgage loans. The Company records impairment writedowns when a decline in value is considered other-than-temporary and full recovery of the investment is not expected. Impairment writedowns are summarized in the following table.

		Years Ended December 31,	
	2007	2006	2005
		(In thousands)	
Impairment or valuation writedowns:			
Bonds	$ 67	99	1,926
Mortgage loans	1,467	2,100	-

The mortgage loan valuation writedown in 2007 and 2006 involves a New Orleans property whose value was negatively impacted by Hurricane Katrina.

Benefits and Expenses. The following details benefits and expenses.

		Years Ended December 31,	
	2007	2006	2005
		(In thousands)	
Life and other policy benefits	$ 41,326	35,241	39,162
Amortization of deferred policy acquisition costs	88,413	90,358	87,955
Universal life and annuity contract interest	164,391	213,736	150,692
Other operating expenses	55,130	65,709	46,349
Totals	$ 349,260	405,044	324,158

Life and other policy benefits - Life and other policy benefits reflect death claims of $28.5 million, $26.2 million, and $30.0 million for 2007, 2006, and 2005, respectively.

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Amortization of deferred policy acquisition costs - Life insurance companies are required to defer certain expenses associated with acquiring new business. The majority of these acquisition expenses consist of commissions paid to agents, underwriting costs, and certain marketing expenses and sales inducements. The Company defers sales inducements in the form of first year interest bonuses on annuity and universal life products that are directly related to the production of new business. These charges are deferred and amortized using the same methodology and assumptions used to amortize other capitalized acquisition costs and the amortization is included in contract interest. Recognition of these deferred policy acquisition costs in the consolidated financial statements is to occur over future periods in relation to the expected emergence of profits priced into the products sold. This emergence of profits is based upon assumptions regarding premium payment patterns, mortality, persistency, investment performance, and expense patterns. Companies are required to review 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 profit patterns is to be "unlocked" and reset based upon the actual experience.

Amortization of deferred policy acquisition costs decreased to $88.4 million for the year ended December 31, 2007 compared to $90.4 million and $88.0 million reported in 2006 and 2005. An unlocking adjustment was recorded in the current year which resulted in a decrease of amortization by $8.6 million. This unlocking adjustment was based upon changes to (1) future mortality assumptions reflecting current experience studies and (2) future cost of insurance rate assumptions based on company changes to future cost of insurance rate changes. In addition, a true-up adjustment was also recorded at December 2007 relative to partial surrender rates, mortality rates, credited interest rates and earned rates for the current year’s experience resulting in a $2.7 million decrease in amortization. Amortization for 2006 includes a true-up adjustment relative to partial surrenders, mortality assumptions, annuitizations, credited rates and earned rates which increased amortization in that year by approximately $4.3 million. There was a similar adjustment in 2005 relative to amortization assumptions that resulted in increased amortization for that year.

In accordance with the newly adopted SOP 05-1, Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts, ("SOP 05-1") the Company’s amortization of these deferred policy acquisition costs is expected to increase in 2007 and in the future. Under this pronouncement, annuitizations and certain internal replacements of contracts result in the associated unamortized deferred acquisition costs, unearned revenue liabilities, and deferred sales inducement assets being written off.

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

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

	December 31,			December 31,		
	2007	2006	2005	2007	2006	2005
	(Excluding equity-indexed products)			(Including equity-indexed products)		
Annuity	3.41%	3.39%	3.59%	2.84%	3.86%	2.86%
Interest sensitive life	3.23%	4.30%	4.94%	4.30%	5.41%	4.63%

Contract interest also includes the performance of the derivative component of the Company's equity-indexed products. As previously noted, the recent market performance of these derivative features decreased contract interest expense in 2007 and 2005, while, also decreasing the Company's investment income given the hedge nature of the options. During 2006, the reverse was noted, as the S&P 500 Index® performance was up resulting in higher investment income and contract interest expense. With these credited rates, the Company generally realized its targeted interest spread on its products.

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Other operating expenses - Other operating expenses consist of general administrative expenses, licenses and fees, commissions not subject to deferral, and expenses of nursing home operations. Nursing home expenses amounted to $11.0 million, $10.2 million, and $7.6 million in 2007, 2006, and 2005, respectively. Compensation costs related to stock options totaled negative $1.1 million in 2007 as a result of marking the options to fair value under the liability method of accounting. In 2006, $13.1 million was recorded related to increase compensation costs resulting from a change to liability classification for the Company's stock option plan. Compensation costs related to stock options reported in 2005 totaled $0.9 million.

Federal Income Taxes. Federal income taxes on earnings from continuing operations for 2007, 2006, and 2005 reflect effective tax rates of 31.8%, 34.6%, and 33.9%, respectively, which are lower than the expected Federal rate of 35% primarily due to tax-exempt investment income related to investments in municipal securities and dividends-received deductions on income from stock investments.

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

Segment Operations

Summary of Segment Earnings

A summary of segment earnings from continuing operations for the years ended December 31, 2007, 2006, and 2005 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:					
2007	$ 342	20,179	56,299	6,278	83,098
2006	297	12,191	56,559	5,566	74,613
2005	2,809	13,559	47,915	6,559	70,842

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Domestic Life Insurance Operations

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

	Years Ended December 31,		
	2007	2006	2005
	(In thousands)		
Premiums and other revenue:			
Premiums and contract revenues	$ 25,879	22,731	22,172
Net investment income	18,863	20,462	19,958
Other income	41	29	35
Total premiums and other revenue	44,783	43,222	42,165
Benefits and expenses:			
Life and other policy benefits	14,922	13,656	14,932
Amortization of deferred policy acquisition costs	7,998	7,313	5,798
Universal life insurance contract interest	9,463	9,168	8,842
Other operating expenses	11,898	12,630	8,349
Total benefits and expenses	44,281	42,767	37,921
Segment earnings before Federal income taxes	502	455	4,244
Federal income taxes	160	158	1,435
Segment earnings	$ 342	297	2,809

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 simply premiums collected, while revenues from universal life insurance consist of policy charges for the cost of insurance, policy administration fees, and surrender charges assessed during the period. A comparative detail of premiums and contract revenues is provided below.

	Years Ended December 31,		
	2007	2006	2005
	(In thousands)		
Universal life insurance revenues	$ 23,028	18,286	16,322
Traditional life insurance premiums	6,629	6,906	7,392
Reinsurance premiums	(3,778)	(2,461)	(1,542)
Totals	$ 25,879	22,731	22,172

The Company’s premiums and contract revenues have increased 13.8% from 2006 as efforts have been made to promote domestic life products. It is the Company's marketing plan to increase domestic life product sales through increased recruiting of new distribution and the development of new life insurance products. The Company had approximately 5,600 contracted agents as of December 31, 2007.

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

	Years Ended December 31,		
	2007	2006	2005
	(In thousands)		
Universal life insurance:			
First year and single premiums	$ 15,592	14,640	14,973
Renewal premiums	16,639	14,118	14,199
Totals	$ 32,231	28,758	29,172

Policy benefits totaled $14.9 million, $13.7 million, and $14.9 million in 2007, 2006, and 2005, respectively, which are consistent with Company expectations. Net investment income decreased to $18.9 million in 2007 as compared to $20.5 million and $20.0 million in 2006 and 2005, respectively. Other operating expense decreased in 2007 resulting from negative stock option compensation costs recorded under liability accounting. The costs increased significantly in 2006 due to an increase in compensation costs resulting from the change to liability classification for the Company's stock option plan. Compensation costs totaled $0.3 million, $3.0 million, and $0.2 million in 2007, 2006, and 2005, respectively.

International Life Insurance Operations

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

	Years Ended December 31,		
	2007	2006	2005
	(In thousands)		
Premiums and other revenue:			
Premiums and contract revenues	$ 88,782	78,005	70,379
Net investment income	24,690	28,530	23,123
Other income	126	78	75
Total premiums and other revenue	113,598	106,613	93,577
Benefits and expenses:			
Life and other policy benefits	22,810	18,161	21,232
Amortization of deferred policy acquisition costs	24,959	23,075	20,389
Universal life insurance contract interest	20,993	25,675	18,118
Other operating expense	15,271	21,051	13,359
Total benefits and expenses	84,033	87,962	73,098
Segment earnings before Federal income taxes	29,565	18,651	20,479
Federal income taxes	9,386	6,460	6,920

Segment earnings	$	20,179	12,191	13,559

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

	Years Ended December 31,		
	2007	2006	2005
		(In thousands)	
Universal life insurance revenues	$ 85,633	78,008	72,010
Traditional life insurance premiums	15,692	11,027	9,201
Reinsurance premiums	(12,543)	(11,030)	(10,832)
Totals	$ 88,782	78,005	70,379

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

	Years Ended December 31,		
	2007	2006	2005
		(In thousands)	
Universal life insurance			
First year and single premiums	$ 44,426	36,758	35,575
Renewal premiums	91,621	81,226	68,832
Totals	$ 136,047	117,984	104,407

The Company's international life operations have been a significant contributor to the Company's overall growth and represent a market niche where the Company believes it has a competitive advantage. A productive agency force has been developed given the Company's longstanding reputation for supporting its international life products coupled with the instability of competing companies in international markets. In particular, the Company has experienced sizable growth with its equity-indexed universal life products and has collected premiums of $76.8 million, $60.5 million, and $48.2 million for the years ended 2007, 2006, and 2005, respectively.

A detail of net investment income for international life insurance operations is provided below.

	Years Ended December 31,		
	2007	2006	2005
		(In thousands)	
Net investment income			
(excluding derivatives)	$ 26,752	25,893	23,896
Derivative income (loss)	(2,062)	2,637	(773)
Net investment income	$ 24,690	28,530	23,123

Derivative income and losses fluctuate from period to period based on the S&P 500 Index® performance.

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Life and other policy benefits totaled $22.8 million in 2007, $18.2 million in 2006, and $21.2 million in 2005, which are consistent with Company expectations. Amortization of deferred policy acquisition costs were $25.0 million, $23.1 million, and $20.4 million for 2007, 2006, and 2005, respectively. The Company recorded an unlocking adjustment in 2007 totaling $9.0 million relative to improved mortality assumptions that results in an increase to the deferred asset balance and a decrease in amortization expense. In addition, a true-up adjustment of $1.7 million was also recorded in 2007 resulting in a decrease to amortization. Offsetting the decrease to amortization by the unlocking and true-up adjustments is an increase in amortization due primarily to the application of SOP 05-1 which requires the write-off of deferred balances on contracts that are considered substantially changed under this new guidance. These balances were previously carried and amortized over the projected life of the contract. In 2006, a true-up of amortization assumptions resulted in increased amortization of $1.0 million. Contract interest expense was $20.1 million, $25.7 million, and $18.1 million, in 2007, 2006, and 2005, respectively. The universal life contract interest fluctuations are primarily the result of the S&P 500 Index® performance relative to the equity-indexed universal life products and the associated stock market gains and losses which increased or decreased the amounts the Company credited to policyholders.

As the international life insurance in force continues to grow, the Company anticipates operating earnings to similarly increase. The amount of international life insurance in force has grown from $12.2 billion at December 31, 2005 to $13.3 billion at December 31, 2006 and to $14.8 billion at December 31, 2007.

Other operating expenses reported in 2007 were $15.3 million compared to $21.1 million and $13.4 million in 2006 and 2005. The decrease in 2007 results from negative compensation costs related to stock options recorded under liability accounting. The significant increase in 2006 is due to an increase in compensation costs resulting from the change to liability classification for the Company’s stock option plan. Compensation costs totaled $0.4 million, $5.1 million, and $0.4 million in 2007, 2006, and 2005, respectively.

Annuity Operations

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

	Years Ended December 31,		
	2007	2006	2005
	(In thousands)		
Premiums and other revenue:			
Premiums and contract revenues	$ 24,529	21,389	18,816
Net investment income	266,953	323,326	258,485
Other income	920	5,950	588
Total premiums and other revenue	292,402	350,665	277,889
Benefits and expenses:			
Life and other policy benefits	3,594	3,424	2,998
Amortization of deferred policy acquisition costs	55,456	59,970	61,768
Annuity contract interest	133,935	178,893	123,732
Other operating expenses	16,931	21,847	17,019