NATIONAL WESTERN LIFE INSURANCE CO
Form 10-Q
August 07, 2015

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

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2015
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	(512) 836-1010
(Address of Principal Executive Offices)	(Telephone Number)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). : Yes x No o

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

As of August 6, 2015, the number of shares of Registrant's common stock outstanding was: Class A – 3,436,166 and Class B - 200,000.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

ASSETS	(Unaudited) June 30, 2015	December 31, 2014
Investments:		
Securities held to maturity, at amortized cost (fair value: $7,370,596 and $7,175,443)	$7,121,439	6,841,543
Securities available for sale, at fair value (cost: $2,740,993 and $2,590,074)	2,840,589	2,728,680
Mortgage loans, net of allowance for possible losses ($650 and $650)	132,261	149,503
Policy loans	61,933	63,645
Derivatives, index options	72,527	114,287
Other long-term investments	28,961	28,774
Total investments	10,257,710	9,926,432
Cash and cash equivalents	71,710	277,078
Deferred policy acquisition costs	826,083	802,919
Deferred sales inducements	156,371	159,766
Accrued investment income	99,438	96,127
Federal income tax receivable	7,546	—
Other assets	96,436	89,570
Total assets	$11,515,294	11,351,892

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

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

LIABILITIES AND STOCKHOLDERS' EQUITY	(Unaudited) June 30, 2015	December 31, 2014
LIABILITIES:		
Future policy benefits:		
Universal life and annuity contracts	$9,484,080	9,384,297
Traditional life reserves	137,451	138,225
Other policyholder liabilities	143,781	139,222
Deferred Federal income tax liability	40,001	31,675
Federal income tax payable	—	3,336
Other liabilities	117,853	98,817
Total liabilities	9,923,166	9,795,572
COMMITMENTS AND CONTINGENCIES (Note 8)		
STOCKHOLDERS' EQUITY:		
Common stock:		
Class A - $1 par value; 7,500,000 shares authorized; 3,436,166 issued and outstanding in 2015 and 2014	3,436	3,436
Class B - $1 par value; 200,000 shares authorized, issued, and outstanding in 2015 and 2014	200	200
Additional paid-in capital	38,116	38,116
Accumulated other comprehensive income	27,410	41,786
Retained earnings	1,522,966	1,472,782
Total stockholders' equity	1,592,128	1,556,320
Total liabilities and stockholders' equity	$11,515,294	11,351,892

Note: The Condensed Consolidated Balance Sheet at December 31, 2014 has been derived from the audited Consolidated Financial Statements as of that date.

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

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
For the Three Months Ended June 30, 2015 and 2014
(Unaudited)
(In thousands, except per share amounts)

	2015	2014
Premiums and other revenues:		
Universal life and annuity contract charges	$38,345	38,217
Traditional life premiums	5,162	5,169
Net investment income	102,259	155,179
Other revenues	5,194	5,211
Net realized investment gains (losses):		
Total other-than-temporary impairment (“OTTI”) gains (losses)	(2)	—
Portion of OTTI (gains) losses recognized in other comprehensive income	(105)	—
Net OTTI losses recognized in earnings	(107)	—
Other net investment gains (losses)	4,365	3,065
Total net realized investment gains (losses)	4,258	3,065
Total revenues	155,218	206,841
Benefits and expenses:		
Life and other policy benefits	16,120	14,796
Amortization of deferred policy acquisition costs	28,070	27,258
Universal life and annuity contract interest	49,431	102,429
Other operating expenses	18,802	19,500
Total benefits and expenses	112,423	163,983
Earnings before Federal income taxes	42,795	42,858
Federal income taxes	13,937	13,675
Net earnings	$28,858	29,183
Basic earnings per share:		
Class A	$8.16	$8.26
Class B	$4.08	$4.13
Diluted earnings per share:		
Class A	$8.16	$8.25
Class B	$4.08	$4.13

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

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
For the Six Months Ended June 30, 2015 and 2014
(Unaudited)
(In thousands, except per share amounts)

	2015	2014
Premiums and other revenues:		
Universal life and annuity contract charges	$75,658	76,222
Traditional life premiums	9,509	9,440
Net investment income	202,182	263,630
Other revenues	10,523	10,974
Net realized investment gains (losses):		
Total other-than-temporary impairment ("OTTI") gains (losses)	158	(32)
Portion of OTTI (gains) losses recognized in other comprehensive income	(265)	(3)
Net OTTI losses recognized in earnings	(107)	(35)
Other net investment gains (losses)	5,343	4,613
Total net realized investment gains (losses)	5,236	4,578
Total revenues	303,108	364,844
Benefits and expenses:		
Life and other policy benefits	35,386	27,759
Amortization of deferred policy acquisition costs	55,722	55,837
Universal life and annuity contract interest	98,470	165,365
Other operating expenses	39,312	42,963
Total benefits and expenses	228,890	291,924
Earnings before Federal income taxes	74,218	72,920
Federal income taxes	24,034	23,911
Net earnings	$50,184	49,009
Basic earnings per share:		
Class A	$14.19	$13.86
Class B	$7.10	$6.93
Diluted earnings per share:		
Class A	$14.19	$13.86
Class B	$7.10	$6.93

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

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the Three Months Ended June 30, 2015 and 2014
(Unaudited)
(In thousands)

	2015	2014
Net earnings	$28,858	29,183
Other comprehensive income (loss), net of effects of deferred costs and taxes:		
Unrealized gains (losses) on securities:		
Net unrealized holding gains (losses) arising during period	(21,202)	10,892
Net unrealized liquidity gains (losses)	32	28
Reclassification adjustment for net amounts included in net earnings	(1,855)	(1,946)
Net unrealized gains (losses) on securities	(23,025)	8,974
Foreign currency translation adjustments	(53)	(122)
Benefit plans:		
Amortization of net prior service cost and net gain (loss)	(304)	(175)
Other comprehensive income (loss)	(23,382)	8,677
Comprehensive income (loss)	$5,476	37,860

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

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Six Months Ended June 30, 2015 and 2014
(Unaudited)
(In thousands)

	2015	2014
Net earnings	$50,184	49,009
Other comprehensive income, net of effects of deferred costs and taxes:		
Unrealized gains (losses) on securities:		
Net unrealized holding gains (losses) arising during period	(11,830)	21,894
Net unrealized liquidity gains (losses)	93	51
Reclassification adjustment for net amounts included in net earnings	(2,020)	(2,371)
Net unrealized gains (losses) on securities	(13,757)	19,574
Foreign currency translation adjustments	(12)	(633)
Benefit plans:		
Amortization of net prior service cost and net gain (loss)	(607)	(351)
Other comprehensive income (loss)	(14,376)	18,590
Comprehensive income (loss)	$35,808	67,599

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

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Six Months Ended June 30, 2015 and 2014
(Unaudited)
(In thousands)

	2015	2014
Common stock:		
Balance at beginning of period	$3,636	3,635
Shares exercised under stock option plan	—	1
Balance at end of period	3,636	3,636
Additional paid-in capital:		
Balance at beginning of period	38,116	37,767
Shares exercised under stock option plan	—	349
Balance at end of period	38,116	38,116
Accumulated other comprehensive income:		
Unrealized gains on non-impaired securities:		
Balance at beginning of period	54,229	46,693
Change in unrealized gains (losses) during period, net of tax	(13,850)	19,523
Balance at end of period	40,379	66,216
Unrealized losses on impaired held to maturity securities:		
Balance at beginning of period	(1,262)	(1,287)
Amortization	172	117
Other-than-temporary impairments, non-credit, net of tax	—	—
Additional credit loss on previously impaired securities	—	—
Change in shadow deferred policy acquisition costs	(79)	(67)
Balance at end of period	(1,169)	(1,237)
Unrealized losses on impaired available for sale securities:		
Balance at beginning of period	(1)	(2)
Other-than-temporary impairments, non-credit, net of tax	—	—
Change in shadow deferred policy acquisition costs	—	(1)
Recoveries, net of tax	—	2
Balance at end of period	(1)	(1)

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY(continued)
For the Six Months Ended June30, 2015 and 2014
(Unaudited)
(In thousands)

	2015	2014
Foreign currency translation adjustments:		
Balance at beginning of period	2,685	3,241
Change in translation adjustments during period	(12)	(633)
Balance at end of period	2,673	2,608
Benefit plan liability adjustment:		
Balance at beginning of period	(13,865)	(10,565)
Amortization of net prior service cost and net loss, net of tax	(607)	(351)
Balance at end of period	(14,472)	(10,916)
Accumulated other comprehensive income at end of period	27,410	56,670
Retained earnings:		
Balance at beginning of period	1,472,782	1,368,466
Net earnings	50,184	49,009
Stockholder dividends	—	—
Balance at end of period	1,522,966	1,417,475
Total stockholders' equity	$1,592,128	$1,515,897

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

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2015 and 2014
(Unaudited)
(In thousands)

	2015	2014
Cash flows from operating activities:		
Net earnings	$50,184	49,009
Adjustments to reconcile net earnings to net cash from operating activities:		
Universal life and annuity contract interest	98,470	165,365
Surrender charges and other policy revenues	(8,302)	(9,104)
Realized (gains) losses on investments	(5,236)	(4,578)
Accretion/amortization of discounts and premiums, investments	102	(465)
Depreciation and amortization	1,671	1,741
(Increase) decrease in value of derivatives	17,069	(45,799)
(Increase) decrease in deferred policy acquisition and sales inducement costs	(2,190)	(6,062)
(Increase) decrease in accrued investment income	(3,311)	(449)
(Increase) decrease in other assets	(6,938)	(1,635)
Increase (decrease) in liabilities for future policy benefits	2,588	1,344
Increase (decrease) in other policyholder liabilities	4,558	7,127
Increase (decrease) in Federal income taxes liability	(10,882)	(13,501)
Increase (decrease) in deferred Federal income tax	15,735	12,517
Increase (decrease) in other liabilities	4,658	(2,806)
Other, net	—	(1)
Net cash provided by operating activities	158,176	152,703
Cash flows from investing activities:		
Proceeds from sales of:		
Securities held to maturity	—	—
Securities available for sale	13,131	5,334
Other investments	—	1,016
Proceeds from maturities and redemptions of:		
Securities held to maturity	257,063	360,420
Securities available for sale	163,057	102,813
Derivatives, index options	64,619	105,268
Purchases of:		
Securities held to maturity	(534,663)	(477,353)
Securities available for sale	(310,637)	(195,023)
Derivatives, index options	(40,977)	(33,610)
Other investments	(420)	(296)
Net change in short-term investments	—	—

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS, (continued)
For the Six Months Ended June 30, 2015 and 2014
(Unaudited)
(In thousands)

	2015	2014
Principal payments on mortgage loans	18,962	10,240
Cost of mortgage loans acquired	(1,632)	(29,611)
Decrease (increase) in policy loans	1,712	981
Other, net	—	2
Net cash used in investing activities	(369,785)	(149,819)
Cash flows from financing activities:		
Deposits to account balances for universal life and annuity contracts	452,124	460,611
Return of account balances on universal life and annuity contracts	(445,871)	(450,565)
Issuance of common stock under stock option plan	—	350
Net cash provided by (used in) financing activities	6,253	10,396
Effect of foreign exchange	(12)	(633)
Net increase (decrease) in cash and cash equivalents	(205,368)	12,647
Cash and cash equivalents at beginning of period	277,078	120,859
Cash and cash equivalents at end of period	$71,710	$133,506
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$20	20
Income taxes	$22,647	24,416
Noncash operating activities:		
Deferral of sales inducements	$(6,895)	(4,851)

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

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

(1) CONSOLIDATION AND BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for annual financial statements. In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments necessary to present fairly the financial position of National Western Life Insurance Company and its subsidiaries ("Company" or "National Western") as of June 30, 2015, and the results of its operations and its cash flows for the for the three and six months ended June 30, 2015 and 2014. The results of operations for the six months ended June 30, 2015 are not necessarily indicative of the results to be expected for the full year. It is recommended that these condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 and are accessible free of charge through the Company's internet site at www.nationalwesternlife.com or the Securities and Exchange Commission internet site at www.sec.gov. The condensed consolidated balance sheet at December 31, 2014 has been derived from the audited consolidated financial statements as of that date.

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

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

The table below shows the unrealized gains and losses on available-for-sale securities that were reclassified out of accumulated other comprehensive income for the three and six months ended June 30, 2015 and 2014.

Affected Line Item in the Statements of Earnings	Amount Reclassified From Accumulated Other Comprehensive Income			
	Three Months Ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Other net investment gains (losses)	$2,961	2,993	3,215	3,682
Net OTTI losses recognized in earnings	(107)	—	(107)	(35)
Earnings before Federal income taxes	2,854	2,993	3,108	3,647

Federal income taxes	999	1,047	1,088	1,276
Net earnings	$1,855	1,946	2,020	2,371

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

(2) NEW ACCOUNTING PRONOUNCEMENTS

In July 2013, the FASB issued guidance to amend the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The new guidance states that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as reduction to deferred tax assets for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. This guidance is effective for annual reporting periods beginning on or after December 15, 2013 and interim periods within those annual periods. The Company adopted this guidance as of January 1, 2014 and the adoption did not have an effect on the deferred tax asset or liability classification on the Company's balance sheet and did not result in any additional disclosures to the financial statements.

In June 2014, the FASB issued guidance that applies to all reporting entities that grant their employees share-based payments in which the terms of the award provide that a performance target that affects vesting could be achieved after the requisite service period. It requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition and follows existing accounting guidance for the treatment of performance conditions. The standard will be effective for annual periods and interim periods within those annual periods beginning after December 15, 2015, with early adoption permitted. The Company’s current employee share-based plans do not require performance targets and the adoption of this guidance is not expected to have a material impact on the Company’s financial position or results of operations.
Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the American Institute of Certified Public Accountants ("AICPA"), and the SEC are not believed by management to, have a material impact on the Company’s present or future consolidated financial statements.

(3) STOCKHOLDERS' EQUITY

The Company is restricted by state insurance laws as to dividend amounts which may be paid to stockholders without prior approval from the Colorado Division of Insurance. The restrictions are based on the greater of statutory earnings from operations excluding capital gains or 10% of statutory surplus of the Company. The maximum dividend payment which may be made without prior approval in 2015 is $118.2 million. The Company did not declare or pay cash dividends on its common stocks during the six months ended June 30, 2015 and 2014.

On April 6, 2015, the Company, National Western Life Group, Inc., a Delaware corporation and wholly-owned subsidiary of the Company (“Newco”), and NWLIC MergerCo, Inc., a Colorado corporation and wholly-owned subsidiary of Newco (“MergerCo”), entered into an Agreement and Plan of Merger (the “Reorganization Agreement”), that provides for the merger (the “Merger”) of the Company with MergerCo, with the Company surviving the Merger as a wholly-owned subsidiary of Newco. The Merger provides for the conversion of each share of Class A common stock, par value $1.00 per share, of the Company and each share of Class B common stock, par value $1.00 per share, of the Company issued and outstanding immediately prior to the effective time of the Merger, into one duly issued, fully paid and non-assessable share of Class A common stock, par value $0.01 per share, of Newco ("Newco Class A Stock") or Class B common stock, par value $0.01 per share, of Newco, respectively (collectively with the other transactions contemplated by the Reorganization Agreement, the “Reorganization”). In addition, each outstanding option to acquire, or SARs relating to, shares of the Company's Class A Stock would automatically convert into an option to acquire, or SARs relating to, on the same terms and conditions, an identical number of shares of Newco Class A Stock.

Upon completion of the Reorganization, Newco, a Delaware corporation, would, in effect, replace the Company, a Colorado corporation, as the publicly held corporation traded on the NASDAQ Global Select Market under the symbol “NWLI”, and the holders of the Company's Class A Stock and Class B Stock would hold the same number of shares and same ownership percentage
of Newco after the Reorganization as they held of the Company immediately prior to the Reorganization. The directors of Newco immediately following the Reorganization would be the same individuals who were directors of the Company immediately prior to the Reorganization.

The Reorganization Agreement is subject to specified conditions, including approval by the Company's shareholders, which was granted at the Annual Meeting of Shareholders (the "Annual Meeting") on Friday, June 19, 2015. It is currently expected that the Reorganization will be completed in the latter part of 2015 once the other conditions set forth in the Reorganization Agreement are satisfied.

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

(4) EARNINGS PER SHARE

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

	Three Months Ended June 30,			
	2015		2014	
	Class A	Class B	Class A	Class B
	(In thousands except per share amounts)			
Numerator for Basic and Diluted Earnings Per Share:				
Net income	$28,858		29,183	
Dividends - Class A shares	—		—	
Dividends - Class B shares	—		—	
Undistributed income	$28,858		29,183	
Allocation of net income:				
Dividends	$—	—	—	—
Allocation of undistributed income	28,042	816	28,358	825
Net income	$28,042	816	28,358	825
Denominator:				
Basic earnings per share - weighted-average shares	3,436	200	3,435	200
Effect of dilutive stock options	1	—	2	—
Diluted earnings per share - adjusted weighted-average shares for assumed conversions	3,437	200	3,437	200
Basic Earnings Per Share	$8.16	4.08	8.26	4.13
Diluted Earnings Per Share	$8.16	4.08	8.25	4.13

Stock options that were outstanding during the three months ended June 30, 2015 and 2014, but were not included in the computation of diluted earnings per share because the effect was anti-dilutive, were approximately 20,800 and 22,300, respectively.

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

	Six Months Ended June 30,			
	2015		2014	
	Class A	Class B	Class A	Class B
	(In thousands except per share amounts)			
Numerator for Basic and Diluted Earnings Per Share:				
Net income	$50,184		49,009	
Dividends - Class A shares	—		—	
Dividends - Class B shares	—		—	
Undistributed income	$50,184		49,009	
Allocation of net income:				
Dividends	$—	—	—	—
Allocation of undistributed income	48,765	1,419	47,623	1,386
Net income	$48,765	1,419	47,623	1,386
Denominator:				
Basic earnings per share - weighted-average shares	3,436	200	3,435	200
Effect of dilutive stock options	1	—	2	—
Diluted earnings per share - adjusted weighted-average shares for assumed conversions	3,437	200	3,437	200
Basic Earnings Per Share	$14.19	7.10	13.86	6.93
Diluted Earnings Per Share	$14.19	7.10	13.86	6.93

Stock options that were outstanding during the six months ended June 30, 2015 and 2014, but were not included in the computation of diluted earnings per share because the effect was anti-dilutive were approximately 21,300 and 22,300, respectively.

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

(5) PENSION AND OTHER POSTRETIREMENT PLANS

(A) Defined Benefit Pension Plans

The Company sponsors a qualified defined benefit pension plan covering employees enrolled prior to 2008. The plan provides benefits based on the participants' years of service and compensation. The Company makes annual contributions to the plan that complies with the minimum funding provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). On October 19, 2007, the Company's Board of Directors approved an amendment to freeze the Pension Plan as of December 31, 2007. The freeze ceased future benefit accruals to all participants and closed the plan to any new participants. In addition, all participants became immediately 100% vested in their accrued benefits as of that date. Fair values of plan assets and liabilities are measured as of the prior December 31 for each respective year. The following table summarizes the components of net periodic benefit cost.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Service cost	$51	42	102	84
Interest cost	246	239	492	479
Expected return on plan assets	(330)	(319)	(660)	(639)
Amortization of prior service cost	1	1	2	2
Amortization of net loss	196	106	392	211
Net periodic benefit cost	$164	69	328	137

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

The Company's minimum required contribution for the 2015 plan year is $0.0 million. The Company had no remaining contribution payable for the 2014 plan year as of June 30, 2015. As of June 30, 2015, the Company had contributed a total of $0.0 million to the plan for the 2015 and 2014 plan years.

The Company also sponsors a nonqualified defined benefit plan primarily for senior officers. The plan provides benefits based on the participants' years of service and compensation. The pension obligations and administrative responsibilities of the plan are maintained by a pension administration firm, which is a subsidiary of American National Insurance Company ("ANICO"). ANICO has guaranteed the payment of pension obligations under the plan. However, the Company has a contingent liability with respect to the plan should these entities be unable to meet their obligations under the existing agreements. Also, the Company has a contingent liability with respect to the plan in the event that a plan participant continues employment with the Company beyond age seventy, the aggregate average annual participant salary increases exceed 10% per year, or any additional employees become eligible to participate in the plan. If any of these conditions are met, the Company would be responsible for any additional pension obligations resulting from these items. Amendments were made to the plan to allow an additional employee to participate and to change the benefit formula for the Chairman of the Company. As previously mentioned, these additional obligations are a liability to the Company. Effective December 31, 2004, this plan was frozen with respect to the continued accrual of benefits of the Chairman and the President of the Company in order to comply with law changes under the American Jobs Creation Act of 2004 ("Act").

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

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The following table summarizes the components of net periodic benefit costs for the Chairman and President's nonqualified defined benefit plans.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Service cost	$64	74	128	147
Interest cost	219	251	438	502
Amortization of prior service cost	15	14	30	29
Amortization of net loss	379	324	757	647
Net periodic benefit cost	$677	663	1,353	1,325

The Company expects to contribute $2.0 million to these plans in 2015. As of June 30, 2015, the Company has contributed $0.9 million to the plans.

(B) Defined Benefit Postretirement Healthcare Plans

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Interest cost	$33	27	65	55
Amortization of prior service cost	26	26	52	52
Amortization of net loss	15	(1)	30	(2)
Net periodic benefit cost	$74	52	147	105

The Company expects to contribute minimal amounts to the plan in 2015.

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(6) SEGMENT AND OTHER OPERATING INFORMATION

The Company defines its reportable operating segments as domestic life insurance, international life insurance, and annuities. These segments are organized based on product types and geographic marketing areas. A summary of segment information for the quarters ended June 30, 2015 and June 30, 2014 is provided below.

Selected Segment Information:

	Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
			(In thousands)		
June 30, 2015					
Condensed Consolidated Balance Sheet Items:					
Deferred policy acquisition costs and sales inducements	$70,561	254,785	657,108	—	982,454
Total segment assets	811,768	1,247,941	9,000,323	264,269	11,324,301
Future policy benefits	702,621	954,684	7,964,226	—	9,621,531
Other policyholder liabilities	11,846	16,398	115,537	—	143,781
Three Months Ended June 30, 2015					
Condensed Consolidated Income Statements:					
Premiums and contract revenues	$7,937	29,364	6,206	—	43,507
Net investment income	8,005	8,785	79,509	5,960	102,259
Other revenues	4	(25)	4	5,211	5,194
Total revenues	15,946	38,124	85,719	11,171	150,960
Life and other policy benefits	3,882	5,587	6,651	—	16,120
Amortization of deferred acquisition costs	1,698	5,163	21,209	—	28,070
Universal life and annuity contract interest	5,460	6,927	37,044	—	49,431
Other operating expenses	3,442	5,212	5,434	4,714	18,802
Federal income taxes (benefit)	467	4,932	4,961	2,086	12,446
Total expenses	14,949	27,821	75,299	6,800	124,869
Segment earnings (loss)	$997	10,303	10,420	4,371	26,091

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	Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
			(In thousands)		
Six months ended June 30, 2015					
Condensed Consolidated Income Statements:					
Premiums and contract revenues	$14,424	59,697	11,046	—	85,167
Net investment income	15,170	17,399	158,745	10,868	202,182
Other revenues	20	61	19	10,423	10,523
Total revenues	29,614	77,157	169,810	21,291	297,872
Life and other policy benefits	8,995	11,792	14,599	—	35,386
Amortization of deferred acquisition costs	4,879	4,513	46,330	—	55,722
Universal life and annuity contract interest	10,399	14,057	74,014	—	98,470
Other operating expenses	7,157	11,134	11,612	9,409	39,312
Federal income taxes (benefit)	(584)	11,477	7,484	3,824	22,201
Total expenses	30,846	52,973	154,039	13,233	251,091
Segment earnings (loss)	$(1,232)	24,184	15,771	8,058	46,781

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Selected Segment Information:

	Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
			(In thousands)		
June 30, 2014					
Condensed Consolidated Balance Sheet Items:					
Deferred policy acquisition costs and sales inducements	$57,354	238,211	638,108	—	933,673
Total segment assets	670,565	1,229,589	8,749,666	274,434	10,924,254
Future policy benefits	581,946	934,791	7,776,048	—	9,292,785
Other policyholder liabilities	13,259	12,399	124,056	—	149,714
Three Months Ended June 30, 2014					
Condensed Consolidated Income Statements:					
Premiums and contract revenues	$7,065	29,663	6,658	—	43,386
Net investment income	10,902	16,911	122,666	4,700	155,179
Other revenues	3	60	3	5,145	5,211
Total revenues	17,970	46,634	129,327	9,845	203,776
Life and other policy benefits	1,423	1,668	11,705	—	14,796
Amortization of deferred acquisition costs	1,780	8,808	16,670	—	27,258
Universal life and annuity contract interest	8,158	15,659	78,612	—	102,429
Other operating expenses	3,992	4,835	5,824	4,849	19,500
Federal income taxes (benefit)	851	4,963	5,227	1,561	12,602
Total expenses	16,204	35,933	118,038	6,410	176,585
Segment earnings (loss)	$1,766	10,701	11,289	3,435	27,191

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	Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
			(In thousands)		
Six months ended June 30, 2014					
Condensed Consolidated Income Statements:					
Premiums and contract revenues	$15,230	58,771	11,661	—	85,662
Net investment income	17,185	27,629	209,283	9,533	263,630
Other revenues	21	301	40	10,612	10,974
Total revenues	32,436	86,701	220,984	20,145	360,266
Life and other policy benefits	3,915	6,703	17,141	—	27,759
Amortization of deferred acquisition costs	4,180	15,553	36,104	—	55,837
Universal life and annuity contract interest	13,263	25,864	126,238	—	165,365
Other operating expenses	8,271	11,860	12,920	9,912	42,963
Federal income taxes (benefit)	916	8,722	9,329	3,342	22,309
Total expenses	30,545	68,702	201,732	13,254	314,233
Segment earnings (loss)	$1,891	17,999	19,252	6,891	46,033

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Premiums and Other Revenues:				
Premiums and contract revenues	$43,507	43,386	85,167	85,662
Net investment income	102,259	155,179	202,182	263,630
Other revenues	5,194	5,211	10,523	10,974
Realized gains (losses) on investments	4,258	3,065	5,236	4,578
Total condensed consolidated premiums and other revenues	$155,218	206,841	303,108	364,844

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Federal Income Taxes:				
Total segment Federal income taxes	$12,446	12,602	22,201	22,309
Taxes on realized gains (losses) on investments	1,491	1,073	1,833	1,602
Total condensed consolidated Federal income taxes	$13,937	13,675	24,034	23,911

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Net Earnings:				
Total segment earnings	$26,091	27,191	46,781	46,033
Realized gains (losses) on investments, net of taxes	2,767	1,992	3,403	2,976
Total condensed consolidated net earnings	$28,858	29,183	50,184	49,009

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	June 30, 2015	2014
	(In thousands)	
Assets:		
Total segment assets	$11,324,301	10,924,254
Other unallocated assets	190,993	171,827
Total condensed consolidated assets	$11,515,294	11,096,081

(7) SHARE-BASED PAYMENTS

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

All of the employees of the Company and its subsidiaries are eligible to participate in the current 2008 Plan (as well as previously in the expired 1995 Plan). In addition, directors of the Company are eligible to receive the same types of awards as employees except that they are not eligible to receive incentive stock options. Company directors, including members of the Compensation and Stock Option Committee, are eligible for nondiscretionary stock options. The directors' grants vest 20% annually following one full year of service to the Company from the date of grant. The employees' grants vest 20% annually following three full years of service to the Company from the date of grant. All grants issued expire after ten years. No awards were issued during the first six months of 2015 or 2014.

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

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

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The Company uses the current fair value method to measure compensation cost. As of June 30, 2015 and 2014, the liability balance was $7.3 million and $7.7 million, respectively. A summary of shares available for grant and activity is detailed below.

	Shares Available For Grant	Options Outstanding Shares	Options Outstanding Weighted-Average Exercise Price
Stock Options:			
Balance at January 1, 2015	291,000	29,768	$242.48
Exercised	—	—	$—
Forfeited	—	(1,000)	$255.13
Expired	—	—	$—
Stock options granted	—	—	$—
Balance at June 30, 2015	291,000	28,768	$242.04

	Stock Appreciation Rights Outstanding Awards	Stock Appreciation Rights Outstanding Weighted-Average Exercise Price
Stock Appreciation Rights:		
Balance at January 1, 2015	92,186	$157.71
Exercised	(3,975)	$143.19
Forfeited	—	$—
Granted	—	$—
Balance at June 30, 2015	88,211	$158.36

Stock options and SARs shown as forfeited in the above tables represent vested and unvested awards not exercised by plan participants prior to their termination from the Company. Forfeited stock options during the six months ended June 30, 2015 were awarded under the 1995 Plan. As the 1995 Plan terminated during calendar year 2010, the forfeited shares are not shown as being added back to the "Shares Available For Grant" balance.

The total intrinsic value of SARs exercised was $0.4 million and $0.7 million for the six months ended June 30, 2015 and 2014, respectively. The total share-based liabilities paid for the exercised SARs were $0.4 million and $0.6 million for the six months ended June 30, 2015 and 2014, respectively. The total fair value of stock options and SARs vested during the six months ended June 30, 2015 and 2014 was $0.6 million and $0.6 million, respectively. For the six months ended June 30, 2015 and 2014, the total cash received from the exercise of stock options under the Plans was $0 million and $0.2 million, respectively.

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The following table summarizes information about stock options and SARs outstanding at June 30, 2015.

	Options/SARs Outstanding		
	Number Outstanding	Weighted-Average Remaining Contractual Life	Number Exercisable
Exercise prices:			
$255.13 (options)	20,768	2.8 years	20,768
$208.05 (options)	8,000	3.0 years	8,000
$236.00 (SARs)	250	3.1 years	200
$114.64 (SARs)	23,943	3.6 years	19,764
$132.56 (SARs)	29,518	6.5 years	8,704
$210.22 (SARs)	34,500	8.4 years	1,800
Totals	116,979		59,236
Aggregate intrinsic value (in thousands)	$7,408		$3,703

The aggregate intrinsic value in the table above is based on the closing stock price of $239.49 per share on June 30, 2015.

In estimating the fair value of the options outstanding at June 30, 2015 and December 31, 2014, the Company employed the Black-Scholes option pricing model with assumptions detailed below.

	June 30, 2015		December 31, 2014	
Expected term of options	2.8 to 8.4 years		3.3 to 9.0 years	
Expected volatility:				
Range	21.14% to 37.77%		19.67% to 37.75%	
Weighted-average	23.96	%	22.91	%
Expected dividend yield	0.15	%	0.13	%
Risk-free rate:				
Range	0.22% to 1.54%		0.13% to 1.62%	
Weighted-average	0.52	%	0.56	%

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

The pre-tax compensation cost (benefit) recognized in the financial statements related to the two plans defined above was $(0.8) million and $(1.6) million for the three and six months ended June 30, 2015 compared to $0.8 million and $2.5 million for the three and six months ended June 30, 2014. The related tax (expense)/benefit recognized was $0.3

million and $0.6 million for the three and six months ended June, 2015 and 2014 compared to $(0.3) million and $(0.8) million for the three and six months ended June 30, 2014.

As of June 30, 2015, the total compensation cost related to nonvested options not yet recognized was $1.8 million. This amount is expected to be recognized over a weighted-average period of 2.0 years. The Company recognizes compensation cost over the graded vesting periods.

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(8) COMMITMENTS AND CONTINGENCIES

(A) Legal Proceedings

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

The Company resolved a class action lawsuit pending since June 12, 2006, in the U.S. District Court for the Southern District of California. The case is titled In Re National Western Life Insurance Deferred Annuities Litigation. The complaint asserted claims for RICO violations, Financial Elder Abuse, Violation of Cal. Bus. & Prof. Code 17200, et seq, Violation of Cal. Bus. & Prof. Code 17500, et seq, Breach of Fiduciary Duty, Aiding and Abetting Breach of Fiduciary Duty, Fraudulent Concealment, Cal. Civ. Code 1710, et seq, Breach of the Duty of Good Faith and Fair Dealing, and Unjust Enrichment and Imposition of Constructive Trust. On July 12, 2010 the Court certified a nationwide class of policyholders under the RICO allegation and a California class under all of the remaining causes of action except breach of fiduciary duty. The parties entered into a Settlement and Release Agreement in August of 2013 ("Settlement") which was finally approved by the Court on February 11, 2014. On February 12, 2014, the Court issued a redacted final approval order granting the Motion for Final Approval of Class Action Settlement. The Settlement became final and non-appealable on April 12, 2014. The Settlement Agreement and Plaintiffs' Request for Attorneys' Fees and Costs were approved by the Court, and the Company paid the Court-approved amount of attorneys’ fees and costs in April 2014. The Company also made certain payments to surrendered and annuitized policyholders in June 2014. In addition, the Company agreed to provide bonuses on annuitization for active policyholders who choose a 10-year or a 20-year certain and life settlement option. The Company had held reserves of $6.5 million for the matter which approximated the ultimate settlement amounts described above.

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

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

Separately, the Brazilian authorities have commenced an investigation into possible violations of Brazilian criminal law in connection with the issuance of the Company's insurance policies to Brazilian residents, and in assistance of such investigation a Commissioner appointed by the U.S. District Court for the Western District of Texas has issued a subpoena upon the Company to provide information relating to such possible violations. No conclusion can be drawn at this time as to the outcome of this investigation or how such outcome may impact the Company's business, results of operations, or financial condition. The Company continues to cooperate with the relevant governmental authorities in regard to this matter.

(B) Financial Instruments

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

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

The Company had $2.8 million commitments to extend credit relating to mortgage loans at June 30, 2015. The Company evaluates each customer's creditworthiness on a case-by-case basis.

(9) INVESTMENTS

(A) Investment Gains and Losses

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Available for sale debt securities:				
Realized gains on disposal	$2,985	2,985	3,198	3,677
Realized losses on disposal	(65)	(14)	(74)	(22)
Held to maturity debt securities:				
Realized gains on disposal	1,404	32	2,128	814
Realized losses on disposal	—	(6)	—	(17)
Equity securities realized gains (losses)	41	23	91	27
Real estate gains (losses)	—	45	—	134
Totals	$4,365	3,065	5,343	4,613

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The Company uses the specific identification method in computing realized gains and losses. For the three and six months ended June 30, 2015 the percentage of gains on bonds due to the call of securities was 94% and 91%, respectively. This includes calls out of the Company's available for sale portfolio of debt securities.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Total other-than-temporary impairment gains (losses) on debt securities	$105	—	265	(4)
Portion of loss (gain) recognized in comprehensive income	(105)	—	(265)	(3)
Net impairment losses on debt securities recognized in earnings	—	—	—	(7)
Equity securities impairments	(107)	—	(107)	(28)
Totals	$(107)	—	(107)	(35)

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

	Three Months Ended June 30, 2015	Six Months Ended June 30, 2015	Twelve Months Ended December 31, 2014
		(In thousands)	
Beginning balance, cumulative credit losses related to other-than-temporary impairments	$2,278	2,298	2,472
Reductions for securities sold during current period	—	(20)	(181)
Additions for credit losses not previously recognized in other-than-temporary impairments	—	—	7
Ending balance, cumulative credit losses related to other-than-temporary impairments	$2,278	2,278	2,298

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(B) Debt and Equity Securities

The table below presents amortized costs and fair values of securities held to maturity at June 30, 2015.

	Securities Held to Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Debt securities:				
U.S. agencies	$15,038	517	(137)	15,418
U.S. Treasury	1,923	369	—	2,292
States and political subdivisions	439,504	26,535	(2,536)	463,503
Foreign governments	—	—	—	—
Public utilities	1,010,342	53,640	(4,433)	1,059,549
Corporate	4,056,712	153,167	(37,448)	4,172,431
Mortgage-backed	1,575,798	62,921	(8,333)	1,630,386
Home equity	18,380	4,574	—	22,954
Manufactured housing	3,742	321	—	4,063
Totals	$7,121,439	302,044	(52,887)	7,370,596

The table below presents amortized costs and fair values of securities available for sale at June 30, 2015.

	Securities Available for Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Debt securities:				
States and political subdivisions	$588	—	(53)	535
Foreign governments	9,943	482	—	10,425
Public utilities	150,042	8,407	(480)	157,969
Corporate	2,512,794	105,156	(22,270)	2,595,680
Mortgage-backed	42,184	3,734	—	45,918
Home equity	11,381	199	(8)	11,572
Manufactured housing	1,411	43	—	1,454
	2,728,343	118,021	(22,811)	2,823,553
Equity securities	12,650	4,637	(251)	17,036
Totals	$2,740,993	122,658	(23,062)	2,840,589

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The table below presents amortized costs and fair values of securities held to maturity at December 31, 2014.

	Securities Held to Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Debt securities:				
U.S. agencies	$10,061	705	—	10,766
U.S. Treasury	1,920	409	—	2,329
States and political subdivisions	432,186	31,417	(336)	463,267
Public utilities	978,847	67,836	(757)	1,045,926
Corporate	3,754,222	183,650	(18,591)	3,919,281
Mortgage-backed	1,640,582	68,726	(4,164)	1,705,144
Home equity	18,886	4,734	(57)	23,563
Manufactured housing	4,839	328	—	5,167
Totals	$6,841,543	357,805	(23,905)	7,175,443

The table below presents amortized costs and fair values of securities available for sale at December 31, 2014.

	Securities Available for Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Debt securities:				
States and political subdivisions	$589	—	(36)	553
Foreign governments	9,939	386	—	10,325
Public utilities	169,179	10,163	(126)	179,216
Corporate	2,334,700	128,280	(8,961)	2,454,019
Mortgage-backed	48,674	4,116	—	52,790
Home equity	11,702	225	(9)	11,918
Manufactured housing	2,492	64	—	2,556
	2,577,275	143,234	(9,132)	2,711,377
Equity securities	12,799	4,849	(345)	17,303
Totals	$2,590,074	148,083	(9,477)	2,728,680

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The following table shows the gross unrealized losses and fair values of the Company's held to maturity investments by investment category and length of time the individual securities have been in a continuous unrealized loss position at June 30, 2015.

	Securities Held to Maturity					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Debt securities:						
U.S. agencies	$4,858	(137)	—	—	4,858	(137)
States and political subdivisions	65,904	(1,633)	12,567	(903)	78,471	(2,536)
Public utilities	228,627	(3,727)	17,802	(706)	246,429	(4,433)
Corporate	1,176,531	(25,477)	300,133	(11,971)	1,476,664	(37,448)
Mortgage-backed	234,516	(4,501)	85,928	(3,832)	320,444	(8,333)
Total temporarily impaired securities	$1,710,436	(35,475)	416,430	(17,412)	2,126,866	(52,887)

The following table shows the gross unrealized losses and fair values of the Company's available for sale investments by investment category and length of time the individual securities have been in a continuous unrealized loss position at June 30, 2015.

	Securities Available for Sale					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Debt securities:						
States and political subdivisions	$—	—	535	(53)	535	(53)
Public utilities	17,472	(480)	—	—	17,472	(480)
Corporate	740,487	(16,629)	114,467	(5,641)	854,954	(22,270)
Home equity	—	—	4,827	(8)	4,827	(8)
	757,959	(17,109)	119,829	(5,702)	877,788	(22,811)
Equity securities	2,989	(196)	1,378	(55)	4,367	(251)
Total temporarily impaired securities	$760,948	(17,305)	121,207	(5,757)	882,155	(23,062)

Unrealized losses for securities held to maturity and securities available for sale increased during the first six months of 2015 due primarily to the upward movement in market interest rates. The Company does not consider investments with unrealized losses to be other-than-temporarily impaired since it does not anticipate selling these securities prior to maturity and expects to receive all amounts due relative to principal and interest.

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The Company does not consider securities to be other-than-temporarily impaired when the market decline is attributable to factors such as interest rate movements, market volatility, liquidity, spread widening and credit quality and when recovery of all amounts due under the contractual terms of the security is anticipated. Based on the review and the Company's ability and intent not to sell these securities until maturity, the Company does not consider these investments to be other-than-temporarily impaired at June 30, 2015. The Company will monitor the investment portfolio for future changes in issuer facts and circumstances that could result in future impairments beyond those currently identified.

During the second quarter of 2015, the Company recorded $0.1 million other-than-temporary impairment on equity securities.

Debt securities. The gross unrealized losses for debt securities are made up of 364 individual issues, or 27.3% of the total debt securities held by the Company. The market value of these bonds as a percent of amortized cost averages 97.5%. Of the 364 securities, 77, or 21.2%, fall in the 12 months or greater aging category; and 361 were rated investment grade at June 30, 2015.

Equity securities. The gross unrealized losses for equity securities are made up of 23 individual issues. These holdings are reviewed quarterly for impairment.

The following table shows the gross unrealized losses and fair values of the Company's held to maturity investments by investment category and length of time the individual securities have been in a continuous unrealized loss position at December 31, 2014.

	Securities Held to Maturity					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Debt securities:						
States and political subdivisions	$—	—	23,076	(336)	23,076	(336)
Public utilities	7,078	(13)	48,198	(744)	55,276	(757)
Corporate	156,839	(2,997)	698,316	(15,594)	855,155	(18,591)
Mortgage-backed	17,698	(240)	181,694	(3,924)	199,392	(4,164)
Home equity	2,206	(57)	—	—	2,206	(57)
Total temporarily impaired securities	$183,821	(3,307)	951,284	(20,598)	1,135,105	(23,905)

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The following table shows the gross unrealized losses and fair values of the Company's available for sale investments by investment category and length of time that the individual securities have been in a continuous unrealized loss position at December 31, 2014.

	Securities Available for Sale					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Debt securities:						
States and political subdivisions	$—	—	553	(36)	553	(36)
Public utilities	—	—	14,827	(126)	14,827	(126)
Corporate	100,373	(2,990)	187,699	(5,971)	288,072	(8,961)
Home equity	—	—	4,826	(9)	4,826	(9)
	100,373	(2,990)	207,905	(6,142)	308,278	(9,132)
Equity securities	305	(52)	3,801	(293)	4,106	(345)
Total temporarily impaired securities	$100,678	(3,042)	211,706	(6,435)	312,384	(9,477)

(C) Transfer of Securities

During the three and six months ended June 30, 2015 and 2014, the Company made no transfers to the held to maturity category from securities available for sale.

(D) Mortgage Loans

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

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

Loans in foreclosure, loans considered impaired or loans past due 90 days or more are placed on a non-accrual status. If a mortgage loan is determined to be on non-accrual status, the mortgage loan does not accrue any revenue into the Condensed Consolidated Statements of Earnings. The loan is independently monitored and evaluated as to potential impairment or foreclosure. If delinquent payments are made and the loan is brought current, then the Company returns the loan to active status and accrues income accordingly. The Company had no mortgage loans past due 90 days or more at June 30, 2015 or 2014 and as a result all interest income was recognized at June 30, 2015 or 2014.

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The following table represents the mortgage loan portfolio by loan-to-value ratio.

	June 30, 2015 Amount (In thousands)	%	December 31, 2014 Amount (In thousands)	%
Mortgage Loans by Loan-to-Value Ratio (1):				
Less than 50%	$44,743	33.7	$52,564	35.0
50% to 60%	44,385	33.4	50,553	33.7
60% to 70%	19,935	15.0	14,567	9.7
70% to 80%	4,291	3.2	12,656	8.4
80% to 90%	19,557	14.7	5,399	3.6
Greater than 90%	—	—	14,414	9.6
Gross balance	132,911	100.0	150,153	100.0
Allowance for possible losses	(650)	(0.5)	(650)	(0.4)
Totals	$132,261	99.5	$149,503	99.6

(1) Loan-to-Value Ratio determined using the most recent appraised value. Appraisals are required at the time of funding and may be updated if a material change occurs from the original loan agreement.

The mortgage loans in the greater than 90% category at December 31, 2014 relate to loans made with a long standing borrower. The loans are backed by the investment property, contracted leases, as well as a separate and additional guarantee of the long standing borrower and at June 30, 2015 are included in the 80% to 90% category.

All mortgage loans are analyzed quarterly in order to monitor the financial quality of these assets. Based on ongoing monitoring, mortgage loans with a likelihood of becoming delinquent are identified and placed on an internal “watch list”. Among the criteria that may indicate a potential problem include: major tenant vacancies or bankruptcies, late payments, and loan relief/restructuring requests. The mortgage loan portfolio is analyzed for the need for a valuation allowance on any loan that is on the internal watch list, in the process of foreclosure or that currently has a valuation allowance.

Mortgage loans are considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. When it is determined that a loan is impaired, a loss is recognized for the difference between the carrying amount of the mortgage loan and the estimated value reduced by the cost to sell. Estimated value is typically based on the loan's observable market price or the fair value of the collateral less cost to sell. Impairments and changes in the valuation allowance are reported in net realized investment gains (losses) in the Condensed Consolidated Statements of Earnings.

The following table represents the mortgage loan allowance.

	June 30, 2015	December 31, 2014
	(In thousands)	

Balance, beginning of period	$650	650
Provision	—	—
Releases	—	—
Balance, end of period	$650	650

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(10) FAIR VALUES OF FINANCIAL INSTRUMENTS

For financial instruments the FASB provides guidance which defines fair value, establishes a framework for measuring fair value under GAAP, and requires additional disclosures about fair value measurements. In compliance with this GAAP guidance, the Company has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into the required three level hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument.

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

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

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

Level 3: Fair value is based on significant unobservable inputs which reflect the entity’s or third party pricing service’s assumptions about the assumptions market participants would use in pricing an asset or liability. The Company’s Level 3 assets are over-the-counter derivative contracts and the Company’s Level 3 liabilities consist of share-based compensation obligations and certain product-related embedded derivatives. Valuations are estimated based on non-binding broker prices or internally developed valuation models or methodologies, discounted cash flow models and other similar techniques.

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

	June 30, 2015 Total (In thousands)	Level 1	Level 2	Level 3
Debt securities, available for sale	$2,823,553	—	2,823,553	—

Equity securities, available for sale	17,036	16,533	503	—
Derivatives, index options	72,527	—	—	72,527
Total assets	$2,913,116	16,533	2,824,056	72,527
Policyholder account balances (a)	$88,109	—	—	88,109
Other liabilities (b)	7,259	—	—	7,259
Total liabilities	$95,368	—	—	95,368

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During the three and six months ended June 30, 2015, the Company had no transfers into or out of Levels 1, 2 or 3.

	December 31, 2014			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Debt securities, available for sale	$2,711,377	—	2,711,377	—
Equity securities, available for sale	17,303	16,862	441	—
Derivatives, index options	114,287	—	—	114,287
Total assets	$2,842,967	16,862	2,711,818	114,287
Policyholder account balances (a)	$133,236	—	—	133,236
Other liabilities (b)	9,256	—	—	9,256
Total liabilities	$142,492	—	—	142,492

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

The following tables present, by pricing source and fair value hierarchy level, the Company's assets that are measured at fair value on a recurring basis:

	June 30, 2015			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Debt securities, available for sale:				
Priced by third-party vendors	$2,823,553	—	2,823,553	—
Priced internally	—	—	—	—
Subtotal	2,823,553	—	2,823,553	—
Equity securities, available for sale:				
Priced by third-party vendors	17,036	16,533	503	—
Priced internally	—	—	—	—
Subtotal	17,036	16,533	503	—
Derivatives, index options:				
Priced by third-party vendors	72,527	—	—	72,527
Priced internally	—	—	—	—
Subtotal	72,527	—	—	72,527
Total	$2,913,116	16,533	2,824,056	72,527
Percent of total	100.0 %	0.6 %	96.9 %	2.5 %

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	December 31, 2014			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Debt securities, available for sale:				
Priced by third-party vendors	$2,711,377	—	2,711,377	—
Priced internally	—	—	—	—
Subtotal	2,711,377	—	2,711,377	—
Equity securities, available for sale:				
Priced by third-party vendors	17,303	16,862	441	—
Priced internally	—	—	—	—
Subtotal	17,303	16,862	441	—
Derivatives, index options:				
Priced by third-party vendors	114,287	—	—	114,287
Priced internally	—	—	—	—
Subtotal	114,287	—	—	114,287
Total	$2,842,967	16,862	2,711,818	114,287
Percent of total	100.0 %	0.6 %	95.4 %	4.0 %

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

	For the Three Months Ended June 30, 2015				
	Debt Securities, Available for Sale (In thousands)	Equity Securities, Available for Sale	Derivatives, Index Options	Total Assets	Other Liabilities
Balance at April 1, 2015	$—	—	95,987	95,987	119,987
Total realized and unrealized gains (losses):					
Included in net income	—	—	(8,782)	(8,782)	(9,653)
Included in other comprehensive income	—	—	—	—	—
Purchases, sales, issuances and settlements, net:					
Purchases	—	—	21,473	21,473	21,473
Sales	—	—	—	—	—
Issuances	—	—	—	—	—
Settlements	—	—	(36,151)	(36,151)	(36,439)
Transfers into (out of) Level 3	—	—	—	—	—
Balance at end of period	$—	—	72,527	72,527	95,368
Change in unrealized gains or losses for the period included in earnings (or changes in net assets) for assets held at the end of the reporting period:					
Net investment income	$—	—	(11,922)	(11,922)	—
Benefits and expenses	—	—	—	—	(813)
Total	$—	—	(11,922)	(11,922)	(813)

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	For the Three Months ended June 30, 2014				
	Debt Securities, Available for Sale (In thousands)	Equity Securities, Available for Sale	Derivatives, Index Options	Total Assets	Other Liabilities
Balance at April 1, 2014	$—	—	134,916	134,916	160,536
Total realized and unrealized gains (losses):					
Included in net income	—	—	45,251	45,251	44,779
Included in other comprehensive income	—	—	—	—	—
Purchases, sales, issuances and settlements, net:					
Purchases	—	—	18,232	18,232	18,232
Sales	—	—	—	—	—
Issuances	—	—	—	—	—
Settlements	—	—	(51,885)	(51,885)	(52,119)
Transfers into (out of) Level 3	—	—	—	—	—
Balance at end of period	$—	—	146,514	146,514	171,428
Change in unrealized gains or losses for the period included in earnings (or changes in net assets) for assets held at the end of the reporting period:					
Net investment income	$—	—	43,313	43,313	—
Benefits and expenses	—	—	—	—	1,006
Total	$—	—	43,313	43,313	1,006

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	Six Months Ended June 30, 2015				
	Debt Securities, Available for Sale (In thousands)	Equity Securities, Available for Sale	Derivatives, Index Options	Total Assets	Other Liabilities
Beginning balance, January 1, 2015	$—	—	114,287	114,287	142,492
Total realized and unrealized gains (losses):					
Included in net income	—	—	(17,069)	(17,069)	(22,036)
Included in other comprehensive income	—	—	—	—	—
Purchases, sales, issuances and settlements, net:					
Purchases	—	—	39,929	39,929	39,929
Sales	—	—	—	—	—
Issuances	—	—	—	—	—
Settlements	—	—	(64,620)	(64,620)	(65,017)
Transfers into (out of) Level 3	—	—	—	—	—
Balance at end of period	$—	—	72,527	72,527	95,368
Amount of total gains (losses) for the period included in net income attributable to the change in unrealized gains (losses) relating to assets still held at end of period:					
Net investment income	$—	—	(17,830)	(17,830)	—
Other operating expenses	—	—	—	—	(1,600)
Total	$—	—	(17,830)	(17,830)	(1,600)

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	Six Months Ended June 30, 2014				
	Debt Securities, Available for Sale	Equity Securities, Available for Sale	Derivatives, Index Options	Total Assets	Other Liabilities
	(In thousands)				
Beginning balance, January 1, 2014	$—	—	169,314	169,314	193,338
Total realized and unrealized gains (losses):					
Included in net income	—	—	45,799	45,799	47,430
Included in other comprehensive income	—	—	—	—	
Purchases, sales, issuances and settlements, net:					
Purchases	—	—	33,569	33,569	33,569
Sales	—	—	—	—	—
Issuances	—	—	—	—	—
Settlements	—	—	(102,168)	(102,168)	(102,909)
Transfers into (out of) Level 3	—	—	—	—	—
Balance at end of period	$—	—	146,514	146,514	171,428
Change in unrealized gains or losses for the period included in earnings (or changes in net assets) for assets held at the end of the reporting period:					
Net investment income	$—	—	44,200	44,200	—
Other operating expenses	—	—	—	—	3,091
Total	$—	—	44,200	44,200	3,091

The following tables show the quantitative information about the Company's level 3 assets and liabilities.

	June 30, 2015 Fair Value (In thousands)	Valuation Technique	Unobservable Input
Derivatives, index options	$72,527	Broker prices	Implied volatility Inputs from broker proprietary models
Total assets	$72,527		
Policyholder account balances	$88,109	Deterministic cash flow model	Projected option cost
Other liabilities	7,259	Black-Scholes model	Expected term Forfeiture assumptions

Total liabilities	$95,368

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	December 31, 2014 Fair Value (In thousands)	Valuation Technique	Unobservable Input
Derivatives, index options	$114,287	Broker prices	Implied volatility Inputs from broker proprietary models
Total assets	$114,287		
Policyholder account balances	$133,236	Deterministic cash flow model	Projected option cost
Other liabilities	9,256	Black-Scholes model	Expected term Forfeiture assumptions
Total liabilities	$142,492		

Realized gains (losses) on debt and equity securities are reported in the Condensed Consolidated Statements of Earnings as net investment gains (losses). Unrealized gains (losses) on available for sale debt and equity securities are reported as other comprehensive income (loss) within the stockholders' equity of the Condensed Consolidated Balance Sheet.

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

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

	June 30, 2015				
			Fair Value Hierarchy Level		
	Carrying Values	Fair Values	Level 1	Level 2	Level 3
	(In thousands)				
ASSETS					
Investments in debt and equity securities:					
Securities held to maturity	$7,121,439	7,370,596	—	7,370,596	—
Securities available for sale	2,840,589	2,840,589	16,533	2,824,056	—
Cash and cash equivalents	71,710	71,710	71,710	—	—
Mortgage loans	132,261	137,917	—	—	137,917
Policy loans	61,933	107,914	—	—	107,914
Other loans	2,598	2,773	—	—	2,773
Derivatives, index options	72,527	72,527	—	—	72,527
Short-term investments	—	—	—	—	—
Life interest in Trust	—	12,775	—	—	12,775
LIABILITIES					
Deferred annuity contracts	$7,597,966	7,215,118	—	—	7,215,118
Immediate annuity and supplemental contracts	439,889	467,034	—	—	467,034

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	December 31, 2014				
			Fair Value Hierarchy Level		
	Carrying Values (In thousands)	Fair Values	Level 1	Level 2	Level 3
ASSETS					
Investments in debt and equity securities:					
Securities held to maturity	$6,841,543	7,175,443	—	7,175,443	—
Securities available for sale	2,728,680	2,728,680	16,862	2,711,818	—
Cash and cash equivalents	277,078	277,078	277,078	—	—
Mortgage loans	149,503	156,548	—	—	156,548
Policy loans	63,645	111,040	—	—	111,040
Other loans	2,171	2,300	—	—	2,300
Derivatives, index options	114,287	114,287	—	—	114,287
Life interest in Trust	—	12,775	—	—	12,775
LIABILITIES					
Deferred annuity contracts	$7,546,504	7,178,535	—	—	7,178,535
Immediate annuity and supplemental contracts	446,458	474,843	—	—	474,843

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

(11) DERIVATIVE INVESTMENTS

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

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

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

Although there is credit risk in the event of nonperformance by counterparties to the index options, the Company does not expect any of its counterparties to fail to meet their obligations, given their high credit ratings. In addition, credit support agreements are in place with all counterparties for option holdings in excess of specific limits, which may further reduce the Company's credit exposure.

The tables below present the fair value of derivative instruments as of June 30, 2015 and December 31, 2014, respectively.

	June 30, 2015			
	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
		(In thousands)		(In thousands)
Derivatives not designated as hedging instruments				
Equity index options	Derivatives, Index Options	$72,527		
Fixed-index products			Universal Life and Annuity Contracts	$88,109
Total		$72,527		$88,109

	December 31, 2014			
	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
		(In thousands)		(In thousands)
Derivatives not designated as hedging instruments				
Equity index options		$114,287		

	Derivatives, Index Options			
Fixed-index products			Universal Life and Annuity Contracts	$133,236
Total		$114,287		$133,236

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
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The table below presents the effect of derivative instruments in the Condensed Consolidated Statements of Earnings for the three months ended June 30, 2015 and 2014.

Derivatives Not Designated As Hedging Instruments	Location of Gain or (Loss) Recognized In Income on Derivatives	June 30, 2015	June 30, 2014
		Amount of Gain or (Loss) Recognized in Income on Derivatives (In thousands)	
Equity index options	Net investment income	$(8,782)	45,251
Fixed-index products	Universal life and annuity contract interest	8,840	(43,986)
		$58	1,265

The table below presents the effect of derivative instruments in the Condensed Consolidated Statements of Earnings for the six months ended June 30, 2015 and 2014.

Derivatives Not Designated As Hedging Instruments	Location of Gain or (Loss) Recognized In Income on Derivatives	June 30, 2015	June 30, 2014
		Amount of Gain or (Loss) Recognized in Income on Derivatives (In thousands)	
Equity index options	Net investment income	$(17,069)	45,799
Fixed-index products	Universal life and annuity contract interest	20,436	(44,970)
		$3,367	829

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

FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for forward-looking statements. Certain information contained herein or in other written or oral statements made by or on behalf of National Western Life Insurance Company or its subsidiaries 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.

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Management's discussion and analysis of the financial condition and results of operations (“MD&A”) of National Western Life