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.

R a t i n g 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
Total benefits and expenses	209,916	264,134	205,517

Segment earnings before Federal income taxes		82,486	86,531	72,372
Federal income taxes		26,187	29,972	24,457
Segment earnings	$	56,299	56,559	47,915

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Revenues from annuity operations primarily include surrender charges and recognition of deferred revenues relating to immediate or payout annuities. A comparative detail of the components of premiums and annuity contract revenues is provided below.

	Years Ended December 31,		
	2007	2006	2005
	(In thousands)		
Surrender charges	$ 20,238	17,260	15,271
Payout annuity and other revenues	4,263	4,098	3,511
Traditional annuity premiums	28	31	34
Totals	$ 24,529	21,389	18,816

In accordance with generally accepted accounting principles, deposits collected on annuity contracts are not reflected as revenues in the Company's consolidated statements of earnings. Actual annuity deposits collected are detailed below.

	Years Ended December 31,		
	2007	2006	2005
	(In thousands)		
Fixed indexed annuities	$ 316,848	303,613	298,227
Other deferred annuities	116,280	171,631	236,330
Immediate annuities	4,637	10,750	23,383
Totals	$ 437,765	485,994	557,940

Indexed products are more attractive for consumers when interest rate levels remain low as has been the market environment the past few years. Fixed indexed annuity deposits as a percentage of total annuity deposits recorded were 72.4%, 62.5%, and 53.5% for the years ended December 31, 2007, 2006, and 2005, respectively. Since the Company does not offer variable products or mutual funds, fixed indexed products provide an important alternative to the Company's existing fixed interest rate annuity products.

Other deferred annuity deposits decreased in 2007 compared to 2006 with $116.3 million recorded in collected deposits compared to $171.6 million, respectively. These product sales have been trending lower over the past few years due to low interest rates and investor preferences. As a selling inducement, many fixed-rate annuity products include a first year premium or interest rate bonus in addition to the base first year deposit interest rate. These bonuses are credited to the policyholder account but are deferred by the Company and amortized over future periods. The amount deferred was approximately $20.8 million, $19.8 million, and $21.4 million for the years ended December 31, 2007, 2006, and 2005, respectively.

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

	Years Ended December 31,		
	2007	2006	2005
	(In thousands)		

Net investment income (excluding derivatives)	$ 281,553	282,684	268,700
Derivative income (loss)	(14,600)	40,642	(10,215)
Net investment income	$ 266,953	323,326	258,485

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

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As previously described, derivatives are used to hedge the equity return component of the Company's fixed indexed annuity products with any gains or losses from the sale or expiration of the options, as well as period-to-period changes in fair values, reflected in net investment income. The increase in net investment income, excluding derivatives from 2005, is due to the increase in the overall size of the asset portfolio as a result of higher sales volume. Net investment income for 2006 included additional income from other income items as previously discussed.

The Company recorded an unlocking adjustment of $1.8 million and true-up adjustments of $3.3 million in 2007 resulting in decreased amortization of deferred acquisition costs. A true-up of assumptions in 2006 resulted in increased amortization of deferred policy acquisition costs of $3.1 million. Amortization of deferred policy acquisition costs in 2005 of $61.8 million includes an unlocking adjustment of $1.3 million relative to the future spreads on certain fixed indexed annuity products; modified surrender charges on certain annuities to reflect continuing lower new money rates; and reduced ultimate valuation rates for pay out on annuitization under all annuities. These adjustments in 2005 resulted in a decrease to the deferred asset balance and an increase in amortization in that year.

The Company is required to periodically adjust for actual experience that varies from that assumed. While management does not currently anticipate any impact from unlocking in 2008, facts and circumstances may arise in the future which require that the factors be reexamined.

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

	Years Ended December 31,		
	2007	2006	2005
	(In thousands)		
Fixed indexed annuities	$ 50,743	88,094	28,224
All other annuities	94,632	101,619	110,165
Gross contract interest	145,375	189,713	138,389
Bonus interest deferred and capitalized	(20,796)	(19,700)	(21,200)
Bonus interest amortization	9,356	8,880	6,543
Total contract interest	$ 133,935	178,893	123,732

In comparison by year, the fluctuation in reported contract interest amounts for fixed indexed annuities is due to sales and the effect of the positive or negative performance of the stock market on option values as noted previously. As previously noted, contract interest reflects variations due to the S&P 500 Index® performance relative to the fair value of fixed indexed products.

Other operating expenses totaled $16.9 million in 2007 compared to $21.8 million in 2006. The decrease in 2007 results from negative compensation costs recorded under liability accounting in the current year. The 2006 expense reflects an increase of $5.0 million due to increased compensation costs on stock options resulting from the change to liability classification for the Company’s plan. Compensation costs were $0.4 million in 2007 and 2005.

Other Operations

National Western's primary business encompasses its domestic and international life insurance operations and its annuity operations. However, the Company also has small real estate, nursing home, and other investment operations through its wholly-owned subsidiaries. Most of the income from the Company's subsidiaries is from a life interest in a trust. Gross income distributions from the trust totaled $4.1 million, pre-tax, in 2007 and $4.5 million and $3.9 million in 2006 and 2005, respectively.

The Company acquired a nursing home facility, which opened in late July, 2000 and is operated by an affiliated limited partnership, whose financial operating results are consolidated with those of the Company. Daily operations and management of the nursing home are performed by an experienced management company through a contract with the limited partnership. Nursing home operations generated $1.6 million, $1.0 million, and $1.3 million of operating earnings in 2007, 2006, and 2005, respectively.

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INVESTMENTS

General

The Company's investment philosophy emphasizes the careful handling of policyowners' and stockholders' funds to achieve security of principal, to obtain the maximum possible yield while maintaining security of principal, and to maintain liquidity in a measure consistent with current and long-term requirements of the Company.

The Company's overall conservative investment philosophy is reflected in the allocation of its investments, which is detailed below as of December 31, 2007 and 2006. The Company emphasizes investment grade debt securities, with smaller holdings in mortgage loans and policy loans.

	2007 Carrying Value (In thousands)	%	2006 Carrying Value (In thousands)	%
Debt securities	$ 5,659,604	95.9	$ 5,484,799	94.7
Mortgage loans	99,033	1.7	103,325	1.8
Policy loans	83,772	1.4	86,856	1.5
Derivatives	25,907	0.4	72,012	1.2
Equity securities	19,713	0.3	21,203	0.4
Real estate	11,994	0.2	12,113	0.2
Other	4,568	0.1	10,709	0.2
Totals	$ 5,904,591	100.0	$ 5,791,017	100.0

Debt and Equity Securities

The Company maintains a diversified portfolio which consists primarily of corporate, mortgage-backed, and public utility fixed income securities. Investments in mortgage-backed securities primarily include U.S. government agency pass-through securities and collateralized mortgage obligations ("CMO"). As of December 31, 2007 and 2006, the Company's debt securities portfolio consisted of the following:

	2007 Carrying Value (In thousands)	%	2006 Carrying Value (In thousands)	%
Corporate	$ 2,429,753	43.0	$ 2,384,762	43.5
Mortgage-backed securities	1,909,405	33.7	1,817,532	33.1
Public utilities	689,447	12.2	623,649	11.4
U.S. government/agencies	431,303	7.6	447,573	8.2
Asset-backed securities	107,019	1.9	122,101	2.2
States & political subdivisions	61,794	1.1	58,627	1.1
Foreign governments	30,883	0.5	30,555	0.5

Totals	$ 5,659,604	100.0	$ 5,484,799	100.0

The Company's investment guidelines prescribe limitations as a percent of the total investment portfolio by type of security and all holdings were within these threshold limits at December 31, 2007 and 2006. Because the Company's holdings of mortgage-backed securities are subject to prepayment and extension risk, the Company has substantially reduced these risks by investing primarily in collateralized mortgage obligations, which have more predictable cash flow patterns than pass-through securities. These securities, known as planned amortization class I ("PAC I"), very accurately defined maturity ("VADM") and sequential tranches are designed to amortize in a more predictable manner than other CMO classes or pass-throughs. The Company does not purchase tranches, such as PAC II and support tranches, that subject the portfolio to greater than average prepayment risk. Using this strategy, the Company can more effectively manage and reduce prepayment and extension risks, thereby helping to maintain the appropriate matching of the Company's assets and liabilities.

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Due to recent negative news relative to the mortgage industry and in particular subprime mortgages the Company has included detailed information below related to the exposure at December 31, 2007 in the debt securities portfolio. The Company holds approximately $107.0 million in asset-backed securities at December 31, 2007. This portfolio includes $52.7 million of manufactured housing bonds and $54.3 million of home equity loans (also referred to as subprime securities). The Company does not have any holdings in collaterized bond obligations (CBOs), collateralized debt obligations (CDOs), or collateralized loan obligations (CLOs). Principal risks in holding asset-backed securities are structural, credit, and capital market risks. Structural risks include the securities' priority in the issuer's capital structure, the adequacy of and ability to realize proceeds from collateral and the potential for prepayments. Credit risks include corporate credit risks or consumer credit risks for financing such as subprime mortgages. Capital market risks include the general level of interest rates and the liquidity for these securities in the marketplace.

The mortgage-backed portfolio includes one Alt-A security with a carrying value of $4.7 million. The Alt-A sector is a sub-sector of the jumbo prime MBS sector. The average FICO for an Alt-A borrower is approximately 715 compared to a score of 730 for a jumbo prime borrower. The Company's exposure to the Alt-A and subprime sectors is limited to investments in the senior tranches of structured securities collateralized by Alt-A or subprime residential mortgage loans. The asset-backed portfolio includes thirteen subprime securities, totaling $54.7 million. The subprime sector is generally categorized under the asset-backed sector. This sector lends to borrowers who do not qualify for prime interest rates due to poor or insufficient credit history. Subprime borrowers generally have FICO scores of 660 or below. The slowing housing market, rising interest rates, and relaxed underwriting standards for loans originated after 2005 resulted in higher delinquency rates and losses in 2007. These events caused illiquidity in the market and volatility in the market prices of subprime securities. All of the loans classified as Alt-A or subprime in the Company's portfolio as of December 31, 2007 were underwritten prior to 2005 as noted in the table below.

Investment Origination Year	December 31, 2007		December 31, 2006	
	Carrying Value	Market Value	Carrying Value	Market Value
	(In thousands)			
Subprime:				
1998	$ 14,026	14,045	16,426	16,471
2002	1,312	1,290	1,833	1,847
2003	7,761	7,232	7,963	8,014
2004	31,186	30,278	31,728	31,317
Subtotal subprime	$ 54,285	52,845	57,950	57,649
Alt A:				
2004	$ 4,665	4,665	4,837	4,837

As of December 31, 2007, all of the subprime securities were rated AAA. Seven of the thirteen subprime securities owned by the Company were wrapped by bond insurers in order to provide additional credit enhancement. These insurers were AMBAC Assurance Corporation, MBIA Insurance Corporation, and Financial Guaranty Insurance Company (FGIC). Subsequent to December 31, 2007, FGIC's rating was downgraded by Moody's Rating Service, which also caused the two subprime bonds that were insured by FGIC to be downgraded. Both of the securities insured by FGIC retained investment grade ratings and the rest of the subprime and Alt-A securities remained AAA-rated.

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In addition to diversification, an important aspect of the Company's investment approach is managing the credit quality of its investments in debt securities. Thorough credit analysis is performed on potential corporate investments including examination of a company's credit and industry outlook, financial ratios and trends, and event risks. This emphasis is reflected in the high average credit rating of the Company's portfolio with 98.2% held in investment grade securities. In the table below, investments in debt securities are classified according to credit ratings by Standard and Poor's ("S&P®"), or other nationally recognized statistical rating organizations if securities were not rated by S&P®.

	2007		2006	
	Carrying Value (In thousands)	%	Carrying Value (In thousands)	%
AAA and U.S. government	$ 2,564,975	45.3	$ 2,485,122	45.3
AA	301,469	5.3	284,965	5.2
A	1,399,581	24.7	1,330,980	24.3
BBB	1,293,358	22.9	1,237,151	22.5
BB and other below investment grade	100,221	1.8	146,581	2.7
Totals	$ 5,659,604	100.0	$ 5,484,799	100.0

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

	Below Investment Grade Debt Securities			
	Amortized Cost	Carrying Value	Fair Value	% of Invested Assets
	(In thousands except percentages)			
December 31, 2007	$ 105,067	100,221	97,618	1.7%
December 31, 2006	$ 145,858	146,581	146,170	2.5%

As of December 31, 2007, the Company's percentage of below investment grade securities compared to total invested assets totaled 1.7%. The decrease from 2006 is primarily due to principal payments received and settlements from bankruptcy proceedings as well as sales, tenders and a maturity. The Company's holdings of below investment grade securities as a percentage of total invested assets is relatively small compared to industry averages.

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Holdings in below investment grade securities by category as of December 31, 2007 are summarized below, including 2006 fair values for comparison. The Company is continually monitoring developments in these industries that may affect security valuation issues.

	Below Investment Grade Debt Securities			
Industry Category	Amortized Cost 2007	Carrying Value 2007	Fair Value 2007	Fair Value 2006
	(In thousands)			
Retail	$ 21,968	21,604	21,597	21,723
Telecommunications	19,998	17,244	17,244	17,999
Medical	13,000	12,606	11,960	12,481
Utilities/energy	12,415	12,416	12,332	13,888
Asset-backed	11,273	11,273	10,321	10,683
Auto finance	6,146	6,146	5,144	6,200
Manufacturing	5,493	5,493	5,581	5,466
Transportation	2,288	2,757	2,757	3,089
Other	12,486	10,682	10,682	10,467
Totals				
	$ 105,067	100,221	97,618	101,996

Generally accepted accounting principles require that investments in debt securities be written down to fair value when declines in value are judged to be other-than-temporary. Since quoted market prices are readily available and understood by investors and creditors, they are the mandated source for fair value estimation when available. In some instances, quoted market prices may not be available for securities that have limited buyer demand. When the quoted market price is not available other valuation techniques such as discounted cash flow analysis and fundamental analysis may be used. Although the Company is required to write down securities deemed to be impaired on an other-than-temporary basis to quoted market prices, the estimated ultimate recovery value of the impaired security is often anticipated to be an amount in excess of the quoted market price. This is due to the influence that "distressed bond" traders may have in depressing market prices in order to generate a yield commensurate with the investment risk of such securities. Consequently, financial results can significantly vary from period to period for securities written down to quoted market prices which may be subsequently redeemed at levels consistent with expected recovery value.

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

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The Company is required to classify its investments in debt and equity securities into one of three categories: (a) trading securities, (b) securities available for sale, or (c) securities held to maturity. The Company purchases securities with the intent to hold to maturity and accordingly does not maintain a portfolio of trading securities. Of the remaining two categories, available for sale and held to maturity, the Company makes a determination as to which category based on various factors including the type and quality of the particular security and how it will be incorporated into the Company's overall asset/liability management strategy. As shown in the table below, at December 31, 2007, approximately 33.5% of the Company's total debt and equity securities, based on fair values, were classified as securities available for sale. These holdings provide flexibility to the Company to react to market opportunities and conditions and to practice active management within the portfolio to provide adequate liquidity to meet policyholder obligations and other cash needs.

		Fair Value	Amortized Cost (In thousands)	Unrealized Gains (Losses)
Securities held to maturity:				
Debt securities	$	3,774,193	3,778,603	(4,410)
Securities available for sale:				
Debt securities		1,881,001	1,892,224	(11,223)
Equity securities		19,713	12,301	7,412
Totals	$	5,674,907	5,683,128	(8,221)

In accordance with the provisions of SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, the Company may under certain conditions transfer a debt security from held to maturity to available for sale. No transfers were made in 2007 or 2006. During 2007, one security was sold from the held to maturity portfolio due to credit deterioration, with an amortized cost of $5.2 million, resulting in a minimal realized gain. No held to maturity sales were made during 2006. During 2005, two securities were sold from the held to maturity portfolio due to credit deterioration with an amortized cost of $10.0 million resulting in a realized gain of $0.9 million.

Mortgage Loans and Real Estate

In general, the Company originates loans on high quality, income-producing properties such as shopping centers, freestanding retail stores, office buildings, industrial and sales or service facilities, selected apartment buildings, motels, and health care facilities. The location of these properties is typically in major metropolitan areas that offer a potential for property value appreciation. 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 lessee. This approach has proven to result in higher quality mortgage loans with fewer defaults.

The Company requires a minimum specified yield on mortgage loan investments. In the loan interest rate environment of the past few years, fewer loan opportunities have been available which met the Company's required rate of return. As a result, the Company's portfolio has declined.

The Company's direct investments in real estate are not a significant portion of its total investment portfolio as many of these investments were acquired through mortgage loan foreclosures. The Company also participates in several real estate joint ventures and limited partnerships that invest primarily in income-producing retail properties. These investments have enhanced the Company's overall investment portfolio returns.

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The Company held net investments in mortgage loans totaling $99.0 million and $103.3 million at December 31, 2007 and 2006, respectively. The diversification of the portfolio by geographic region and by property type was as follows:

	2007		2006	
Geographic Region:	Amount (In thousands)	%	Amount (In thousands)	%
West South Central	$ 62,160	62.8	$ 68,528	66.3
East North Central	11,572	11.7	6,042	5.8
Pacific	9,970	10.1	10,684	10.3
Mountain	8,240	8.3	10,787	10.5
South Atlantic	4,590	4.6	4,718	4.6
All other	2,501	2.5	2,566	2.5
Totals	$ 99,033	100.0	$ 103,325	100.0

	2007		2006	
Property Type:	Amount (In thousands)	%	Amount (In thousands)	%
Retail	$ 71,893	72.6	$ 70,922	68.7
Office	16,721	16.9	22,730	22.0
Hotel/Motel	6,490	6.5	6,649	6.4
Land/Lots	3,923	4.0	3,015	2.9
All other	6	-	9	-
Totals	$ 99,033	100.0	$ 103,325	100.0

The Company does not recognize interest income on loans past due ninety days or more. At December 31, 2007 and 2006, the Company had two mortgage loans past due six months or more with the principal balance totaling $7.0 million for both years. Interest income not recognized for past due loans totaled approximately $0.4 million in 2007 and 2006.

The contractual maturities of mortgage loan principal balances at December 31, 2007 are as follows:

	Principal Due (In thousands)
Due in one year or less	$ 1,233
Due after one year through five years	54,937
Due after five years through ten years	39,001
Due after ten years through fifteen years	7,980

Due after fifteen years	-
Total	$ 103,151

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In the fourth quarter of 2006, a valuation loss of $2.1 million was recorded and in 2007, an additional allowance of $1.5 million was recorded related to one mortgage loan based on information which indicated that the Company may not collect all amounts in accordance with the mortgage agreement. While the Company closely manages its mortgage loan portfolio, future changes in economic conditions can result in impairments beyond those currently identified.

The Company's real estate investments totaled approximately $12.0 million and $12.1 million at December 31, 2007 and 2006, respectively, and consist primarily of income-producing properties which are being operated by a wholly-owned subsidiary of the Company. The Company recognized operating income on these properties of approximately $1.0 million, $0.8 million, and $1.0 million for the years ended December 31, 2007, 2006, and 2005, respectively. The Company monitors the conditions and market values of these properties on a regular basis and makes repairs and capital improvements to keep the properties in good condition. The Company recorded net realized investment gains of $0.2 million, $0.6 million, and $6.7 million in 2007, 2006, and 2005, respectively associated with these properties.

Market Risk

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

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

	December 31,	
	2007	2006
	(In thousands except percentages)	
Debt securities - fair value	$ 5,655,194	5,448,990
Debt securities - amortized cost	$ 5,670,827	5,498,461
Fair value as a percentage of amortized cost	99.72%	99.10%
Unrealized losses at year-end	$ (15,633)	(49,471)
Ten-year U.S. Treasury bond - increase (decrease) in yield for the year	(0.68) %	0.31%

	Net Balance at December 31, 2007	Unrealized Losses Net Balance at December 31, 2006	Change in Net Balance
		(In thousands)	
Debt securities held to maturity	$ (4,410)	(35,809)	31,399
Debt securities available for sale	(11,223)	(13,662)	2,439
Totals	$ (15,633)	(49,471)	33,838

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Changes in interest rates typically have a significant impact on the fair values of the Company's debt securities. During 2007, market interest rates of the ten-year U.S. Treasury bond decreased 68 basis points from year end 2006 resulting in a decrease in the unrealized loss balance of $33.8 million on a portfolio of approximately $5.7 billion. This amount is reasonable based upon the current market factors and the current investment portfolio characteristics. The Company would expect similar results in the future from a significant upward or downward movement in market rates. However, since the majority of the Company's debt securities are classified as held to maturity, which are recorded at amortized cost, changes in fair values have relatively small effects on the Company's financial results.

The Company analyzes interest rate risk through ongoing cash flow testing required for insurance regulatory purposes. Computer models are used to perform cash flow testing under various commonly used stress test interest rate scenarios to determine if existing assets would be sufficient to meet projected liability outflows. Sensitivity analysis allows the Company to measure the potential gain or loss in fair value of its interest-sensitive instruments and to protect its economic value and achieve a predictable spread between what is earned on invested assets and what is paid on liabilities. The Company seeks to minimize the impact of interest rate risk through surrender charges that are imposed to discourage policy surrenders and to offset unamortized acquisition costs. Interest rate changes can be anticipated in the computer models and the corresponding risk addressed by management actions affecting asset and liability instruments. However, potential changes in the values of financial instruments indicated by hypothetical interest rate changes will likely be different from actual changes experienced, and the differences could be significant.

The following table illustrates the market risk sensitivity of the Company's interest rate-sensitive assets. The table shows the effect of a change in interest rates on the fair value of the portfolio using models that measure the change in fair value arising from an immediate and sustained change in interest rates in increments of 100 basis points.

	Fair Values of Assets Changes in Interest Rates in Basis Points				
	-100	0	+ 100	+ 200	+ 300
	(In thousands)				
Debt and equity securities	$ 5,928,446	5,674,907	5,379,307	5,072,729	4,779,155
Mortgage loans	104,093	100,786	97,658	94,696	91,889
Policy loans	108,017	117,958	99,354	91,763	85,079
Other loans	2,396	2,383	2,369	2,356	2,343
Derivatives	25,180	25,907	26,639	27,385	28,142

Expected maturities of debt securities may differ from contractual maturities due to call or prepayment provisions. The models assume that prepayments on mortgage-backed securities are influenced by agency and pool types, the level of interest rates, loan age, refinancing incentive, month of the year, and underlying coupon. During periods of declining interest rates, principal payments on mortgage-backed securities and collateralized mortgage obligations increase as the underlying mortgages are prepaid. Conversely, during periods of rising interest rates, the rate of prepayment slows. Both of these situations can expose the Company to the possibility of asset-liability cash flow and yield mismatch. The model uses a proprietary method of sampling interest rate paths along with a mortgage prepayment model to derive future cash flows. The initial interest rates used are based on the current U.S. Treasury yield curve as well as current mortgage rates for the various types of collateral in the portfolio.

Mortgage and other loans were modeled by discounting scheduled cash flows through the scheduled maturities of the loans, starting with interest rates currently being offered for similar loans to borrowers with similar credit ratings. Policy loans were modeled by discounting estimated cash flows using U.S. Treasury Bill interest rates as the base rates at December 31, 2007. The estimated cash flows include assumptions as to whether such loans will be

repaid by the policyholders or settled upon payment of death or surrender benefits on the underlying insurance contracts and incorporate both Company experience and mortality assumptions associated with such contracts.

In addition to the securities analyzed above, the Company invests in index options which are derivative financial instruments used to hedge the equity return component of the Company's indexed annuity and life products. The values of these options are primarily impacted by equity price risk, as the options' fair values are dependent on the performance of the S&P 500 Index®. However, increases or decreases in investment returns from these options are substantially offset by corresponding increases or decreases in amounts paid to indexed policyholders, subject to minimum guaranteed policy interest rates.

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The Company's market risk liabilities, which include policy liabilities for annuity and supplemental contracts, are managed for interest rate risk through cash flow testing as previously described. As part of this cash flow testing, the Company has analyzed the potential impact on net earnings of a 100 basis point decrease and increases in increments of 100 basis points in the U.S. Treasury yield curve as of December 31, 2007. The potential impact on net earnings from these interest rate changes are summarized below.

	Changes in Interest Rates in Basis Points			
	-100	+100	+200	+300
	(In thousands)			
Impact on net earnings	$ (996)	(782)	(1,966)	(4,166)

These estimated impacts in earnings are net of tax effects and the estimated effects of deferred policy acquisition costs.

The above described scenarios produce estimated changes in cash flows as well as cash flow reinvestment projections. Estimated cash flows in the Company's model assume cash flow reinvestments which are representative of the Company's current investment strategy. Calls and prepayments include scheduled maturities and those expected to occur which would benefit the security issuers. Assumed policy surrenders consider differences and relationships between credited interest rates and market interest rates as well as surrender charges on individual policies. The impact to earnings also includes the expected effects on amortization of deferred policy acquisition costs. The model considers only annuity and supplemental contracts in force at December 31, 2007, and does not consider new product sales or the possible impact of interest rate changes on sales.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Liquidity requirements are met primarily by funds provided from operations. Premium deposits and annuity considerations, investment income, and investment maturities and prepayments are the primary sources of funds while investment purchases, policy benefits in the form of claims, and payments to policyholders and contract holders in connection with surrenders and withdrawals as well as operating expenses are the primary uses of funds. To ensure the Company will be able to pay future commitments, the funds received as premium payments and deposits are invested in high quality investments, primarily fixed income securities. Funds are invested with the intent that the income from investments, plus proceeds from maturities, will meet the ongoing cash flow needs of the Company. The approach of matching asset and liability durations and yields requires an appropriate mix of investments. Although the Company historically has not been put in the position of liquidating invested assets to provide cash flow, its investments consist primarily of marketable debt securities that could be readily converted to cash for liquidity needs. The Company may also borrow up to $40 million on its bank line of credit for short-term cash needs.

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A primary liquidity concern is the risk of an extraordinary level of early policyholder withdrawals. The Company includes provisions within its annuity and universal life insurance policies, such as surrender and market value adjustment charges, that help limit and discourage early withdrawals. The following table sets forth withdrawal characteristics of the Company's annuity reserves and deposit liabilities (based on statutory liability values) as of the dates indicated.

	December 31, 2007		December 31, 2006	
	Amount	% of Total	Amount	% of Total
	($ Amounts in thousands)			
Not subject to discretionary withdrawal provisions	$ 307,133	6.8%	$ 296,651	6.6%
Subject to discretionary withdrawal, with adjustment:				
With market value adjustment	1,368,899	30.6%	1,390,428	31.3%
At contract value less current surrender charge of 5% or more	2,295,358	51.3%	2,216,531	49.9%
Subtotal	3,971,390	88.7%	3,903,610	87.8%
Subject to discretionary withdrawal at contract value with no surrender charge or surrender charge of less than 5%	506,247	11.3%	540,519	12.2%
Total annuity reserves and deposit liabilities	$ 4,477,637	100.0%	$ 4,444,129	100.0%

The actual amounts paid by product line in connection with surrenders and withdrawals for the years ended December 31 are noted in the table below.

	2007	2006	2005
		(In thousands)	
Product Line:			
Traditional Life	$ 6,408	4,845	5,419
Universal Life	34,356	30,566	31,143
Annuities	435,800	363,407	303,747
Total	$ 476,564	398,818	340,309

The above contractual withdrawals, as well as the level of surrenders experienced, were generally consistent with the Company's assumptions in asset-liability management, and the associated cash outflows did not have an adverse impact on overall liquidity. Individual life insurance policies are less susceptible to withdrawal than annuity reserves and deposit liabilities because policyholders may incur surrender charges and undergo a new underwriting process in order to obtain a new insurance policy. Cash flow projections and tests under various market interest rate scenarios are also performed to assist in evaluating liquidity needs and adequacy. The Company currently expects available liquidity sources and future cash flows to be more than adequate to meet the demand for funds.

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In the past, cash flows from the Company's insurance operations have been sufficient to meet current needs. Cash flows from operating activities were $258 million, $224 million, and $201 million in 2007, 2006, and 2005, respectively. The Company also has significant cash flows from both scheduled and unscheduled investment security maturities, redemptions, and prepayments. These cash flows totaled $518 million, $399 million, and $485 million in 2007, 2006, and 2005, respectively. Cash flows from security maturities, redemptions, and prepayments were relatively higher over the last three years due to the decline in interest rates. These cash flow items could be reduced if interest rates rise in 2008. Net cash flows from the Company's universal life and annuity deposit product operations totaled inflows (outflows) of $(93) million, $25 million, and $153 million in 2007, 2006, and 2005, respectively.

Capital Resources

The Company relies on stockholders' equity for its capital resources as there is no long-term debt outstanding and the Company does not anticipate the need for any long-term debt in the near future. As of December 31, 2007, the Company had commitments of approximately $8.1 million which were approved by the Company's Board of Directors for the construction of a nursing home facility in Central Texas. The construction of the new facility began in 2007.

OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

It is Company practice to not enter into off-balance sheet arrangements or to issue guarantees to third parties, other than in the normal course of issuing insurance contracts. Commitments related to insurance products sold are reflected as liabilities for future policy benefits. Insurance contracts guarantee certain performances by the Company.

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

The table below summarizes future estimated cash payments under existing contractual obligations.

		Payment due by Period			
	Total	Less Than 1 Year	1 – 3 Years	3 – 5 Years	More Than 5 Years
			(In thousands)		
Operating lease obligations (1)	$ 2,023	846	1,177	-	-
Construction commitments	8,096	8,096	-	-	-
Life claims payable (2)	50,014	50,014	-	-	-
Other long-term reserve liabilities reflected on the balance sheet under GAAP (3)	6,910,276	649,040	1,105,566	1,342,661	3,813,009
Total	$ 6,970,409	707,996	1,106,743	1,342,661	3,813,009

(1) Refer to Note 9 in the Notes to Consolidated Financial Statements relating to Company leases.

(2) Life claims payable include benefit and claim liabilities for which the Company believes the amount and timing of the payment is essentially fixed and determinable. Such amounts generally relate to incurred and reported death and critical illness claims including an estimate of claims incurred but not reported.

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(3) Other long-term liabilities include estimated life and annuity obligations related to death claims, policy surrenders, policy withdrawals, maturities and annuity payments based on mortality, lapse, annuitization, and withdrawal assumptions consistent with the Company's historical experience. These estimated life and annuity obligations are undiscounted projected cash outflows that assume interest crediting and market growth consistent with assumptions used in amortizing deferred acquisition costs. They do not include any offsets for future premiums or deposits. Other long-term liabilities also include determinable payout patterns related to immediate annuities. In contrast to this table, the majority of the Company's liabilities for future obligations recorded on the consolidated balance sheet do not incorporate future credited interest and market growth. Therefore, the estimated life and annuity obligations presented in this table significantly exceed the life and annuity liabilities recorded in the reserves for future life and annuity obligations. Due to the significance of the assumptions used, the actual cash outflows will differ both in amount and timing, possibly materially, from these estimates.

ACCOUNTING STANDARDS AND CHANGES IN ACCOUNTING

Recently Issued Accounting Standards

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and requires additional disclosures about fair value measurements. This Statement does not require any new fair value measurements, but the application of this Statement could change current practices in determining fair value. The Company plans to adopt this guidance effective January 1, 2008. The Company is currently assessing the impact of SFAS No. 157 on the Company's consolidated financial position and results of operations.

In February of 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company does not currently anticipate an impact from adopting SFAS No. 159.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements. SFAS No. 160 establishes accounting and reporting standards for entities that have equity investments that are not attributable directly to the parent, called noncontrolling interests or minority interests. Specifically, SFAS No. 160 states where and how to report noncontrolling interests in the consolidated statements of financial position and operations, how to account for changes in noncontrolling interests and provides disclosure requirements. The provisions of SFAS No. 160 are effective beginning January 1, 2009. The Company is currently evaluating the impact that the adoption of this statement will have on the consolidated financial position, results of operations and disclosures.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations. SFAS No. 141(R) establishes how an entity accounts for the identifiable assets acquired, liabilities assumed, and any noncontrolling interests acquired, how to account for goodwill acquired and determines what disclosures are required as part of a business combination. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, early adoption is prohibited. The Company is currently evaluating the impact that the adoption of this statement will have on the consolidated financial position, results of operations and disclosures.

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Change in Accounting

In September 2005, the AICPA issued Statement of Position ("SOP") 05-1, Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts, which is effective for internal replacements occurring in fiscal years beginning after December 15, 2006. SOP 05-1 provides guidance on accounting by insurance enterprises for deferred acquisition costs on internal replacements of insurance and investment contracts other than those specifically described in SFAS No. 97. SOP 05-1 defines an internal replacement as a modification in product benefits, features, rights, or coverages that occurs by the exchange of a contract for a new contract, or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. The Company has an impact related to the adoption of SOP 05-1 for contracts which have annuitized and relative to reinstatements of contracts in that the unamortized deferred acquisition costs and deferred sales inducement assets must be written-off at the time of annuitization and may not be continued related to reinstatements. SOP 05-1 results in changes in assumptions relative to estimated gross profits which affects unamortized deferred acquisition costs, unearned revenue liabilities, and deferred sales inducement balances as of the beginning of the year. The effect of this SOP on beginning retained earnings as of January 1, 2007 was a decrease of $2.2 million, net of tax, as detailed below.

		Amounts (In thousands)
Write-off of deferred acquisition cost	$	3,321
Adjustment to deferred annuity revenue		56
		3,377
Federal income tax		(1,182)
Cumulative effect of change in accounting for internal replacements and investment contracts	$	2,195

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information called for by Item 7A is set forth in the Investments section of the Management's Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Attachment A, Index to Financial Statements and Schedules, on page 76.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There have been no changes in auditors or disagreements with auditors which are reportable pursuant to Item 304 of Regulation S-K.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to ensure that information to be disclosed in reports filed or submitted under the Securities and Exchange Act of 1934 is recorded, processed, summarized and reported within required time periods. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding disclosure matters.

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The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

Management's Report on Internal Control Over Financial Reporting

The management of National Western Life Insurance Company ("Company") is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) and Rule 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles. The Company's management, including the Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2007. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control - Integrated Framework. Based on the Company's assessment under this framework, management concluded that the Company maintained effective internal control over financial reporting as of December 31, 2007.

Changes in Internal Control Over Financial Reporting

Internal controls over financial reporting change as the Company modifies and enhances its systems and processes to meet business needs. Any significant changes in controls are evaluated prior to implementation to help ensure continued effectiveness of internal controls and the control environment. While changes have taken place in internal controls during the quarter ended December 31, 2007, there have been no changes that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of this examination.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
National Western Life Insurance Company:

We have audited National Western Life insurance Company’s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). National Western Life Insurance Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion, included in the accompanying Management’s Report on Internal Control Over Financial Reporting on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, our audit included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, National Western Life Insurance Company, maintained in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of National Western Life Insurance Company and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of earnings, comprehensive income, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2007, and our report dated March 17, 2008 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP
Austin, Texas
March 17, 2008

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ITEM 9B. OTHER INFORMATION

There is no information required to be disclosed on Form 8-K for the quarter ended December 31, 2007 which has not been previously reported.

PART III

ITEM 10. DIRECTORS, AND EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Identification of Directors

The following information as of January 31, 2008, is furnished with respect to each director. All terms expire in June of 2008.

Name of Director	Principal Occupation During Last Five Years and Directorships	First Elected	Age
Robert L. Moody (1) (3)	Chairman of the Board and Chief Executive Officer of the Company	1963	72
Ross R. Moody (1) (3)	President and Chief Operating Officer of the Company	1981	45
Harry L. Edwards (4)	Retired; Former President and Chief Operating Officer of the Company, Austin, Texas	1969	86
Stephen E. Glasgow (2) (4)	Partner, G-2 Development, L.P. Austin, Texas	2004	45
E. Douglas McLeod	Director of Development, The Moody Foundation, Galveston, Texas	1979	66
Charles D. Milos (1) (3)	Senior Vice President of the Company	1981	62
Frances A. Moody-Dahlberg	Executive Director, The Moody Foundation, Dallas, Texas	1990	38
Russell S. Moody	Investments, League City, Texas	1988	46
Louis E. Pauls, Jr. (2)	President, Louis Pauls & Company; Investments, Galveston, Texas	1971	72
E. J. Pederson (2) (4)	Former Executive Vice President, The University of Texas Medical Branch, Galveston, Texas	1992	60

(1) Member of Executive Committee; (2) Member of Audit Committee; (3) Member of Investment Committee; (4) Member of Compensation and Stock Option Committee.

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Under the Company's Articles of Incorporation, respective members of the Board of Directors are elected by the Company's two classes of common stockholders. One-third (1/3) of the directors, plus one director for any remaining fraction, are elected by the Class A stockholders and the remaining directors are elected by the Class B stockholders. The Board of Directors, as elected by the respective classes of stockholders, is as follows.

Class A	Class B
Robert L. Moody	E. Douglas McLeod
Harry L. Edwards	Charles D. Milos
Stephen E. Glasgow	Frances A. Moody-Dahlberg
E. J. Pederson	Ross R. Moody
	Russell S. Moody
	Louis E. Pauls, Jr.

Committees

The Company's Board of Directors has the following standing committees:

Executive Committee. The Company's Executive Committee may exercise all of the powers of the Board when the Board is not in session except that the Executive Committee has no power to alter, amend, or repeal the By-Laws or take any other action that legally may be taken only by the full Board of Directors. The Chairmen of the Board serves as Chairman of the Executive Committee.

Audit Committee. The Audit Committee of the Board of Directors consists of three non-employee directors. The committee is primarily responsible for oversight of the Company's financial statements and controls; assessing and ensuring the independence, qualifications and performance of the independent auditors; approving the independent auditor's services and fees; reviewing and approving all related party transactions; overseeing and directing internal audit activities; reviewing the Company's financial risk assessment process and ethical, legal, and regulatory compliance programs; and reviewing and approving the annual audited financial statements for the Company before issuance. Mr. Louis E. Pauls, Jr. serves as Chairman of the Audit Committee.

The Company has at least one person that it believes is qualified to be the Audit Committee Financial Expert. However, the Company has not designated anyone as an Audit Committee Financial Expert at this time as the Company's Board of Directors has concluded that the ability of the Audit Committee to perform its duties would not be impaired by the failure to designate one of the committee members as an "Audit Committee Financial Expert" if its members otherwise satisfied the NASDAQ standards and rules and regulations of the SEC.

Investment Committee. The Investment Committee of the Board of Directors is comprised of three directors (and one Company officer) and has the responsibility for oversight of the Company's investment transactions including compliance with investment guidelines approved by the full Board of Directors. The Chairman of the Board serves as Chairman of the Investment Committee.

Compensation and Stock Option Committee. The Compensation and Stock Option Committee consists of three outside directors and the committee has oversight responsibility for the compensation programs for the Company's named executive officers as well as all other officers. Mr. Harry L. Edwards serves as Chairman of the Compensation

and Stock Option Committee. The Committee's report on executive compensation is included in Item 11 of this report on Form 10-K.

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Identification of Executive Officers

The following is a list of the Company's executive officers, their ages, and their positions and offices as of January 31, 2008.

Name of Officer	Age	Position (Year elected to position)
Robert L. Moody	72	Chairman of the Board and Chief Executive Officer (1963-1968, 1971-1980, 1981), Director
Ross R. Moody	45	President and Chief Operating Officer (1992), Director
Scott E. Arendale	64	Senior Vice President - International Marketing (2006)
Paul D. Facey	56	Senior Vice President - Chief Actuary (1992)
S. Christopher Johnson	39	Senior Vice President - Chief Marketing Officer (2006)
Charles D. Milos	62	Senior Vice President - Mortgage Loans and Real Estate (1990), Director
James P. Payne	63	Senior Vice President - Secretary (1998)
Brian M. Pribyl	49	Senior Vice President - Chief Financial & Administrative Officer and Treasurer (2001)
Patricia L. Scheuer	56	Senior Vice President - Chief Investment Officer (1992)

There are no arrangements or understandings pursuant to which any officer was elected. All officers hold office for a term of one year or until their successors are elected and qualified, unless otherwise specified by the Board of Directors.

Identification of Certain Significant Employees

None in addition to the individuals identified as Executive Officers above.

Family Relationships

Robert L. Moody is the father of Frances A. Moody-Dahlberg, Ross R. Moody, and Russell S. Moody, and the brother-in-law of E. Douglas McLeod.

Business Experience

All of the Executive Officers listed above have served in various executive capacities with the Company for more than five years, with the exception of the following:

Mr. Johnson was National Promotions Director of National Fitness Corp. from 1992 to 1993; Branch Manager of Hooper Holmes/Portamedic from 1993 to 1994; Agent/Consultant with Financial Facts & Services from 1994 to 1995; Field Sales Manager of Financial Brokerage from 1995 to 1998; Senior Sales Representative with Mutual of Omaha

from 1998 to 1999 and Senior Regional Vice President of Allstate - Lincoln Benefit Life from 1999 to 2006.

Mr. Arendale was Vice President of International Sales Development with the Company for the preceding five years prior to being promoted to his current position in June 2006.

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Involvement in Certain Legal Proceedings

During the past five years there have been no criminal proceedings, judgments, injunctions or bankruptcy petitions material to an evaluation of the ability or integrity of any of the Company's directors or executive officers.

Code of Ethics

The Company has adopted a Code of Ethics and Conduct for all directors, officers, and employees. This Code is intended to comply with the requirement of the Federal Securities Laws and the requirements of NASDAQ. The Code of Ethics and Conduct has been posted to the Company's website at www.nationalwesternlife.com and is available upon request.

ITEM 11. EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Purpose

The Compensation and Stock Option Committee ("Compensation Committee") is appointed by and serves at the discretion of the Company's Board of Directors. The Board of Directors has determined that the Compensation Committee consist of no fewer than three members who all, or the majority of, meet the independence requirements of the listing standards of NASDAQ. The purpose of the Compensation Committee is to discharge the Board of Directors' responsibilities for reviewing and establishing the compensation not just for the Chief Executive Officer, Chief Financial Officer, and the other three most highly paid executive officers, but for all of the Company's officers. These compensation elements include base salary, annual incentive bonuses, discretionary bonuses and awards, stock option grants, and any other officer compensation arrangements.

To assist the Compensation Committee with its responsibilities, it is supported by the Company's Human Resource, Legal and Financial departments. The Compensation Committee may retain, and has retained, independent compensation consultants who report directly to the members of the Compensation Committee. Meetings of the Compensation Committee are scheduled during the year with additional meetings on an as-necessary interim basis and include sessions without members of management present. The Compensation Committee reports to the Board of Directors on its actions and recommendations.

Compensation Philosophy and Objectives

The Company's overall philosophy in setting compensation policies is to align pay with performance while at the same time providing a competitive compensation that allows the Company to retain and attract talented individuals. Within this overall philosophy, the Compensation Committee has adopted several key principles to help guide compensation decisions for executive officers:

- Provide a competitive total compensation package so the Company can attract, retain, and motivate talented individuals;
- Tie compensation in part to overall Company financial performance so that executives are held accountable through their compensation for the performance of the business;
- Tie compensation in part to the Company's stock performance through stock options to align executives' interests with those of the Company's stockholders; and
-

Maintain a committee of the Board of Directors independent of senior management that may engage independent compensation consultants as needed to review and establish compensation for executive officers.

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Elements of Executive Compensation

Officer compensation arrangements, including executive officers, are reviewed and approved annually by the Compensation Committee typically at its April meeting. The Compensation Committee focuses primarily on the following components in forming the total compensation package for each Company executive officer:

- Base salary;
- Annual cash incentive bonus based on Company performance versus predetermined targets;
- Discretionary cash bonus based upon individual performance; and
- Long-term incentive compensation in the form of stock options.

The mix of executive compensation elements is based upon a philosophy of correlating a portion of executive compensation with the Company's financial and stock performance thus putting a segment of executive officer annual and long-term compensation at-risk. This structure provides upside potential and downside risk for senior executive positions in recognition that these roles have greater influence on the Company's performance.

Base Salaries

To ensure that compensation levels are reasonably competitive with market rates, the Compensation Committee engages independent compensation consultants from time-to-time to conduct a survey of executive compensation in a defined group of companies comparable to the Company. The surveyed companies are selected based on similar products and product lines, comparable financial size in terms of assets and revenues, and other known competitive factors. This process was most recently completed during 2005 when the Compensation Committee retained two separate external compensation consultants to conduct an officer compensation review. While the primary focus of the survey was upon base salaries, the independent consultants were also asked to provide total compensation data for the various officer positions and levels in order to target current and future appropriate compensation levels. The Compensation Committee's past practice has been to generally target base salaries between the 25th and 75th percentile range of the identified peer group.

At the time of filing this report on Form 10-K for the year ended December 31, 2007, the Company has again engaged independent compensation consultants (Towers Perrin) to update the work performed in 2005 following the same criteria and scope as was done at the time of previous study. Companies to be considered in the benchmarking process include, among others, American Equity Investment Life, American Fidelity Life, AVIVA, Best Meridian Insurance, Citizens Insurance Company, Lincoln National Life, Old Mutual Financial Network, Pan-American Life, and Sammons Financial Group. It is anticipated that the results of the independent compensation consultants' study will be available to the members of the Compensation Committee for their April 2008 meeting.

In addition to market information, the Compensation Committee also subjectively reviews and evaluates the level of performance of the Company and of each officer. In approving salary and incentive compensation for individuals other than the Chief Executive Officer and the President and Chief Operating Officer, the Compensation Committee considers recommendations from these two individuals concerning the other Company officers incorporating such factors as individual performance, the scope and complexity of their current responsibilities, length of time in their current positions, value of the executive's position to the market, and difficulty of replacement of the officer. This evaluation focuses most heavily on the base salary levels for each officer.

Annual Incentive Compensation

For certain executive officer positions, the Compensation Committee has determined that annual incentive bonuses are an integral part of the executive's compensation package as the cash bonuses create a direct link between executive

compensation and individual and business performance. Consequently, there are three bonus programs in effect which are reviewed and approved annually by the Compensation Committee:

- Executive Officer Bonus Program
- Domestic Marketing Officer Bonus Program
- International Marketing Officer Bonus Program

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Executive Officer Bonus Program. Currently, the participants in the Executive Officer Bonus Program ("Executive Bonus") are the Chairman and Chief Executive Officer (Mr. Robert Moody), the President and Chief Operating Officer (Mr. Ross Moody), and the Senior Vice President, Chief Financial & Administrative Officer (Mr. Brian Pribyl). In order to tie the compensation under the program with the Company's financial performance, the Executive Bonus includes metrics associated with the Company's annual sales performance, expense management and profitability. In accordance with the program, the Compensation Committee set performance targets for each metric at various levels equating to various bonus level percentages as follows:

Financial Performance Metric	Bonus % Range
Sales	0% to 15%
Expense Management	0% to 12%
Profitability	0% to 12%

The sum of the achieved bonus percentages for each metric, subject to a maximum aggregate percentage of 30%, is applied to the weighted average base salary for each participant to determine the earned bonus amount. The bonus determination under the program is subject to review by the Company's independent auditors and the profitability metric is based upon the Company's audited financial statements for the year. Bonus awards are generally paid in the year following the annual financial performance metrics concurrent with the completion of the Company's audit of the year-end financial statements and approval of the award amounts by the Compensation Committee. Accordingly, the Executive Bonus payments in 2007 were primarily based upon the results achieved for 2006 financial performance metrics established by the Compensation Committee. The bonus percentage achieved under the program was 30% and 23% in 2007 and 2006, respectively.

Domestic Marketing Officer Bonus Program. Participants in the Domestic Marketing Officer Bonus Program ("Domestic Bonus") are all domestic marketing officers including assistant vice presidents, vice presidents, and the senior vice president (Mr. Chris Johnson). As these individuals are most able to influence the outcome of the Company's financial performance in terms of sales, the program is heavily weighted toward this metric. The measures associated with this program include the Company's annual sales performance, persistency of policies sold and expense management. These measures were incorporated into the program to award not only the amount of sales but the quality of sales and the management of the costs incurred to acquire the business sold. Unlike the Executive Bonus, the Domestic Bonus metrics assume a targeted level of performance or "par" level to which the Compensation Committee assigned a targeted bonus percentage in order to reflect a disproportionate weighting of the potential bonus award toward the sales metric. If the targeted level for each metric is attained, the sum of the metrics is equal to a bonus percentage of 100% which is applied to the weighted average base salary of each participant. The performance metrics set by the Compensation Committee equating to various bonus level percentages under the program are as follows:

Financial Performance Metric	Par Bonus Level	Bonus % Range
Sales	70%	0% to no limit
Persistency	15%	0% to 30%

Expense Management	15%	0% to 30%

The Domestic Bonus also differs from the Executive Bonus in that the bonus percentage is not subject to a cap and bonus amounts may be advanced quarterly based upon the year-to-date results achieved. Sales metric amounts under the program above the par level increase incrementally with an additional bonus percentage added for every increment of additional sales established by the Compensation Committee. However, if the aggregate sum of the three performance metrics exceeds 100%, the bonus award paid at the end of the calendar year is limited to 100% for each participant. The bonus percentage above 100% is applied to the weighted average base salaries of all participants to create a pool which is paid out to participants in the subsequent calendar year based upon the recommendation of the Domestic Marketing senior vice president and subject to approval by the President and Chief Operating Officer. The Domestic Bonus percentage achieved under the program was 64.5% and 100.5% in 2006 and 2007, respectively.

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International Marketing Officer Bonus Program. Participants in the International Marketing Officer Bonus Program ("International Bonus") are all international marketing officers including assistant vice presidents, vice presidents, and the senior vice president (Mr. Scott Arendale). The International Bonus is identical in format to the Domestic Bonus with the exception that the metric targets established by the Compensation Committee are customized for the differences between the domestic and international lines of business. The weighting of the three performance metrics (annual sales, persistency of policies sold, expense management) is the same as in the Domestic Bonus and all other features are similarly administrated. The International Bonus percentage achieved under the program was 124.0% and 214.0% in 2006 and 2007, respectively.

Discretionary Bonus Awards

For officers who are not participants in any of three bonus programs, the Compensation Committee considers from time-to-time circumstances which merit the need to recognize outstanding performance in the form of a discretionary bonus. Although many of these situations may be deemed within the normal responsibilities of officers, the Compensation Committee on occasion may provide one-time recognition bonuses to identified officers where the demands of the situation and the results of the effort warrant such recognition. In 2006, total discretionary bonuses awarded to officers totaled $88,000 of which $75,000 was targeted to Mr. Charles Milos for his efforts involving the Company's real estate and investment properties and subsidiary operations. In 2007, none of the $14,500 total discretionary bonuses awarded to officers was paid to named executive officers.

Long-Term Incentive Compensation

Under the Company's 1995 Stock and Incentive Plan, the Compensation Committee provides Company officers with long-term incentive awards through grants of stock options directly aligning the interest of the officers with stockholder interests. The stock options have a graded five-year vesting period that begins on the third anniversary date of the granted option in order to promote a long-term perspective and to encourage key employees to remain at the Company. All options to date have been granted at the fair market value of the Company's Class A common stock on the date of the grant. The Compensation Committee believes that stock options are inherently performance-based and a form of at-risk compensation since the recipient does not benefit unless the Company's common stock price subsequently rises.

The Compensation Committee is responsible for determining the recipients of the grants, when the grants should be made, and the number of shares to be granted. The size of the awards generally reflect each officer's position relative to other officers in the Company with consideration to total compensation targets obtained from the peer group information previously discussed. In addition, as is the case with base salaries, the Compensation Committee considers the grant recommendations of the Chairman and Chief Executive and the President and Chief Operating Officer for other Company officers.

The practice of the Compensation Committee has been to grant stock options awards every three years at the time of its annual review of officer compensation. The most recent grant was awarded in April 2004 at which time the Compensation Committee approved the issuance of 56,750 stock options to selected officers.

Retirement and Other Benefits

The Company's executive officers are eligible to participate in the health and welfare, 401(k) and defined benefit retirement benefit plans that are offered to other Company employees. In addition, if eligible, executive officers may participate in the following plans:

Group Excess Benefit Plan

Company officers at the senior vice president level and above, as well as those hired or promoted to the vice president level prior to May 1, 2007, including named executive officers, are eligible to participate in a group excess benefit plan which supplements the Company's core medical insurance plan. Administered by a third party insurer, the group excess benefit plan provides coverage for co-pays, deductibles and other out-of-pocket expenses not covered by the core medical insurance plan. Offering such a plan to the selected Company officer levels is viewed as a key component of the overall compensation strategy for attracting and retaining talented executive officers. The benefits provided to each named executive officer are reported in the "All Other Compensation Column" of the Summary Compensation Table included in this Item 11 of the report on Form 10-K.

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Non-Qualified Defined Benefit Plan

This plan covers those officers of the Company who were in a senior vice president position or above prior to 1991. The plan provides retirement benefits to those individuals affected by the revisions to the Company's qualified defined benefit pension plan precipitated by the limitations imposed by Internal Revenue Code Section 401(a)(17) and 415. As of December 31, 2007 and 2006, the active officers participating in this plan were Mr. Robert Moody and Mr. Charles Milos. Benefits associated with this plan are disclosed in the Pension Benefits table included in this Item 11 of the report on Form 10-K.

Non-Qualified Deferred Compensation Plan

This plan allows Company senior officers, including named executive officers, to defer payment of a percentage of their compensation and to provide for up to a 2% matching and 2% profit sharing contribution on plan compensation that exceeds certain qualified plan limits, and additional Company discretionary matching contribution of up to 2% of plan compensation. Company contributions are subject to a vesting schedule based upon the officer's years of service. Benefit information associated with this plan is disclosed in the Non-Qualified Deferred Compensation table included in this Item 11 of the report on Form 10-K and Company contributions are included in the "All Other Compensation" column in the Summary Compensation Table.

Non-Qualified Defined Benefit Plan for Robert L. Moody

This plan specifically covers the Company's Chairman of the Board and Chief Executive Officer, Mr. Robert L. Moody, and is intended to supplement the retirement benefits of the Non-Qualified Defined Benefit Plan, mentioned above, that were limited by the American Jobs Creation Act of 2004. Mr. Moody's benefits associated with this plan are disclosed in the Pension Benefits table included in this Item 11 of the report on Form 10-K.

Non-Qualified Defined Benefit Plan for the President of National Western Life Insurance Company

Similar to the previously discussed plan, this plan specifically covers the Company's President and Chief Operating Officer, Mr. Ross R. Moody, and is intended to provide the retirement benefits that comply with the American Jobs Creation Act of 2004. Mr. Moody's benefits associated with this plan are disclosed in the Pension Benefits table included in this Item 11 of the report on Form 10-K.

National Western Life Insurance Company Retirement Bonus Program for Robert L. Moody

This program provides an annual payment to Mr. Robert L. Moody equal to 2% of his compensation. The payment made in 2008 related to 2007 compensation is reported in the "Non-Equity Incentive Plan Compensation" column of the Summary Compensation Table included with Item 11 of this report on Form 10-K.

Postretirement Benefits

The Company's basic health plan and group excess benefit plan have a provision for individuals serving in the positions of Chairman of the Board or President for seven years or more subsequent to 1980 to continue to receive lifetime health benefits for themselves and their dependents upon retirement. Mr. Robert L. Moody, Mr. Harry L. Edwards, and Mr. Ross R. Moody, currently meet this eligibility criteria.

Perquisites and Other Personal Benefits

The Compensation Committee periodically reviews executive officer perquisites and other benefits based upon information supplied to it by the Company's Human Resources, Legal and Financial departments. In addition to base salaries and annual and long-term bonus incentives, the Company provides its executive officers with certain and varying perquisites and benefits.

The perquisites and personal benefits provided to each named executive officer are reported in the "All Other Compensation Column" of the Summary Compensation Table included in this Item 11 of the report on Form 10-K and are described in further detail in the footnotes to that table.

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Stock Ownership Guidelines

The Company does not require its directors or executive officers to own a particular amount of the Company's common stock and accordingly has not established a set of stock ownership guidelines. The Compensation Committee is satisfied that the long-term incentive compensation offered to directors and officers in the form of stock options adequately aligns this group's interest with those of the Company's stockholders.

Employment Agreements

The Company does not utilize employment agreements with its executive officers or other employees. The Company's practice has been to issue offer letters to executive officer candidates when recruited to their positions. In addition to outlining the executive officer's responsibilities, each offer letter specifies the beginning base salary and eligibility for any additional compensation programs overseen by the Compensation Committee. Accordingly, the Company does not have any contractual obligations to its executive officers for severance payments in connection with any termination or change-in-control.

Financial Restatements

The Compensation Committee has not formally adopted a policy with respect to whether retroactive adjustments to any form of compensation paid under arrangements for executive officers will be made where the prior payment was related to financial results of the Company that are subsequently restated. As this situation has not previously been experienced, the Compensation Committee believes that such an issue is best addressed at the time it occurs and all facts and circumstances surrounding the restatement are known.

Tax and Accounting Treatment of Compensation

Section 162(m) of the Internal Revenue Code generally disallows a tax deduction to public corporations for non-performance based compensation over $1 million paid in any one year to each of the individuals who were, at the end of the year, the corporation's chief executive officer and the four other most highly compensated executive officers. Except for the Chairman and Chief Executive Officer of the Company, the levels of non-performance based salary, bonus and other compensation paid do not typically exceed this level. As an insurance company subject to the laws and regulations of the State of Colorado, the Company is currently exempt from the requirements of Section 162(m) of the Internal Revenue Code pursuant to Section 12(g)(2)(G) of the Securities Exchange Act of 1934 until such time as the Company completes a registration filing as a NASDAQ exchange listed registrant.

The Compensation Committee reserves the right to award compensation to executive officers that may not qualify under Section 162(m) as deductible compensation, however, it will continue to consider all elements of cost to the Company of providing such compensation, including the potential impact, if any, of Section 162(m).

The Company accounts for long-term incentive compensation in the form of stock options to executive officers under the rules set forth within SFAS No. 123(R) which requires the Company to estimate and expense each award of equity compensation over the service period of the award. Other accounting rules require that cash compensation be recorded as an expense at the time the obligation is accrued.

Compensation Committee Report

The Compensation Committee has reviewed each element of executive officer compensation and believes that the compensation philosophy and practices are designed to serve the best interests of the Company and its stockholders. The Compensation Committee also believes that the compensation of the Company's executive officers is both

appropriate and consistent with the objectives set by this committee.

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The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis set forth with the Company's management. Based on its reviews and discussions, the Compensation Committee approved and recommended to the Company's Board of Directors that the Compensation Discussion and Analysis be included in this report on Form 10-K for the year ended December 31, 2007.

Members of the Compensation Committee

Harry L. Edwards (Chairman)
Stephen E. Glasgow
E. J. Pederson

Summary Compensation Table

The following table sets forth all of the compensation awarded to, earned by, or paid to the Company's principal executive officer, principal financial officer, and the three other highest paid executive officers for the years ended December 31, 2007 and 2006.

Name and Principal Position	Year	Salary (a)	Option Awards (b)	Non-Equity Incentive Plan Compen-sation	Change in Pension Value and Nonqualified Deferred Compensation Earnings (f)	All Other Compen-sation (g)	Total
Robert L. Moody	2007	$ 1,588,653	$ (259,064)	$ 495,251 (c)	$ 2,733,499	$ 686,181	$ 5,244,520
Chairman of the Board	2006	1,536,875	5,705,108	373,001	3,041,422	757,891	11,414,296
and Chief Executive Officer							
Brian M. Pribyl	2007	252,665	(13,538)	74,695 (c)	15,239	36,405	365,466
Senior Vice President,	2006	240,600	145,571	54,433	13,409	40,627	494,640
Chief Financial and Administrative Officer							
Ross R. Moody	2007	565,534	(238,177)	160,520 (c)	126,568	121,963	736,408
	2006	550,925	2,870,250	118,903	14,951	74,171	3,629,200

President and Chief Operating Officer							
Scott E. Arendale	2007	150,050	5,445	178,101 (d)	33,595	17,570	384,761
Senior Vice President, International Marketing	2006	117,456	123,872	117,085	25,853	12,354	396,620
S. Christopher Johnson	2007	150,200	-	150,234 (e)	-	45,169	345,603
Senior Vice President, Chief Marketing Officer	2006	40,385	-	42,917	-	35,319	118,621

Note: Columns with no data have been omitted.

(a) The 2007 amounts in this column include Company and subsidiary Board of Director fees of $27,700 for Mr. Robert L. Moody, $3,250 for Mr. Pribyl, and $29,950 for Mr. Ross R. Moody.

(b) The amounts in this column represent the dollar amount recognized for financial statement purposes in accordance with SFAS No. 123(R) for all stock options granted and outstanding. Negative amounts in this column result from recording the options at fair value under liability accounting. For a discussion of the assumptions made in the valuation of these option awards, refer to the Notes to Consolidated Financial Statements section of this Annual Report on Form 10-K.

(c) The amounts for Mr. Robert L. Moody, Mr. Ross R. Moody, and Mr. Pribyl represent bonuses earned under the 2007 Executive Officer Bonus Program. Also included in Mr. Robert L. Moody's amount is $27,373 representing the bonus earned under the NWLIC Retirement Bonus Program for Mr. Robert L. Moody.

(d) The amount for Mr. Arendale represents the bonus earned, excluding pool amount, under the 2007 International Marketing Officer Bonus Program plus the pool amount under the 2006 International Marketing Officer Bonus Program paid during 2007.

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(e) The amount for Mr. Johnson represents the bonus earned, excluding pool amount, under the 2007 Domestic Marketing Officer Bonus Program, subject to a guaranteed minimum of $150,000 during his first year of employment with the Company.

(f) The amounts in this column represent the change in the accumulated pension benefit under the Company's qualified defined benefit plan for Messrs. Pribyl and Arendale and the change in the accumulated pension benefit under the Company's qualified and non-qualified defined benefit plans for Messrs. Robert L. Moody and Ross R. Moody. For a discussion of the assumptions made in the calculation of these amounts, refer to the Notes to Consolidated Financial Statements section of this Annual Report on Form 10-K.

(g) The amounts in this column include the items summarized in the following tables:

All Other Compensation

Name and Principal Position	Year	Company Paid Benefit Premiums (1)	Excess Benefit Claims Paid (2)	Company Contributions To Savings Plans (3)	Company Paid Taxes/ Insurance	Other Perquisites	Total All Other Compen-sation
Robert L. Moody	2007	$ 4,995	$ 2,021	$ 4,500	$ 669,135 (4)	$ 5,530 (6)	$ 686,181
Chairman of the Board and Chief Executive Officer	2006	4,391	48,850	4,400	667,775	32,475	757,891
Brian M. Pribyl	2007	8,040	10,499	15,435	-	2,431 (7)	36,405
Senior Vice President, Chief Financial and Administrative Officer	2006	7,206	15,023	14,661	-	3,737	40,627
Ross R. Moody	2007	3,884	64,032	34,057	-	19,990 (8)	121,963
President and Chief Operating Officer	2006	3,540	5,649	32,980	-	32,002	74,171
Scott E. Arendale	2007	4,943	-	9,297	-	3,330 (9)	17,570
Senior Vice President, International Marketing	2006	4,314	-	6,412	-	1,628	12,354
S. Christopher	2007	8,170	4,597	9,490	6,512 (5)	16,400 (10)	45,169

Johnson	2006	140	4,625	2,431	4,471	23,652	35,319
Senior Vice President, Chief Marketing Officer							

(1) The Company provides its officers additional compensation equivalent to the premiums for health, dental and accidental death and dismemberment coverage offered to all employees.
(2) The amounts in this column represent claims paid under the Company's Group Excess Benefit Program.
(3) The amounts in this column represent company contributions to the Company's qualified and non-qualified savings plans. The Company's 401(k) plan is available to all employees with the same contribution criteria.
(4) Mr. Robert L. Moody contributed a life interest in a trust estate to the Company as a capital contribution. The Company, in turn, issued term policies on the life of Mr. Moody in excess of the amount of the asset contributed which was assigned to Mr. Moody. Premiums paid on the excess amount of $425,235 in 2007, represent additional compensation to Mr. Moody. In addition, the Company reimburses Mr. Moody the applicable taxes associated with this benefit which were $243,900 in 2007.
(5) The Company paid certain moving expenses in 2007 related to Mr. Johnson's move to Austin. These reimbursements were grossed-up for applicable payroll taxes which are included in this column.
(6) Mr. Robert Moody's amounts in this column include $1,153 in miscellaneous travel and entertainment, $3,661 in membership dues and event tickets, and $716 in various other expense items.
(7) Mr. Pribyl's amounts in this column include $1,631 for guest travel on Company business trips and $800 in gifts.
(8) Mr. Ross Moody's amounts in this column include $7,225 for car usage, $2,026 in miscellaneous travel and entertainment, $4,505 in membership dues and event tickets, $2,530 for guest travel on Company business trips, $1,600 in gifts, $1,715 for personal tax return preparation, and $389 in various other expense items.
(9) Mr. Arendale's amounts in this column include $2,530 for guest travel on Company business trips and $800 in gifts.
(10) Mr. Johnson's amounts in this column include $15,600 in moving expense reimbursement and $800 in gifts.

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Grants of Plan-Based Awards

The following table provides information regarding grants under the Company's 2007 Executive Officer Bonus Program and International Marketing Officer Bonus Program for the executive officers named in the Summary Compensation Table. No stock options or equity awards were granted to the named executive officers during 2007.

Name	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (a) Threshold	Target	Maximum (b)
Robert L. Moody			
2007 Executive Officer Bonus Program:			
International life sales	$ 31,192	$ 52,090	$ 77,980
Domestic life sales	31,192	51,934	77,980
Annuities sales	31,192	51,934	77,980
Expense management	93,576	155,959	187,151
Company profitability	93,576	155,959	187,151
Brian M. Pribyl			
2007 Executive Officer Bonus Program:			
International life sales	4,980	8,316	12,449
Domestic life sales	4,980	8,291	12,449
Annuities sales	4,980	8,291	12,449
Expense management	14,939	24,898	29,878
Company profitability	14,939	24,898	29,878
Ross R. Moody			
2007 Executive Officer Bonus Program:			
International life sales	10,701	17,871	26,753
Domestic life sales	10,701	17,818	26,753
Annuities sales	10,701	17,818	26,753
Expense management	32,104	53,507	64,208
Company profitability	32,104	53,507	64,208
Scott E. Arendale			
2007 International Marketing Officer Bonus Program:			
International life sales	30,000	105,000	unlimited
International life persistency	4,500	22,500	45,000
Expense management	4,500	22,500	45,000
S. Christopher Johnson			
2007 Domestic Marketing Officer Bonus Program:			
Domestic life sales	22,500	60,000	unlimited
Domestic annuities sales	7,500	45,000	unlimited
Domestic life persistency	2,250	11,250	22,500
Domestic annuities persistency	2,250	11,250	22,500
Expense management	4,500	22,500	45,000

Note: Columns with no data have been omitted.

(a) Amounts that have been or are expected to be paid in 2008 pertaining to the 2007 programs are reflected in the Summary Compensation Table. The 2007 program bonus amounts are based upon the base salary actually paid during 2007.

(b) Although the Executive Officer Bonus Program has stated maximums per program component, the aggregate bonus amount cannot exceed 30% of base salaries paid.

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Outstanding Equity Awards at December 31, 2007

The following table provides information regarding outstanding stock options held by the executive officers named in the Summary Compensation Table as of December 31, 2007. No stock options have been granted since 2004.

	Option Awards			
Name	Number of Securities Underlying Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price	Option Expiration Date
Robert L. Moody Grants:				
4/20/2001	7,200	2,300	$ 92.130	4/20/2011
6/22/2001	1,000	-	95.000	6/22/2011
4/23/2004	4,000	16,000	150.000	4/23/2014
6/25/2004	600	400	150.000	6/25/2014
Brian M. Pribyl Grants:				
4/20/2001	-	280	92.130	4/20/2011
4/23/2004	-	1,600	150.000	4/23/2014
Ross R. Moody Grants:				
4/16/1998	4,630	-	105.250	4/16/2008
6/19/1998	1,000	-	112.375	6/19/2008
4/20/2001	3,900	2,100	92.130	4/20/2011
6/22/2001	1,000	-	95.000	6/22/2011
4/23/2004	2,000	8,000	150.000	4/23/2014
6/25/2004	600	400	150.000	6/25/2014
Scott E. Arendale Grants:				
4/20/2001	-	140	92.130	4/20/2011
4/23/2004	-	600	150.000	4/23/2014
S. Christopher Johnson Grants:				
None				

Note: Columns with no data have been omitted.

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Officer stock options vest 20% annually following three full years of service to the Company from the date of grant. Stock options granted to members of the Board of Directors vest 20% annually following one full year of service to the Company from the date of grant. Accordingly, the unexercisable options shown in the previous table are scheduled to vest during the following years:

	2008	2009	2010	2011	Total Unexercisable
Robert L. Moody					
Grants:					
4/20/2001	2,300	-	-	-	2,300
4/23/2004	4,000	4,000	4,000	4,000	16,000
6/25/2004 (director)	200	200	-	-	400
Brian M. Pribyl					
Grants:					
4/20/2001	280	-	-	-	280
4/23/2004	400	400	400	400	1,600
Ross R. Moody					
Grants:					
4/20/2001	2,100	-	-	-	2,100
4/23/2004	2,000	2,000	2,000	2,000	8,000
6/25/2004 (director)	200	200	-	-	400
Scott E. Arendale					
Grants:					
4/20/2001	140	-	-	-	140
4/23/2004	150	150	150	150	600
S. Christopher Johnson					
Grants:					
None					

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Option Exercises and Stock Vested

The following table sets forth information regarding option exercises by the executive officers named in the Summary Compensation Table for the year ended December 31, 2007. The Company does not have stock award plans with stock awards subject to vesting.

	Option Awards	
Name	Number of Shares Exercised	Value Realized on Exercise
Robert L. Moody	15,000	$ 2,093,785
Brian M. Pribyl	680	70,864
Ross R. Moody	5,500	902,305
Scott E. Arendale	290	42,322
S. Christopher Johnson	-	-

Note: Columns with no data have been omitted.

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Pension Benefits

The following table provides information regarding benefits under the Company's Pension Plan, Non-Qualified Defined Benefit Plan, Non-qualified Defined Benefit Plan for Robert L. Moody, and Non-Qualified Defined Benefit Plan for the President of National Western Life Insurance Company (NWLIC).

Name	Plan Name	Number of Years of Credited Service	Present Value of Accumulated Benefit	Payments During Last Fiscal Year
Robert L. Moody	NWLIC Pension Plan	44	$ 1,204,228	$ 151,540
	NWLIC Non-Qualified Defined Benefit Plan	44	5,595,258	713,258
	NWLIC Non-Qualified Defined Benefit Plan for Robert L. Moody	44	11,618,552	1,318,132
Brian M. Pribyl	NWLIC Pension Plan	7	71,898	-
Ross R. Moody	NWLIC Pension Plan	17	136,390	-
	Non-Qualified Defined Benefit Plan for the President of NWLIC	17	109,906	-
Scott E. Arendale	NWLIC Pension Plan	14	204,900	-
S. Christopher Johnson	NWLIC Pension Plan	-	-	-

Note: Columns with no data have been omitted.

Pension Plan. The qualified defined benefit plan covers substantially all employees and officers of the Company and provides benefits based on the participant's 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. Annual pension benefits for those employees who became eligible participants prior to January 1, 1991, are generally calculated as the sum of the following:

(1) 50% of the participant's final 5-year average annual eligible compensation at December 31, 1990, less 50% of their primary social security benefit determined at December 31, 1990; this net amount is then prorated for less than 15 years of benefit service at normal retirement date. This result is multiplied by a fraction which is the participant's years of benefit service at December 31, 1990, divided by the participant's years of benefit service at normal retirement date.

(2) 1.5% of the participant's eligible compensation earned during each year of benefit service after December 31, 1990 and through December 31, 2007.

Annual pension benefits for those employees who become eligible participants on or subsequent to January 1, 1991, are generally calculated as 1.5% of their compensation earned during each year of benefit service through December 31, 2007.

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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. Using estimated assumptions the cumulative estimated minimum required contribution for the next five years is $2.1 million at which time the Plan is expected to be fully funded. Future pension expense is projected to be minimal.

Non-Qualified Defined Benefit Plan. This plan covers officers of the Company who were in the position of senior vice president or above prior to 1991. The plan provides benefits based on the participant's years of service and compensation. No minimum funding standards are required.

The benefit to be paid pursuant to this plan to a participant, other than the Chairman of the Company, who retires at his normal retirement date shall be equal to (a) minus (b) minus (c), but the benefit may not exceed (d) minus (b) where:

(a) is the benefit which would have been payable at the participant's normal retirement date under the terms of the Pension Plan as of December 31, 1990, as if that plan had continued without change and without regard to Internal Revenue Code Section 401(a) (17) and 415 limits, and,

(b) is the benefit which actually becomes payable under the terms of the Pension Plan at the participant's normal retirement date, and,

(c) is the actuarially equivalent life annuity which may be provided by an accumulation of 2% of the participant's compensation for each year of service on and after January 1, 1991, accumulated at an assumed interest rate of 8.5% to the participant's normal retirement date, and,

(d) is the benefit which would have been payable at the participant's normal retirement date under the terms of the Pension Plan as of December 31, 1990, as if that plan had continued without change and without regard to Internal Revenue Code Section 401(a)(17) and 415 limits, except that the proration over 15 years shall instead be calculated over 30 years.

The Chairman of the Company, Robert L. Moody, is currently receiving in-service benefits from this plan. The benefit that Mr. Moody began receiving as of his normal retirement date pursuant to the plan was equal to (a) minus (b) minus (c) where:

(a) was his years of service (up to 45), multiplied by 1.66667%, and then multiplied by the excess of his eligible compensation over his primary social security benefit under the terms of the Pension Plan as of December 31, 1990, as if that plan had continued without change and without regard to Internal Revenue Code Section 401(a) (17) and 415 limits, and,

(b) was the benefit payable to him under the terms of the Pension Plan, and,

(c) was the actuarially equivalent life annuity provided by an accumulation of 2% of his compensation for each year of service on and after January 1, 1991, accumulated at an assumed interest rate of 8.5% to his normal retirement date.

This benefit was increased for additional service and changes in eligible compensation through December 31, 2004. The benefit was frozen as of December 31, 2004 in connection with plan changes required by the American Jobs Creation Act of 2004.

Non-Qualified Defined Benefit Plan for Robert L. Moody. This plan covers the current Chairman of the Company, Robert L. Moody, and is intended to provide for post-2004 benefit accruals that mirror and supplement the pre-2005 benefit accruals under the previously discussed Non-Qualified Defined Benefit Plan, while complying with the American Jobs Creation Act of 2004. No minimum funding standards are required.

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The annual benefit paid to the Chairman of the Company on an in-service basis effective July 1, 2005 was equal to (a) minus (b) minus (c) where:

(a) was his years of service on his normal retirement date, multiplied by 1.66667%, and then multiplied by the excess of his eligible compensation over his primary social security benefit under the terms of the Pension Plan as of December 31, 1990, as if that plan had continued without change and without regard to Internal Revenue Code Section 401(a) (17) and 415 limits, less the actuarially equivalent life annuity which may be provided by an accumulation of 2% of his compensation for each year of service on and after January 1, 1991, accumulated at an assumed interest rate of 8.5% to his normal retirement date, and, multiplied by the ratio of his years of service on July 1, 2005 to his years of service on his normal retirement date, multiplied by the ratio of his eligible compensation as of July 1, 2005 to his eligible compensation as of his normal retirement date, and,

(b) was the benefit payable to him under the terms of the Pension Plan as of July 1, 2005, and,

(c) was the benefit payable to him under the terms of the Non-Qualified Defined Benefit Plan as of December 31, 2004.

Subsequent to July 1, 2005, the annual benefit was increased monthly for additional service and changes in eligible compensation.

Non-Qualified Defined Benefit Plan for the President of National Western Life Insurance Company. This plan covers the President of the Company and is intended to provide benefit accruals that comply with the American Jobs Creation Act of 2004. No minimum funding standards are required.

The annual benefit to be paid to the President of the Company who retires at his normal retirement date shall be equal to (a) minus (b) minus (c) where:

(a) equals his years of service (up to 45), multiplied by 1.66667%, and then multiplied by the excess of his eligible compensation over his primary social security benefit under the terms of the Pension Plan as of December 31, 1990, as if that plan had continued without change and without regard to Internal Revenue Code Section 401(a) (17) and 415 limits, and,

(b) equals the actuarially equivalent life annuity provided by an accumulation of 2% of his compensation for each year of service on and after his date of hire, accumulated at an assumed interest rate of 8.5% to his normal retirement date, and,

(c) equals the benefit actually payable to him under the terms of the Pension Plan.

The plan provides for a monthly in-service benefit if the President of the Company continues employment after his normal retirement date.

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Non-Qualified Deferred Compensation

The following table provides information regarding the Company's non-qualified deferred compensation plan for the executive officers named in the Summary Compensation Table as of December 31, 2007.

Name	Executive Contributions in Last Fiscal Year	Registrant Contributions in Last Fiscal Year (a)	Aggregate Earnings in Last Fiscal Year (b)	Aggregate Withdrawals/ Distributions	Aggregate Balance at Last Fiscal Year-End (c)
Robert L. Moody	$ -	$ -	$ 10,236	$ 60,681	$ 115,758
Brian M. Pribyl	10,290	6,435	7,858	-	123,455
Ross R. Moody	26,970	25,057	17,943	-	633,320
Scott E. Arendale	20,143	3,099	53	-	35,341
S. Christopher Johnson	15,817	7,787	(760)	-	28,595

Note: Columns with no data have been omitted.

(a) Registrant contributions are reflected in the "All Other Compensation" column in the Summary Compensation Table and are not additional earned compensation.
(b) The investment options under the plan consist of a selection of mutual funds identical to those available to all employees through the 401(k) plan.
(c) Balances in the plan are settled in cash upon the termination event selected by the officer and distributed either in a lump sum or in annual installments. Deferred amounts represent unsecured obligations of the Company.

Potential Payments Upon Termination or Change in Control

The Company has no contract, agreement, plan or arrangement, written or unwritten, that provides for payment to any officer at, following, or in connection with any termination, severance, retirement or a constructive termination, or a change in control of the Company or a change in any officer's responsibilities.

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Director Compensation

The following table sets forth the compensation for 2007 for those individuals who served as members of the Company's Board of Directors during 2007 (excluding named executive officers whose director compensation is included in the Summary Compensation Table).

Name	Fees Earned or Paid in Cash	Option Awards (a)	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation	Total
Harry L. Edwards	$ 26,200	$ 5,337	$ (20,588) (b)	$ 8,052 (c)	$ 19,001
Stephen E. Glasgow	35,700	(15,725)	-	19,878 (d)	39,853
E. Douglas McLeod	25,200	(64,139)	-	1,256 (e)	(37,683)
Russell S. Moody	25,200	(7,444)	-	1,256 (e)	19,012
Frances A. Moody-Dahlberg	25,200	(64,139)	-	800 (f)	(38,139)
Louis E. Pauls Jr.	30,700	(59,401)	-	7,102 (g)	(21,599)
E. J. Pederson	30,700	(15,725)	-	1,256 (e)	16,231

Note: Columns with no data have been omitted.

(a) The amounts in this column represent the dollar amount recognized for financial statement purposes in accordance with SFAS No. 123(R) for all stock options granted and outstanding. Negative amounts in this column result from recording the options at fair value under liability accounting. For a discussion of the assumptions made in the valuation of these option awards, refer to the Notes to Consolidated Financial Statements section of this Annual Report on Form 10-K.

(b) The amount in this column for Mr. Edwards is negative due to his receiving current distributions.

(c) The amount shown for Mr. Edwards includes $7,216 of claims paid under the Company's Group Excess Benefit Plan, $800 in gifts, and $36 for the taxable value of supplemental life insurance coverage.

(d) The amount shown for Mr. Glasgow includes $4,741 of claims paid under the Company's Group Excess Benefit Plan, $14,337 for the taxable value of health and supplemental life coverage, and $800 in gifts.

(e) The amounts shown for Messrs. McLeod, Russell S. Moody, and Pederson represent $456 for the taxable value of supplemental life coverage and $800 in gifts.

(f) The amount shown for Ms. Moody-Dahlberg is $800 in gifts.

(g) The amount shown for Mr. Pauls includes $488 of claims paid under the Company's Group Excess Benefit Plan, $5,814 for the taxable value of health and supplemental life coverage,

and $800 in gifts.

All directors of the Company currently receive $22,200 a year and $500 for each board meeting attended. They are also reimbursed for actual travel expenses incurred in performing services as directors. An additional $500 is paid for each committee meeting attended. However, a director attending multiple meetings on the same day receives only one meeting fee. The amounts paid pursuant to these arrangements are included in the Summary Compensation Table of this Item. The directors and their dependents are also eligible to participate in the Company's group insurance program.

Directors of the Company, other than Compensation and Stock Option Committee members, are eligible for restricted stock awards, incentive awards, and performance awards under the National Western Life Insurance Company 1995 Stock and Incentive Plan. Company directors, including members of the Compensation and Stock Option Committee, are eligible for nondiscretionary stock options.

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Directors of the Company's subsidiary, NWL Investments, Inc., receive $250 annually. Nonemployee directors of the Company's subsidiary, NWL Services, Inc., receive $1,000 per board meeting attended. Directors of the Company's downstream subsidiaries, Regent Care General Partner, Inc., and Regent Care Operations General Partner, Inc., receive $250 per board meeting attended. Directors of the Company's downstream subsidiary, Regent Care Limited Partner, Inc., receive $500 per board meeting attended.

Compensation Committee Interlocks and Insider Participation

The Compensation Committee of the Company’s Board of Directors is composed of Harry L. Edwards, Stephen E. Glasgow, and E. J. Pederson, none of whom were officers or employees of the Company during 2007. Mr. Edwards was formerly an officer of National Western Life Insurance Company. Mr. Glasgow and Mr. Pederson currently meet the independent criteria in the NASDAQ listing standards and the regulations of the Securities and Exchange Commission.

During 2007, the following executive officers served as a Board of Director of the Company and/or one or more its subsidiaries as follows:

(1) Mr. Robert L. Moody, Mr. Ross R. Moody, and Mr. Charles D. Milos served as directors and also served as officers and employees of National Western Life Insurance Company.
(2) Mr. Ross Moody served as an officer and director of the Company's wholly-owned subsidiaries, The Westcap Corporation, NWL Investments, Inc., NWL Financial, Inc., NWL Services, Inc., Regent Care Limited Partner, Inc., and Regent Care Operations Limited Partner, Inc., served as an officer of Westcap Holdings, LLC, a limited liability company whose sole member is The Westcap Corporation, and served as a manger of Regent Care San Marcos Holdings, LLC, a limited liability company whose sole member is National Western Life Insurance Company.
(3) Mr. Milos served as an officer and director of The Westcap Corporation, Regent Care General Partner, Inc., and Regent Care Operations General Partner, Inc., and as an officer of NWL Investments, Inc., NWL Financial, Inc., NWL Services, Inc., Regent Care Limited Partner, Inc., Regent Care Operations Limited Partner, Inc., Westcap Holdings, LLC, a limited liability company whose sole member is The Westcap Corporation, and Regent Care San Marcos A-1, LLC, Regent Care San Marcos A-2, LLC, Regent Care San Marcos B-1, LLC, and Regent Care San Marcos B-2, LLC, all of which are limited liability companies whose sole member is Regent Care San Marcos Holdings, LLC.
(4) Mr. Robert Moody was an officer of NWL Services, Inc., and Regent Care Limited Partner, Inc.

None of the Company’s executive officers serves as a member of the compensation committee of any company that has an executive officer serving on the Company’s Board of Directors. In addition, none of the Company’s executive officers serve as a member of the board of directors of any company that has an executive officer serving as a member of the Company’s Compensation Committee.

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Security Ownership of Certain Beneficial Owners

Set forth below is certain financial information concerning persons who are known by the Company to own beneficially more than 5% of any class of the Company's common stock on December 31, 2007.

Name and Address of Beneficial Owners	Title of Class	Amount and Nature of Beneficial Ownership	Percent of Class
Robert L. Moody	Class A Common	1,159,096	33.87%
2302 Post Office Street, Suite 702	Class B Common	198,074	99.04%
Galveston, Texas			
Third Avenue Management, LLC	Class A Common	302,971	8.85%
622 Third Avenue			
New York, New York			
FMR Corp.	Class A Common	193,119	5.64%
82 Devonshire Street			
Boston, Massachusetts			

Article Four of the Articles of Incorporation of the Company provides that the Class A stockholders have the exclusive right to elect one-third (1/3) of the members of the Board of Directors, plus one director for any remaining fraction, and the Class B stockholders have the exclusive right to elect the remaining members of the Board of Directors. In view of Robert L. Moody's ownership of more than 99% of the Class B stock outstanding, as well as Mr. Moody's ownership of approximately 34% of the Class A stock outstanding (see Security Ownership table above), Mr. Moody holds the voting power to elect a majority of the members of the Board of Directors. The Company is considered to be a controlled company, and Mr. Moody is the controlling stockholder.

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Security Ownership of Management

The following table sets forth as of December 31, 2007, information concerning the beneficial ownership of the Company's common stock by all directors, named executive officers, and all directors and executive officers of the Company as a group.

Directors and Officers	Title of Class	Amount and Nature of Beneficial Ownership	Percent of Class
Directors and Named Executive Officers:			
Robert L. Moody	Class A Common	1,159,096	33.87%
	Class B Common	198,074	99.04%
Ross R. Moody	Class A Common*	625	.02%
	Class B Common*	482	.24%
Charles D. Milos	Class A Common	2,028	.06%
	Class B Common	-	-
Directors:			-
Harry L. Edwards	Class A Common	20	-
	Class B Common	-	-
Stephen E. Glasgow	Class A Common	-	-
	Class B Common	-	-
E. Douglas McLeod	Class A Common	10	-
	Class B Common	-	-
F r a n c e s A .			
Moody-Dahlberg	Class A Common	1,850	.05%
	Class A Common*	625	.02%
	Class B Common*	482	.24%
Russell S. Moody	Class A Common	1,850	.05%
	Class A Common*	625	.02%
	Class B Common*	482	.24%
Louis E. Pauls, Jr.	Class A Common	10	-
	Class B Common	-	-
E. J. Pederson	Class A Common	100	-
	Class B Common	-	-
Named Executive Officers:			
Scott E. Arendale	Class A Common	-	-
	Class B Common	-	-

S. Christopher Johnson	Class A Common	-	-
	Class B Common	-	-
Brian M. Pribyl	Class A Common	-	-
	Class B Common	-	-
Directors and Executive Officers as a Group	Class A Common	1,161,749	33.95%
	Class B Common	198,556	99.28%

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* Shares are owned indirectly through the Three R Trusts. The Three R Trusts are four Texas trusts for the benefit of the children of Mr. Robert L. Moody (Robert L. Moody, Jr., Ross R. Moody, Russell S. Moody, and Frances A. Moody-Dahlberg). The Three R Trusts own a total of 2,500 Class A common stock shares and 1,926 Class B common stock shares.

Changes in Control

None.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Transactions with Management and Others

Robert L. Moody, Jr. ("Mr. Moody, Jr.") is the son of Robert L. Moody, the Company's Chairman and Chief Executive Officer, and is the brother of Ross R. Moody, the Company's President and Chief Operating Officer, and of Russell S. Moody and Frances A. Moody-Dahlberg who serve as directors of National Western.

Mr. Moody, Jr. wholly owns an insurance marketing organization that maintains agency contracts with National Western pursuant to which agency commissions are paid in accordance with the Company's standard commission schedules. Mr. Moody, Jr. also maintains an independent agent contract with National Western for policies personally sold under which commissions are paid in accordance with standard commission schedules. In 2007, commissions paid under these agency contracts aggregated approximately $210,600. In conjunction with these agency contracts, Mr. Moody, Jr. may be eligible to attend Company sales conferences and functions based upon meeting published minimum levels of qualifying sales production. In his capacity as an insurance marketing organization with the Company, Mr. Moody, Jr. also received product development fees of $11,600 associated with a product line of the Company, $28,000 for consulting fees, and a marketing development allowance of $9,000 for the Company’s business efforts in Puerto Rico in 2007.

Mr. Moody, Jr. further serves as the agent of record for several of the Company's benefit plans including the self-insured health plan for which Mr. Moody, Jr. provides utilization review services through a wholly-owned utilization review company. In 2007, amounts paid to Mr. Moody, Jr. as commissions and service fees pertaining to the Company's benefit plans approximated $65,500.

During 2007, management fees totaling $846,000 were paid to Regent Management Services, Limited Partnership ("RMS") for services provided to a downstream nursing home subsidiary of National Western. RMS is 1% owned by general partner RCC Management Services, Inc. ("RCC"), and 99% owned by limited partner, Three R Trusts. RCC is 100% owned by the Three R Trusts. The Three R Trusts are four Texas trusts for the benefit of the children of Robert L. Moody (Robert L. Moody, Jr., Ross R. Moody, Russell S. Moody, and Frances A. Moody-Dahlberg). Charles D. Milos, Senior Vice President-Mortgage Loans and Real Estate, and a director of the Company, is a director and Vice President of RCC. Ellen C. Otte, Assistant Secretary of the Company, is a director and secretary of RCC.

The Company holds a common stock investment totaling approximately 9.4% of the issued and outstanding shares of Moody Bancshares, Inc. at December 31, 2007. Moody Bancshares, Inc. owns 100% of the outstanding shares of Moody Bank Holding Company, Inc., which owns approximately 98% of the outstanding shares of The Moody National Bank of Galveston ("MNB"). The Company utilizes MNB for certain bank custodian services as well as for certain administrative services with respect to the Company's defined benefit and contribution plans. Robert L. Moody

serves as Chairman of the Board and Chief Executive Officer of MNB. The ultimate controlling person of MNB is the Three R Trusts. During 2007, fees totaling $193,000 were paid to MNB with respect to these services.

Indebtedness of Management

The Company held a loan in the amount of $4.2 million, including accrued interest, with a contractual interest rate of 7% during 2007 issued to TMNY, LLC. As of December 31, 2006, Robert L. Moody owned 20.5% of TMNY, LLC. This loan matured and was paid in full during 2007.

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NWL Services, Inc., a wholly-owned subsidiary of the Company, is the beneficial owner of a life interest (1/8 share) in the net income of the trust estate of Libbie Shearn Moody, grandmother of Robert L. Moody. Income distributions from the trust estate were $4.1 million in 2007. The trustee of this estate is MNB.

Review, Approval or Ratification of Transactions with Related Persons

In accordance with the Company's Audit Committee Charter, related party transactions must be reviewed and approved by the Audit Committee of the Board of Directors, both at inception and on an ongoing basis. Periodic reports of potential related party transactions are brought to the attention of the Audit Committee by management and the Audit Committee reviews the information on a case by case basis to determine if any transaction is a related party transaction. The standard of review for any related party transaction is that the transaction must be fair to the Company and the transaction must be no more favorable to the related party than a similar arm's length transaction with a non-related party.

While the Company has not adopted written procedures for review of, or written standards for approval of, these transactions, the policies and procedures followed are evidenced by the Audit Committee Charter, memorandums, and documentation of review and approvals.

Director Independence

The Company's Board of Directors has determined that Messrs. Glasgow, Pauls, and Pederson are each an "Independent Director" under NASDAQ Global Market Marketplace Rules. The Board of Directors has also determined that all, or the majority of, members of the Audit Committee and the Compensation and Stock Option Committee meet the independence requirements prescribed by NASDAQ and the Securities and Exchange Commission.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table represents aggregate fees approved by the Audit Committee for the audits of the fiscal years ended December 31, 2007 and 2006 by KPMG LLP, the Company's principal accounting firm.

	Fiscal Years Ended	
	2007	2006
	(In thousands)	
Financial statement audit fees	$ 659	608
Benefit plans audit fee	-	-
Tax fees	-	-
All other fees	-	-
Total fees	$ 659	608

Audit Fees Pre-approval Policy

The Audit Committee has adopted a formal policy concerning approval of audit and non-audit services to be provided by the independent auditor to the Company. The policy requires that all services the Company's independent auditor may provide to the Company, including audit services and permitted audit-related and non-auditor services, be pre-approved by the Committee. The Committee approved all audit and non-audit services provided by KPMG LLP during 2007.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Listing of Financial Statements

See Attachment A, Index to Financial Statements and Schedules, on page 76 for a list of financial statements included in this report.

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(a) 2. Listing of Financial Statement Schedules

See Attachment A, Index to Financial Statements and Schedules, on page 76 for a list of financial statement schedules included in this report.

All other schedules are omitted because they are not applicable, not required, or because the information required by the schedule is included elsewhere in the financial statements or notes.

(a) 3. Listing of Exhibits

The exhibits listed below, as part of Form 10-K, are numbered in accordance with the numbering used in Item 601 of regulation S-K of The Securities and Exchange Commission.

Exhibit 2	-	Order Confirming Third Amended Joint Consensual Plan Of Reorganization Proposed By The Debtors And The Official Committee Of Unsecured Creditors (As Modified As Of August 28, 1998) (incorporated by reference to Exhibit 2 to the Company's Form 8-K dated August 28, 1998).
Exhibit 3(a)	-	Restated Articles of Incorporation of National Western Life Insurance Company dated April 10, 1968 (incorporated by reference to Exhibit 3(a) to the Company's Form 10-K for the year ended December 31, 1995).
Exhibit 3(b)	-	Amendment to the Articles of Incorporation of National Western Life Insurance Company dated July 29, 1971 (incorporated by reference to Exhibit 3(b) to the Company's Form 10-K for the year ended December 31, 1995).
Exhibit 3(c)	-	Amendment to the Articles of Incorporation of National Western Life Insurance Company dated May 10, 1976 (incorporated by reference to Exhibit 3(c) to the Company's Form 10-K for the year ended December 31, 1995).
Exhibit 3(d)	-	Amendment to the Articles of Incorporation of National Western Life Insurance Company dated April 28, 1978 (incorporated by reference to Exhibit 3(d) to the Company's Form 10-K for the year ended December 31, 1995).
Exhibit 3(e)	-	Amendment to the Articles of Incorporation of National Western Life Insurance Company dated May 1, 1979 (incorporated by reference to Exhibit 3(e) to the Company's Form 10-K for the year ended December 31, 1995).
Exhibit 3(f)	-	Bylaws of National Western Life Insurance Company as amended through April 24, 1987 (incorporated by reference to Exhibit 3(f) to the Company's Form 10-K for the year ended December 31, 1995).
Exhibit 3ii(g)		Bylaws of National Western Life Insurance Company dated August 24, 2007 (incorporated by reference to Exhibit 3ii(g) to the Company’s Form 10-Q September 30, 2007).
Exhibit 10(a)	-	National Western Life Insurance Company Non-Qualified Defined Benefit Plan dated July 26, 1991 (incorporated by reference to Exhibit 10(a) to the Company's Form 10-K for the year ended December 31, 1995).

Exhibit 10(c)	-	National Western Life Insurance Company Non-Qualified Deferred Compensation Plan, as amended and restated, dated March 27, 1995 (incorporated by reference to Exhibit 10(c) to the Company's Form 10-K for the year ended December 31, 1995).
Exhibit 10(d)	-	First Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective July 1, 1995 (incorporated by reference to Exhibit 10(d) to the Company's Form 10-K for the year ended December 31, 1995).
Exhibit 10(e)	-	National Western Life Insurance Company 1995 Stock and Incentive Plan (incorporated by reference to Exhibit 10(e) to the Company's Form 10-K for the year ended December 31, 1995).

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Exhibit 10(f)	-	First Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective December 17, 1996 (incorporated by reference to Exhibit 10(f) to the Company's Form 10-K for the year ended December 31, 1996).
Exhibit 10(g)	-	Second Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective December 17, 1996 (incorporated by reference to Exhibit 10(g) to the Company's Form 10-K for the year ended December 31, 1996).
Exhibit 10(h)	-	Second Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective December 17, 1996 (incorporated by reference to Exhibit 10(h) to the Company's Form 10-K for the year ended December 31, 1996).
Exhibit 10(i)	-	Third Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective December 17, 1996 (incorporated by reference to Exhibit 10(i) to the Company's Form 10-K for the year ended December 31, 1996).
Exhibit 10(j)	-	Fourth Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective June 20, 1997 (incorporated by reference to Exhibit 10(j) to the Company's Form 10-K for the year ended December 31, 1997).
Exhibit 10(k)	-	First Amendment to the National Western Life Insurance Company 1995 Stock and Incentive Plan effective June 19, 1998 (incorporated by reference to Exhibit 10(k) to the Company's Form 10-Q for the quarter ended June 30, 1998).
Exhibit 10(m)	-	Fifth Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective July 1, 1998 (incorporated by reference to Exhibit 10(m) to the Company's Form 10-Q for the quarter ended September 30, 1998).
Exhibit 10(n)	-	Sixth Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective August 7, 1998 (incorporated by reference to Exhibit 10(n) to the Company's Form 10-K for the year ended December 31, 1998).
Exhibit 10(o)	-	Third Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective August 7, 1998 (incorporated by reference to Exhibit 10(o) to the Company's Form 10-K for the year ended December 31, 1998).
Exhibit 10(p)	-	Exchange Agreement by and among National Western Life Insurance Company, NWL Services, Inc., Alternative Benefit Management, Inc., and American National Insurance Company effective November 23, 1998

		(incorporated by reference to Exhibit 10(p) to the Company's Form 10-K for the year ended December 31, 1998).
Exhibit 10(s)	-	Seventh Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective August 7, 1998 (incorporated by reference to Exhibit 10(s) to the Company's Form 10-K for the year ended December 31, 2000).
Exhibit 10(u)	-	Eighth Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective December 1, 2000 (incorporated by reference to Exhibit 10(u) to the Company's Form 10-K for the year ended December 31, 2000).
Exhibit 10(v)	-	Fourth Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective December 1, 2000 (incorporated by reference to Exhibit 10(v) to the Company's Form 10-K for the year ended December 31, 2000).
Exhibit 10(w)	-	Second Amendment to the National Western Life Insurance Company 1995 Stock and Incentive Plan (incorporated by reference to Exhibit 10(w) to the Company's Form 10-Q for the quarter ended September 30, 2001).

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Exhibit 10(z)	-	Fifth Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective January 1, 2001 (incorporated by reference to Exhibit 10(z) to the Company's Form 10-K for the year ended December 31, 2001).
Exhibit 10(ae)	-	Sixth Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective August 23, 2002 (incorporated by reference to Exhibit 10(ae) to the Company's Form 10-Q for the quarter ended September 30, 2002).
Exhibit 10(af)	-	Seventh Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective October 18, 2002 (incorporated by reference to Exhibit 10(af) to the Company's Form 10-Q for the quarter ended September 30, 2002).
Exhibit 10(ai)	-	Eighth Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective January 1, 2003 (incorporated by reference to Exhibit 10(ai) to the Company's Form 10-K for the year ended December 31, 2002).
Exhibit 10(am)	-	Ninth amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective November 1, 2003 (incorporated by reference to Exhibit 10(am) to the Company's Form 10-K for the year ended December 31, 2003).
Exhibit 10(an)	-	Ninth amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective December 5, 2003 (incorporated by reference to Exhibit 10(an) to the Company's Form 10-K for the year ended December 31, 2003.)
Exhibit 10(ar)	-	Third Amendment to the National Western Life Insurance Company 1995 Stock and Incentive Plan (incorporated by reference to Exhibit 10(ar) to the Company's Form 10-Q for the quarter ended September 30, 2004).
Exhibit 10(as)	-	Amendment to the National Western Life Insurance Company Group Excess Benefit Plan effective December 15, 2004 (incorporated by reference to Exhibit 10(as) to the Company's Form 10-K for the year ended December 31, 2004.).
Exhibit 10(at)	-	The National Western Life Insurance Company Employee Health Plan was amended and restated effective August 20, 2004 (incorporated by reference to Exhibit 10(at) to the Company's Form 10-K for the year ended December 31, 2004.)
Exhibit 10(au)	-	Tenth Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective December 31, 2004 (incorporated by reference to Exhibit 10(au) to the Company's Form 10-K for the year ended December 31, 2004.).

Exhibit 10(av)	-	Bonus program by and between National Western Life Insurance Company and Executive Officers of National Western Life Insurance Company for the year ending December 31, 2005 (incorporated by reference to Exhibit 10(av) to the Company's Form 10-Q for the quarter ended March 31, 2005).
Exhibit 10(aw)	-	Bonus program by and between National Western Life Insurance Company and Domestic Marketing officers of National Western Life Insurance Company for the year ending December 31, 2005 (incorporated by reference to Exhibit 10(aw) to the Company's Form 10-Q for the quarter ended March 31, 2005).
Exhibit 10(ax)	-	Bonus program by and between National Western Life Insurance Company and International Marketing Officers of National Western Life Insurance Company for the year ending December 31, 2005 (incorporated by reference to Exhibit 10(ax) to the Company's Form 10-Q for the quarter ended March 31, 2005).
Exhibit 10(az)	-	National Western Life Insurance Company Non-Qualified Defined Benefit Plan for Robert L. Moody (Exhibit 10 to 8-K dated July 1, 2005).

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Exhibit 10(ba)	-	First Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan for Robert L. Moody (Exhibit 10 to 8-K dated August 22, 2005).
Exhibit 10(bb)	-	Second Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan for Robert L. Moody (Exhibit 10 to 8-K dated December 15, 2005).
Exhibit 10(bc)	-	Tenth Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan (Exhibit 10 to 8-K dated December 15, 2005).
Exhibit 10(bd)	-	National Western Life Insurance Company Retirement Bonus Program for Robert L. Moody (Exhibit 10 to 8-K dated December 15, 2005).
Exhibit 10(be)	-	Eleventh Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan (Exhibit 10 to 8-K dated December 15, 2005).
Exhibit 10(bf)	-	Non-Qualified Defined Benefit Plan for the President of the National Western Life Insurance Company (Exhibit 10 to 8-K dated December 15, 2005).
Exhibit 10(bg)	-	National Western Life Insurance Company 2006 Executive Officer Bonus Program (Exhibit 10 to 8-K dated February 17, 2006).
Exhibit 10(bh)	-	National Western Life Insurance Company 2006 Executive Officer Bonus Program (as amended) (Exhibit 10 to 8-K dated April 21, 2006).
Exhibit 10(bi)	-	2006 International Marketing Officer Bonus Program (Exhibit 10 to 8-K dated June 23, 2006).
Exhibit 10(bj)	-	2006 Domestic Marketing Officer Bonus Program (Exhibit 10 to 8-K dated June 23, 2006).
Exhibit 10(bk)	-	National Western Life Insurance Company Harvest Nonqualified Deferred Compensation Plan (Exhibit 10 to 8-K dated June 23, 2006).
Exhibit 10(bl)	-	Amendment No. 16 to Loan Agreement (Exhibit 10 to 8-K dated July 31, 2006).
Exhibit 21	-	Subsidiaries of the Registrant.
Exhibit 23(a)	-	Consent of Independent Registered Public Accounting Firm.
Exhibit 31(a)	-	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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

(b) Exhibits

Exhibits required by Regulation S-K are listed as to location in the Listing of Exhibits in Item 15.(a)3. above. Exhibits not referred to have been omitted as inapplicable or not required.

(c) Financial Statement Schedules

The financial statement schedules required by Regulation S-K are listed as to location in Attachment A, Index to Financial Statements and Schedules, on page 76 of this report.

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ATTACHMENT A

Index to Financial Statements and Schedules

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All other schedules are omitted because they are not applicable, not required, or because the information required by the schedule is included elsewhere in the consolidated financial statements or notes.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
National Western Life Insurance Company
Austin, Texas

We have audited the accompanying consolidated balance sheets of National Western Life Insurance Company and subsidiaries (the "Company") as of December 31, 2007 and 2006 and the related consolidated statements of earnings, comprehensive income, stockholders' equity and cash flows for each of the years in the three year period ended December 31, 2007. In connection with our audits of the consolidated financial statements, we have also audited the 2007 financial statement schedule I and the 2007, 2006, and 2005 financial statement schedule V. These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Western Life Insurance Company and subsidiaries as of December 31, 2007 and 2006 and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2007 in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), National Western Life Insurance Company's internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 17, 2008 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for deferred acquisition cost in connection with modifications or exchanges of insurance contracts in 2007 and pension and other postretirement obligations in 2006.

KPMG LLP
Austin, Texas

March 17, 2008

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2007 and 2006
(In thousands)

ASSETS		2007	2006
Investments:			
Securities held to maturity, at amortized cost			
(fair value: $3,774,193 and $3,567,625)	$	3,778,603	3,603,434
Securities available for sale, at fair value			
(cost: $1,904,499 and $1,907,454)		1,900,714	1,902,568
Mortgage loans, net of allowance for possible losses			
($3,567 and $2,100)		99,033	103,325
Policy loans		83,772	86,856
Derivatives		25,907	72,012
Other long-term investments		16,562	22,822
Total Investments		5,904,591	5,791,017
Cash and short-term investments		45,206	49,901
Deferred policy acquisition costs		664,805	643,964
Deferred sales inducements		104,029	93,139
Accrued investment income		65,034	64,393
Federal income tax receivable		10,010	-
Other assets		41,651	51,029
	$	6,835,326	6,693,443

See accompanying notes to consolidated financial statements.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2007 and 2006
(In thousands except share amounts)

LIABILITIES AND STOCKHOLDERS' EQUITY	2007	2006
LIABILITIES:		
Future policy benefits:		
Traditional life and annuity contracts	$ 138,672	138,382
Universal life and annuity contracts	5,441,871	5,395,075
Other policyholder liabilities	120,400	112,449
Federal income tax liability:		
Current	-	1,666
Deferred	61,720	32,207
Other liabilities	60,978	80,680
Total liabilities	5,823,641	5,760,459
COMMITMENTS AND CONTINGENCIES (Notes 4, 7, and 9)		
STOCKHOLDERS' EQUITY:		
Common stock:		
Class A - $1 par value; 7,500,000 shares authorized; 3,422,324 and 3,420,824 shares issued and outstanding in 2007 and 2006	3,422	3,421
Class B - $1 par value; 200,000 shares authorized, issued, and outstanding in 2007 and 2006	200	200
Additional paid-in capital	36,236	36,110
Accumulated other comprehensive loss	(7,065)	(3,731)
Retained earnings	978,892	896,984
Total stockholders' equity	1,011,685	932,984
	$ 6,835,326	6,693,443

See accompanying notes to consolidated financial statements.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
For the Years Ended December 31, 2007, 2006, and 2005
(In thousands except per share amounts)

	2007	2006	2005
Premiums and other revenue:			
Life and annuity premiums	$ 19,513	15,805	14,602
Universal life and annuity contract revenues	119,677	106,320	96,765
Net investment income	318,137	379,768	310,213
Other income	13,683	17,304	9,579
Realized gains on investments	3,497	2,662	9,884
Total premiums and other revenue	474,507	521,859	441,043
Benefits and expenses:			
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
Total benefits and expenses	349,260	405,044	324,158
Earnings before Federal income taxes	125,247	116,815	116,885
Federal income taxes	39,876	40,472	39,618
Net earnings	$ 85,371	76,343	77,267
Basic Earnings Per Share (Note 11):			
Class A	$ 24.24	21.69	22.06
Class B	$ 12.12	10.84	11.00
Diluted Earnings Per Share:			
Class A	$ 23.95	21.46	21.83
Class B	$ 12.12	10.84	11.00

See accompanying notes to consolidated financial statements.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2007, 2006, and 2005
(In thousands)

	2007	2006	2005
Net earnings	$ 85,371	76,343	77,267
Other comprehensive income, net of effects of deferred costs and taxes:			
Unrealized gains (losses) on securities:			
Net unrealized holding gains (losses) arising during period	1,035	(4,542)	(13,597)
Reclassification adjustment for net gains included in net earnings	(3,103)	(2,736)	(1,254)
Amortization of net unrealized losses related to transferred securities	104	25	18
Unrealized gains on securities transferred during period from held to maturity to available for sale	-	-	202
Net unrealized losses on securities	(1,964)	(7,253)	(14,631)
Foreign currency translation adjustments	(44)	(178)	130
Benefit plans:			
Amortization of net prior service cost and net gain	1,235	-	-
Net loss arising during the period	(2,561)	-	-
Change in pension liability	-	(1,166)	(354)
Other comprehensive loss	(3,334)	(8,597)	(14,855)
Comprehensive income	$ 82,037	67,746	62,412

See accompanying notes to consolidated financial statements.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2007, 2006, and 2005
(In thousands)

	2007	2006	2005
Common stock:			
Balance at beginning of year	$ 3,621	3,613	3,584
Shares exercised under stock option plan	1	8	29
Balance at end of year	3,622	3,621	3,613
Additional paid-in capital:			
Balance at beginning of year	36,110	37,923	33,834
Shares exercised under stock option plan,			
net of tax benefits	126	503	3,094
Adjustment for stock option liability classification	-	(2,316)	-
Stock option expense	-	-	995
Balance at end of year	36,236	36,110	37,923
Accumulated other comprehensive income:			
Unrealized gains on securities:			
Balance at beginning of year	3,148	10,401	25,032
Change in unrealized losses during period	(1,964)	(7,253)	(14,631)
Balance at end of year	1,184	3,148	10,401
Foreign currency translation adjustments:			
Balance at beginning of year	3,122	3,300	3,170
Change in translation adjustments during period	(44)	(178)	130
Balance at end of year	3,078	3,122	3,300
Benefit plan liability adjustment:			
Balance at beginning of year	(10,001)	(3,137)	(2,783)
Change in benefit liability during the period	(1,326)	(1,166)	(354)
Adjustment to initially apply FASB			
Statement No. 158, net of tax	-	(5,698)	-
Balance at end of year	(11,327)	(10,001)	(3,137)
Accumulated other comprehensive			
income (loss) at end of year	(7,065)	(3,731)	10,564
Retained earnings:			
Balance at beginning of year	896,984	821,908	745,835
Net earnings	85,371	76,343	77,267
Cumulative effect of change in accounting			
principle for SOP 05-1, net of tax	(2,195)	-	-
Stockholder dividends	(1,268)	(1,267)	(1,194)

Balance at end of year	978,892	896,984	821,908
Total stockholders' equity	$ 1,011,685	932,984	874,008

See accompanying notes to consolidated financial statements.

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NATIONAL WESTERN LIFE INSURANCE COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2007, 2006, and 2005
(In thousands)

	2007	2006	2005
Cash flows from operating activities:			
Net earnings	$ 85,371	76,343	77,267
Adjustments to reconcile net earnings			
to net cash provided by operating activities:			
Universal life and annuity contract interest	164,391	213,736	150,692
Surrender charges and other policy revenues	(36,191)	(31,363)	(27,676)
Realized gains on investments	(3,497)	(2,662)	(9,884)
Accrual and amortization of investment income	(5,223)	(5,443)	(4,114)
Depreciation and amortization	1,031	1,516	1,513
Decrease (increase) in value of derivatives	56,204	(27,108)	9,579
Increase in deferred policy acquisition			
and sales inducement costs	(28,090)	(13,740)	(14,476)
Increase in accrued investment income	(641)	(3,110)	(3,011)
Decrease (increase) in other assets	7,113	(10,016)	(4,969)
Increase (decrease) in liabilities for future			
policy benefits	300	(905)	(1,721)
Increase in other policyholder liabilities	7,952	11,892	25,320
Increase in Federal income tax liability	20,607	2,770	1,593
Increase (decrease) in other liabilities	(10,511)	11,739	175
Other	(914)	371	802
Net cash provided by operating activities	257,902	224,020	201,090
Cash flows from investing activities:			
Proceeds from sales of:			
Securities held to maturity	5,175	-	9,867
Securities available for sale	34,982	36,428	29,211
Other investments	5,684	13,672	22,739
Proceeds from maturities and redemptions of:			
Securities held to maturity	136,752	258,051	330,920
Securities available for sale	338,486	104,435	125,225
Derivatives	43,216	37,010	29,329
Purchases of:			
Securities held to maturity	(313,580)	(327,126)	(596,191)
Securities available for sale	(363,041)	(312,584)	(301,898)
Other investments	(53,608)	(44,090)	(40,372)
Principal payments on mortgage loans	22,562	11,680	23,727
Cost of mortgage loans acquired	(19,578)	(6,326)	(9,038)
Decrease (increase) in policy loans	(2,801)	(471)	2,064
Other	(3,216)	(1,600)	(469)

Net cash used in investing activities	(168,967)	(230,921)	(374,886)

(Continued on next page)

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED
For the Years Ended December 31, 2007, 2006, and 2005
(In thousands)

	2007	2006	2005
Cash flows from financing activities:			
Stockholders dividends	$ (1,268)	(1,267)	(1,194)
Deposits to account balances for universal life and annuity contracts	510,647	547,469	611,594
Return of account balances on universal life and annuity contracts	(603,450)	(521,988)	(458,765)
Issuance of common stock under stock option plan	127	511	2,948
Net cash provided by (used in) financing activities	(93,944)	24,725	154,583
Effect of foreign exchange	314	722	374
Net increase (decrease) in cash and short-term investments	(4,695)	18,546	(18,839)
Cash and short-term investments at beginning of year	49,901	31,355	50,194
Cash and short-term investments at end of year	$ 45,206	49,901	31,355
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	$ 41	41	40
Income taxes	19,298	34,726	37,800
Noncash investing activities:			
Mortgage loans originated to facilitate the sale of real estate	$ -	900	900

See accompanying notes to consolidated financial statements.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Principles of Consolidation. The accompanying consolidated financial statements include the accounts of National Western Life Insurance Company and its wholly owned subsidiaries ("Company"), The Westcap Corporation, NWL Investments, Inc., NWL Services, Inc., and NWL Financial, Inc. All significant intercorporate transactions and accounts have been eliminated in consolidation.

(B) Basis of Presentation. The accompanying consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") which require 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 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, and (6) valuation allowances for mortgage loans and real estate.

The Company also files financial statements with insurance regulatory authorities which are prepared on the basis of statutory accounting practices prescribed or permitted by the Colorado Division of Insurance which are significantly different from consolidated financial statements prepared in accordance with GAAP. These differences are described in detail in the statutory information section of this note.

(C) Investments. Investments in debt securities the Company purchases with the intent to hold to maturity are classified as securities held to maturity. The Company has the ability to hold the securities, as it would be unlikely that forced sales of securities would be required prior to maturity to cover payments of liabilities. As a result, securities held to maturity are carried at amortized cost less declines in fair value that are deemed other-than-temporary.

Investments in debt and equity securities that are not classified as securities held to maturity are reported as securities available for sale. Securities available for sale are reported in the accompanying consolidated financial statements at fair value. Any valuation changes resulting from changes in the fair value of the securities are reflected as a component of stockholders' equity in accumulated other comprehensive income or loss. These unrealized gains or losses in stockholders' equity are reported net of taxes and adjustments to deferred policy acquisition costs.

Transfers of securities between categories are recorded at fair value at the date of transfer. The unrealized holding gains or losses for securities transferred from available for sale to held to maturity are included in accumulated other comprehensive income or loss and amortized into earnings over the remaining life of the security as an adjustment to yield in a manner consistent with the amortization or accretion of premium or discount on the associated security.

Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to yield using the effective interest method. For mortgage-backed and asset-backed securities, the effective interest method is used based on anticipated prepayments and the estimated economic life of the securities. When estimates of prepayments change, the effective yield is recalculated to reflect actual payments to date and anticipated future payments. The net investment in the securities is adjusted to the amount that would have existed had the new effective yield been applied at the time of acquisition. This adjustment is reflected in net investment income.

Realized gains and losses for securities available for sale and securities held to maturity are included in earnings and are derived using the specific identification method for determining the cost of securities sold. A decline in the fair

value below cost that is deemed other-than-temporary is charged to earnings, resulting in the establishment of a new cost basis for the security.

Mortgage loans and other long-term investments are stated at cost, less unamortized discounts, deferred fees, and allowances for possible losses. Policy loans are stated at their aggregate unpaid balances. Real estate is stated at the lower of cost or fair value less estimated costs to sell.

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Impaired loans are those loans where it is probable that all amounts due according to contractual terms of the loan agreement will not be collected. The Company has identified these loans through its normal loan review procedures. Impaired loans include (1) nonaccrual loans, (2) loans which are 90 days or more past due, unless they are well secured and are in the process of collection, and (3) other loans which management believes are impaired. Impaired loans are measured based on (1) the present value of expected future cash flows discounted at the loan's effective interest rate, (2) the loan's observable market price, or (3) the fair value of the collateral if the loan is collateral dependent. Substantially all of the Company's impaired loans are measured at the fair value of the collateral. In limited cases, the Company may use other methods to determine the level of impairment of a loan if such loan is not collateral dependent.

(D) Cash and Short-Term Investments. For purposes of the consolidated statements of cash flows, the Company considers all short-term investments with a maturity at the date of purchase of three months or less to be cash equivalents.

(E) Derivatives. Equity-indexed products combine features associated with traditional fixed annuities and universal life contracts, with the option to have interest rates linked in part to an equity index like the S&P 500 Index®. The equity return component of such policy contracts is identified separately and accounted for as embedded derivatives. 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. The host contracts are recorded as discounted debt instruments that are accreted, using the effective yield method, to their minimum account values at their projected maturities or termination dates.

The Company purchases over-the-counter indexed options, which are derivative financial instruments, to hedge the equity return component of its indexed annuity and life products. The indexed options act as hedges to match closely the returns on the S&P 500® Composite Stock Price Index ("S&P 500 Index®"). The amounts which may be credited to policyholders are linked, in part, to the returns of the S&P 500 Index®. 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 indexed options and no principal or interest payments are made by either party during the option periods. Upon maturity or expiration of the options, cash is paid to the Company based on the S&P 500 Index® performance and terms of the contract.

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

Although there is credit risk in the event of nonperformance by counterparties to the indexed options, the Company does not expect any counterparties to fail to meet their obligations, given their high credit ratings. In addition, credit support agreements are in place with all counterparties for option holdings in excess of specific limits, which may further reduce the Company's credit exposure. At December 31, 2007 and 2006, the fair values of indexed options owned by the Company totaled $25.9 million and $72.0 million, respectively.

(F) Insurance Revenues and Expenses. Premiums on traditional life insurance products are recognized as revenues as they become due from policyholders. Benefits and expenses are matched with premiums in arriving at profits by providing for policy benefits over the lives of the policies and by amortizing acquisition costs over the premium-paying periods of the policies. For universal life and annuity contracts, revenues consist of policy charges for the cost of insurance, policy administration, and surrender charges assessed during the period. Expenses for these

policies include interest credited to policy account balances, benefit claims incurred in excess of policy account balances and amortization of deferred policy acquisition costs and sales inducements.

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Under GAAP, commissions, sales inducements, and certain expenses related to policy issuance and underwriting, all of which generally vary with and are related to the production of new business, are deferred. For traditional products, these costs are amortized over the premium-paying period of the related policies in proportion to the ratio of the premium earned to the total premium revenue anticipated, using the same assumptions as to interest, mortality, and withdrawals as were used in calculating the liability for future policy benefits. For universal life and annuity contracts, these costs are amortized in relation to the present value of expected gross profits on these policies. The Company evaluates the recoverability of deferred policy acquisition and sales inducement costs on a quarterly basis. In this evaluation, the Company considers estimated future gross profits or future premiums, as applicable for the type of contract. The Company also considers expected mortality, interest earned and credited rates, persistency, and expenses.

A summary of information relative to deferred policy acquisition costs is provided in the table below.

	Years Ended December 31,		
	2007	2006	2005
	(In thousands)		
Deferred policy acquisition costs, beginning of year	$ 643,964	620,129	582,218
Policy acquisition costs deferred:			
Agents' commissions	109,323	97,662	96,224
Other	7,180	6,436	6,206
Total costs deferred	116,503	104,098	102,430
Amortization of deferred policy acquisition costs	(88,413)	(90,358)	(87,955)
Adjustments for unrealized gains and (losses) on investment securities	(3,928)	10,095	23,436
Adoption of SOP 05-1	(3,321)	-	-
Deferred policy acquisition costs, end of year	$ 664,805	643,964	620,129

A summary of information relative to deferred sales inducement costs is provided in the table below.

	Years Ended December 31,		
	2007	2006	2005
	(In thousands)		
Deferred sales inducement costs, beginning of year	$ 93,139	80,450	62,240
Sales inducement costs deferred	20,837	19,813	21,426
Amortization of sales inducement	(9,460)	(9,101)	(6,484)
Adjustments for unrealized gains and (losses) on investment securities	(487)	1,977	3,268
Deferred sales inducement costs, end of year	$ 104,029	93,139	80,450

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.

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Under GAAP, the liability for future policy benefits on traditional products has been calculated under SFAS No. 60 using assumptions as to future mortality (based on the 1965-1970 and 1975-1980 Select and Ultimate mortality tables), interest ranging from 4% to 8%, and withdrawals based on Company experience. For universal life and annuity contracts, the liability for future policy benefits represents the account balance. Equity-indexed products combine features associated with traditional fixed annuities and universal life contracts, with the option to have interest rates linked in part to an equity index like the S&P 500 Index®. In accordance with SFAS No. 133, the equity return component of such policy contracts must be identified separately and accounted for as embedded derivatives. 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 provisions of SFAS No. 97 that requires debt instrument type accounting. The host contracts are recorded as discounted debt instruments that are accreted, using the effective yield method, to their minimum account values at their projected maturities or termination dates. The embedded derivatives are recorded at fair values.

(G) Deferred Federal Income Taxes. Federal income taxes are accounted for under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance for deferred tax assets is provided if all or some portion of the deferred tax asset may not be realized. An increase or decrease in a valuation allowance that results from a change in circumstances that affects the realizability of the related deferred tax asset is included in income in the period the change occurs.

(H) Depreciation of Property, Equipment, and Leasehold Improvements. Depreciation is based on the estimated useful lives of the assets and is calculated on the straight-line and accelerated methods. Leasehold improvements are amortized over the lesser of the economic useful life of the improvement or the term of the lease.

(I) Statutory Information. Domiciled in Colorado, the Company prepares its statutory financial statements in accordance with accounting practices prescribed or permitted by the Colorado Division of Insurance. The Colorado Division of Insurance has adopted the provisions of the National Association of Insurance Commissioners' ("NAIC") Statutory Accounting Practices as the basis for its statutory practices.

The following are major differences between GAAP and accounting practices prescribed or permitted by the Colorado Division of Insurance.

1. The Company accounts for universal life and annuity contracts based on the provisions of Statement of Financial Accounting Standards ("SFAS") No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments. The basic effect of the statement with respect to certain long-duration contracts is that deposits for universal life and annuity contracts are not reflected as revenues, and surrenders and certain other benefit payments are not reflected as expenses. However, only those contracts with no insurance risk qualify for such treatment under statutory accounting practices. For all other contracts, statutory accounting practices do reflect such items as revenues and expenses.

A summary of direct premiums and deposits collected is provided below.

	Years Ended December 31,		
	2007	2006	2005
	(In thousands)		

Annuity deposits	$ 437,765	485,994	557,940
Universal life insurance deposits	168,279	146,742	133,579
Traditional life and other premiums	24,915	18,046	16,629
Totals	$ 630,959	650,782	708,148

2. Statutory accounting practices require commissions and related costs to be expensed as incurred, where as for GAAP, these items are deferred and amortized.

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3. For statutory accounting purposes, liabilities for future policy benefits for life insurance policies are calculated by the net level premium method or the commissioners reserve valuation method. Future policy benefit liabilities for annuities are calculated based on the continuous commissioners annuity reserve valuation method and provisions of Actuarial Guidelines 33 and 35.

4. Deferred Federal income taxes are provided for temporary differences which are recognized in the consolidated financial statements in a different period than for Federal income tax purposes. Deferred taxes are also recognized in statutory accounting practices; however, there are limitations as to the amount of deferred tax assets that may be reported as admitted assets. The change in the deferred taxes is recorded in surplus, rather than as a component of income tax expense.

5. For statutory accounting purposes, debt securities are recorded at amortized cost, except for securities in or near default, which are reported at fair value. Under GAAP, they are carried at amortized cost or fair value based on their classification as either held to maturity or available for sale.

6. Investments in subsidiaries are recorded at admitted asset value for statutory purposes, whereas the financial statements of the subsidiaries have been consolidated with those of the Company under GAAP.

7. Compensation costs related to the Company’s stock option plan are not recognized under statutory accounting.

8. Pension liabilities and net periodic benefit costs are recognized for statutory accounting however in accordance with GAAP a liability or asset is recognized for the under or over funded status of the plans and does include a non-vested component. Statutory accounting only includes vested benefits.

9. The asset valuation reserve and interest maintenance reserve, which are investment valuation reserves prescribed by statutory accounting practices, have been eliminated, as they are not required under GAAP.

10. The recorded value of the life interest in the Libbie Shearn Moody Trust ("Trust") is reported at its initial valuation, net of accumulated amortization, under GAAP. The initial valuation was based on the assumption that the Trust would provide certain income to the Company at an assumed interest rate and is being amortized over 53 years, the life expectancy of Mr. Robert L. Moody at the date he contributed the life interest to the Company. For statutory accounting purposes, the life interest has been valued at $26.4 million, which was computed as the present value of the estimated future income to be received from the Trust. However, this amount was amortized to a valuation of $12.8 million over a seven-year period ended December 31, 1999, in accordance with Colorado Division of Insurance permitted accounting requirements. Prescribed statutory accounting practices provide no accounting guidance for such asset. The statutory admitted value of this life interest at December 31, 2007, is $12.8 million in comparison to a carrying value of $1.6 million in the accompanying consolidated financial statements.

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11. Reconciliations of statutory capital and surplus, as included in the annual statements filed with the Colorado Division of Insurance, to total stockholders' equity as reported in the accompanying consolidated financial statements prepared under GAAP are as follows:

	Stockholders' Equity as of December 31,	
	2007	2006
	(In thousands)	
Statutory capital and surplus	$ 710,935	673,262
Adjustments:		
Difference in valuation of investment in the Libbie Shearn Moody Trust	(11,155)	(10,840)
Deferral of policy acquisition costs and sales inducements	768,834	737,103
Adjustment of future policy benefits	(421,847)	(459,838)
Difference in deferred Federal income taxes	(69,128)	(39,467)
Adjustment of securities available for sale to fair value	(11,492)	(16,217)
Reversal of asset valuation reserve	41,030	42,624
Reversal of interest maintenance reserve	4,534	6,607
Reinstatement of other nonadmitted assets	17,767	20,491
Valuation allowances on investments	771	1,669
Difference in pension liability	(10,878)	(10,622)
Liability for stock options	(7,713)	(13,215)
Other, net	27	1,427
GAAP equity	$ 1,011,685	932,984

12. Reconciliations of statutory net earnings, as included in the annual statements filed with the Colorado Division of Insurance, to the respective amounts as reported in the accompanying consolidated financial statements prepared under GAAP are as follows:

	Net Earnings for the Years Ended December 31,		
	2007	2006	2005
	(In thousands)		
Statutory net earnings	$ 32,290	72,585	60,074
Adjustments:			
Subsidiary earnings before deferred Federal income taxes and intercompany eliminations	11,070	7,555	12,321
Net deferral of policy acquisition and sales inducement costs	36,303	24,533	29,716
Adjustment of future policy benefits	37,991	(10,555)	(18,568)
Provision for deferred Federal income taxes	(32,254)	(1,761)	(5,494)
Valuation allowances and other-than-temporary impairment writedowns on investments	216	1,123	222
Decrease in interest maintenance reserve	(2,261)	(2,217)	(1,179)
Stock option compensation expense	1,143	(13,076)	(995)

Asset-backed securities amortization adjustment		-	-	595
Other, net		873	(1,844)	575
GAAP net earnings	$	85,371	76,343	77,267

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(J) Stock Compensation. Under the fair value based method, compensation cost is measured at the grant date based on the fair value of the award and is recognized over the service period, which is usually the vesting period. For stock options, fair value is determined using an option pricing model that takes into account various information and assumptions regarding the Company's stock and options. Under the intrinsic value based method, compensation cost is the excess, if any, of the quoted market price of the stock at grant date or other measurement date over the amount an employee must pay to acquire the stock.

The Company adopted Statement No. 123(R), Share-Based Payment ("SFAS 123(R)") as of January 1, 2006. However, because the Company began recognizing stock-based employee compensation cost using the fair value based method of accounting in 2003, the adoption did not have an impact on the consolidated financial statements of the Company.

Effective March 10, 2006, the Company began accounting for its share-based compensation under the liability classification and measuring the compensation cost using the fair value method at each reporting date.

(K) New Accounting Pronouncements. The FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 ("FIN 48"), dated June, 2006. The interpretation requires public companies to recognize the tax benefits of uncertain tax positions only where the position is "more likely than not" to be sustained assuming examination by tax authorities. The amount recognized would be the amount that represents the largest amount of tax benefit that is greater than 50% likely of being ultimately realized. A liability would be recognized for any benefit claimed, or expected to be claimed, in a tax return in excess of the benefit recorded in the financial statements, along with any interest and penalty (if applicable) on the excess. FIN 48 requires a tabular reconciliation of the change in the aggregate unrecognized tax benefits claimed, or expected to be claimed, in tax returns and disclosure relating to accrued interest and penalties for unrecognized tax benefits. Discussion is required for those uncertain tax positions where it is reasonably possible that the estimate of the tax benefit will change significantly in the next 12 months. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of FIN 48 did not have an impact on the Company's consolidated financial statements.

On February 16, 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments, which amends SFAS No. 133, Accounting for Derivatives and Hedging Activities, and SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. Hybrid financial instruments are single financial instruments that contain an embedded derivative. Under SFAS No. 155, entities can elect to record certain hybrid financial instruments at fair value as individual financial instruments. Prior to this amendment, certain hybrid financial instruments were required to be separated into two instruments – a derivative and host – and generally only the derivative was recorded at fair value. SFAS No. 155 also requires that beneficial interests in securitized assets be evaluated for either freestanding or embedded derivatives. SFAS No. 155 is effective for all financial instruments acquired or issued after January 1, 2007. SFAS No. 155 did not have an effect on the Company's consolidated financial statements on the date of adoption.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and requires additional disclosures about fair value measurements. This Statement does not require any new fair value measurements, but the application of this Statement could change current practices in determining fair value. The Company plans to adopt this guidance effective January 1, 2008. The Company is currently assessing the impact of SFAS No. 157 on the Company's consolidated financial position and results of operations.

In September 2006, the FASB issued SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R). This statement requires an employer on a prospective basis to recognize the overfunded or underfunded status of its defined benefit pension and

postretirement plans as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. This requirement, along with the required disclosures, is effective for fiscal years ending after December 15, 2006. SFAS No. 158 also requires an employer on a prospective basis to measure the funded status of its plans as of its fiscal year-end, and is effective for fiscal years ending after December 15, 2008.

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Following is the incremental impact of applying SFAS No. 158 on individual line items in the consolidated balance sheet at December 31, 2006.

	Before Application of Statement 158	Adjustments (In thousands)	After Application of Statement 158
Other liabilities	$ 71,914	8,766	80,680
Federal income tax liability, deferred	35,275	(3,068)	32,207
Total liabilities	5,754,761	5,698	5,760,459
Accumulated other comprehensive income	1,967	(5,698)	(3,731)
Total stockholders' equity	938,682	(5,698)	932,984

In February of 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company does not currently anticipate an impact from adopting SFAS No. 159.

In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 160, Noncontrolling Interests in Consolidated Financial Statements. SFAS 160 establishes accounting and reporting standards for entities that have equity investments that are not attributable directly to the parent, called noncontrolling interests or minority interests. Specifically, SFAS 160 states where and how to report noncontrolling interests in the consolidated statements of financial position and operations, how to account for changes in noncontrolling interests and provides disclosure requirements. The provisions of SFAS 160 are effective beginning January 1, 2009. The Company is currently evaluating the impact that the adoption of this statement will have on the consolidated financial position, results of operations and disclosures.

In December 2007, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 141(R), Business Combinations. SFAS 141(R) establishes how an entity accounts for the identifiable assets acquired, liabilities assumed, and any noncontrolling interests acquired, how to account for goodwill acquired and determines what disclosures are required as part of a business combination. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, early adoption is prohibited. The Company is currently evaluating the impact that the adoption of this statement will have on the consolidated financial position, results of operations and disclosures.

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

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Change in Accounting

In September 2005, the AICPA issued Statement of Position 05-1, Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts ("SOP 05-1") which is effective for internal replacements occurring in fiscal years beginning after December 15, 2006. SOP 05-1 provides guidance on accounting by insurance enterprises for deferred acquisition costs on internal replacements of insurance and investment contracts other than those specifically described in SFAS No. 97. SOP 05-1 defines an internal replacement as a modification in product benefits, features, rights, or coverages that occurs by the exchange of a contract for a new contract, or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. The Company has an impact related to the adoption of SOP 05-1 for contracts which have annuitized and relative to reinstatements of contracts in that the unamortized deferred acquisition costs and deferred sales inducement assets must be written-off at the time of annuitization and may not be continued related to reinstatements. SOP 05-1 results in changes in assumptions relative to estimated gross profits which affects unamortized deferred acquisition costs, unearned revenue liabilities, and deferred sales inducement balances as of the beginning of the year. The effect of this SOP on beginning retained earnings as of January 1, 2007 was a decrease of $2.2 million, net of tax, as detailed below.

	Amounts (In thousands)
Write-off of deferred acquisition cost	$ 3,321
Adjustment to deferred annuity revenue	56
	3,377
Federal income tax	(1,182)
Cumulative effect of change in accounting for internal replacements and investment contracts	$ 2,195

(2) DEPOSITS WITH REGULATORY AUTHORITIES

The following assets were on deposit with state and other regulatory authorities as required by law at the end of each year.

	December 31,	
	2007	2006
	(In thousands)	
Debt securities held to maturity	$ 13,640	13,757
Debt securities available for sale	692	612
Short-term investments	502	501
Totals	$ 14,834	14,870

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(3) INVESTMENTS

(A) Investment Income

The major components of net investment income are as follows:

	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
Derivative gains (losses)	(16,662)	43,279	(10,988)
Short-term investments	7,059	3,118	1,416
Other investment income	6,087	15,289	12,559
Total investment income	321,007	382,649	312,574
Investment expenses	2,870	2,881	2,361
Net investment income	$ 318,137	379,768	310,213

As of December 31, 2007 and 2006 mortgage loans totaling $3.3 million and $4.8 million were on non-accrual status, respectively. The Company had no mortgage loans on non-accrual status as of December 31, 2005. Interest income not recognized for past due loans totaled approximately $0.4 million in 2006 and 2007. There were no reductions in interest income in 2005. The Company had real estate investments that were non-income producing for the preceding twelve months totaling $1.8 million and $1.7 million at December 31, 2007 and 2006, respectively.

The Company had investments in debt securities with carrying values totaling $0.6 million and $1.0 million as of December 31, 2007 and 2006, respectively that have not produced income for the preceding 12 months. Reductions in interest income associated with nonperforming investments in debt securities totaled $0.3 million, $0.1 million, and $1.0 million in 2007, 2006, and 2005, respectively.

(B) Mortgage Loans and Real Estate

Concentrations of credit risk arising from mortgage loans exist in relation to certain groups of borrowers. A group concentration arises when a number of counterparties have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Company does not have a significant exposure to any individual customer or counterparty.

Mortgage loans with carrying values totaling $3.3 million and $4.8 million were considered impaired as of December 31, 2007 and 2006, respectively. No mortgage loans were considered impaired as of December 31, 2005. For the years ended December 31, 2007, 2006, and 2005, average investments in impaired mortgage loans were $3.1 million, $0.3 million, and $0.1 million, respectively. Interest income recognized on impaired loans for the years ended December 31, 2007 and 2006, was $469,000 and $76,000, respectively and none for the year ended December 31, 2005. Impaired loans are typically placed on nonaccrual status, and no interest income is recognized. However, if cash is received on the impaired loan, it is applied to principal and interest on past due payments, beginning with the most delinquent payment.

At December 31, 2007 and 2006, the Company owned investment real estate totaling $12.0 million and $12.1 million, respectively, which is reflected in other long-term investments in the accompanying consolidated financial statements. The Company records real estate at the lower of cost or fair value less estimated costs to sell. Real estate values are monitored and evaluated at least annually by the use of independent appraisals or internal evaluations. Changes in market values affecting carrying values are recorded as a valuation allowance which is reflected in realized gains or losses on investments. The Company recorded a net gain on real estate as a result of releasing allowances related to properties sold totaling $0.1 million, $0.1 million, and $0.7 million for the years ended December 31, 2007, 2006, and 2005, respectively.

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(C) Investment Gains and Losses

The table below presents realized gains and losses for 2007, 2006, and 2005.

		Realized Investments Gains (Losses) (In thousands)
Year Ended December 31, 2007:		
Securities held to maturity	$	19
Securities available for sale		4,654
Real estate		72
Mortgage loans and other		(1,248)
Totals	$	3,497
Year Ended December 31, 2006:		
Securities held to maturity	$	26
Securities available for sale		4,110
Real estate		626
Mortgage loans and other		(2,100)
Totals	$	2,662
Year Ended December 31, 2005:		
Securities held to maturity	$	628
Securities available for sale		2,176
Real estate		6,713
Mortgage loans and other		367
Totals	$	9,884

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(D) Debt and Equity Securities

The tables below present amortized cost and fair values of securities held to maturity and securities available for sale at December 31, 2007.

	Securities Held to Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Debt securities:				
U.S. Treasury and other U.S. government corporations and agencies	$ 426,236	3,365	495	429,106
States and political subdivisions	13,287	24	40	13,271
Foreign governments	19,944	390	-	20,334
Public utilities	397,639	9,272	4,838	402,073
Corporate	1,194,260	16,984	19,039	1,192,205
Mortgage-backed	1,646,432	9,340	17,463	1,638,309
Asset-backed	80,805	692	2,602	78,895
Totals	$ 3,778,603	40,067	44,477	3,774,193

	Securities Available for Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Debt securities:				
U.S. Treasury and other U.S. government corporations and agencies	$ 5,000	67	-	5,067
States and political subdivisions	48,280	1,134	907	48,507
Foreign governments	10,473	466	-	10,939
Public utilities	293,308	2,568	4,068	291,808
Corporate	1,242,402	18,730	25,639	1,235,493
Mortgage-backed	266,534	1,739	5,300	262,973

Asset-backed	26,227	412	425	26,214
Equity securities	12,275	8,851	1,413	19,713
Totals	$ 1,904,499	33,967	37,752	1,900,714

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The tables below present amortized cost and fair values of securities held to maturity and securities available for sale at December 31, 2006.

	Securities Held to Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Debt securities:				
U.S. Treasury and other U.S. government corporations and agencies	$ 401,662	614	8,641	393,635
States and political subdivisions	13,282	18	145	13,155
Foreign governments	19,921	219	95	20,045
Public utilities	349,994	7,952	6,094	351,852
Corporate	1,171,088	13,406	21,061	1,163,433
Mortgage-backed	1,552,611	3,827	25,693	1,530,745
Asset-backed	94,876	1,037	1,153	94,760
Totals	$ 3,603,434	27,073	62,882	3,567,625

	Securities Available for Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Debt securities:				
U.S. Treasury and other U.S. government corporations and agencies	$ 45,893	17	-	45,910
States and political subdivisions	43,090	2,353	98	45,345
Foreign governments	10,526	162	54	10,634
Public utilities	277,691	2,146	6,181	273,656
Corporate	1,221,165	18,420	25,911	1,213,674
Mortgage-backed	269,685	1,203	5,966	264,922
Asset-backed	26,977	369	122	27,224

Equity securities	12,427	8,927	151	21,203
Totals	$ 1,907,454	33,597	38,483	1,902,568

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Due to the Company's investment policy of investing in high quality securities with the primary intention of holding these securities until the stated maturity, the portfolio has exposure to interest rate risk. Interest rate risk is the risk that funds are invested today at a market interest rate and in the future interest rates rise causing the current market price on that investment to be lower. This risk is not a significant factor relative to the Company's buy and hold portfolio, since the original intention was to receive the stated interest rate and principal at maturity to match liability requirements of policyholders. Also, the Company takes steps to manage these risks. For example, the Company purchases the type of mortgage-backed securities that have more predictable cash flow patterns.

In addition, the Company is exposed to credit risk which is continually monitored relating to security holdings. Credit risk is the risk that an issuer of a security will not be able to fulfill their obligations relative to a security payment schedule. The Company has reviewed relative information for all issuers in an unrealized loss position at December 31, 2007 including market pricing history, credit ratings, analyst reports as well as data provided by issuers themselves to conclude on each specific issuer and make the determination relating to other-than-temporary impairment. For the securities that have not been impaired at December 31, 2007, the Company has the ability and intent to hold these securities until recovery in fair value and expects to receive all amounts due relative to principal and interest.

The Company held in its investment portfolio below investment grade debt securities totaling $100.2 million and $146.6 million at December 31, 2007 and 2006, respectively. These amounts represent 1.7% and 2.5% of total invested assets for December 31, 2007 and 2006, respectively. Below investment grade holdings are the result of downgrades subsequent to purchase, as the Company only invests in high quality securities with ratings quoted as investment grade. Below investment grade securities generally have greater default risk than higher rated corporate debt. The issuers of these securities are usually more sensitive to adverse industry or economic conditions than are investment grade issuers. For the years ended December 31, 2007 2006, and 2005, the Company recorded realized losses totaling $0.1 million, $0.1 million, and $2.0 million, respectively, for other-than-temporary impairment writedowns on investments in debt securities.

The following table shows the gross unrealized losses and fair values of the Company's investments by investment category and length of time the individual securities have been in a continuous unrealized loss position at December 31, 2007.

	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. government agencies	$ -	-	44,207	495	44,207	495
State and political subdivisions	-	-	51,265	947	51,265	947
Foreign governments	-	-	-	-	-	-
Public utilities	64,761	487	278,788	8,420	343,549	8,906
Corporate	183,923	3,131	1,049,803	41,545	1,233,726	44,678
Mortgage-backed	39,181	164	1,049,492	22,598	1,088,673	22,763

Asset-backed		18,780	877	34,537	2,152	53,317	3,027
Debt securities		306,645	4,659	2,508,092	76,157	2,814,737	80,816
Equity securities		-	-	12,247	1,413	12,247	1,413
Total temporarily impaired securities	$	306,645	4,659	2,520,339	77,570	2,826,984	82,229

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Debt securities. The gross unrealized losses for debt securities are made up of 334 individual issues, or 49% of the total debt securities held by the Company. The market value of these bonds as a percent of amortized cost averages 97.2%. Of the 334 securities, 269, or approximately 80%, fall in the 12 months or greater aging category; of the 334 debt securities, 315 were rated investment grade at December 31, 2007. Additional information on debt securities by investment category is summarized below.

U.S. treasury and U.S. government corporations and agencies. The unrealized losses on these investments are the results of two securities. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than par, and the Company has the ability and intent to hold these investments until a recovery of fair value, which may be maturity. Both of these securities are rated AAA. The Company does not consider these investments to be other than temporarily impaired at December 31, 2007.

State and political subdivisions. The unrealized losses on these investments are the result of holdings in eighteen securities. Of these securities, sixteen are rated AAA, one is rated A+ and one is rated BB+. Based on these facts and the Company's intent to hold to maturity, no other-than-temporary loss was recognized as of December 31, 2007.

Foreign government. No securities had a gross unrealized loss.

Public utilities. The market value as a percent of the amortized cost is above 92% for each individual security. Of the 54 securities, all are rated BBB or above except two, one is priced at 100% of par and the other at 99.5% of par. At this time, the Company does not consider any of these unrealized losses as other-than-temporary.

Corporate bonds. A total of 152 securities fall into this category with only eleven rated below investment grade. Of the 141 that are investment grade, all but four securities have a market value as a percent of amortized cost of at least 90%. Of the remaining securities all have been reviewed based on the monitoring procedures described previously including review of credit ratings, analyst reports, and issuer information and are not considered other-than-temporarily impaired at December 31, 2007.

Mortgage-backed securities. These securities are all rated AAA and priced at 91% of par or above. The Company generally purchased these investments at a discount relative to their face amount and it is expected that the securities will not be settled at a price less than the stated par. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company has the ability and intent to hold these securities until a recovery of fair value, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2007.

Asset-backed securities. Of these securities, ten are rated AAA and are priced above 88% of par and are not considered impaired. The other six securities are all monitored under EITF 99-20 and SFAS No. 115-1 impairment guidance and based on the cash flow analysis only one security was impaired during the fourth quarter of 2007.

Equity securities. The gross unrealized losses for equity securities are made up of thirty-three individual issues. These holdings are reviewed for impairment quarterly. As of December 31, 2007, one equity security was impaired.

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The following table shows the gross unrealized losses and fair values of the Company's investments by investment category and length of time the individual securities have been in a continuous unrealized loss position at December 31, 2006.

	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt Securities:			(In thousands)			
U.S. government agencies	$ 84,630	544	260,838	8,097	345,468	8,641
State and political subdivisions	9,945	55	11,579	188	21,524	243
Foreign governments	11,861	108	3,234	41	15,095	149
Public utilities	111,575	946	264,522	11,329	376,097	12,275
Corporate	394,499	5,937	955,626	41,035	1,350,125	46,972
Mortgage-backed	313,895	4,130	1,033,452	27,529	1,347,347	31,659
Asset-backed	12,809	52	29,052	1,223	41,861	1,275
Debt securities	939,214	11,772	2,558,303	89,442	3,497,517	101,214
Equity securities	1,633	18	2,372	133	4,005	151
Total temporarily impaired securities	$ 940,847	11,790	2,560,675	89,575	3,501,522	101,365

The amortized cost and fair value of investments in debt securities at December 31, 2007, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Debt Securities Available for Sale		Debt Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Due in 1 year or less	$ 184,744	185,186	111,437	112,138
Due after 1 year through 5 years	266,492	275,411	347,653	359,387
Due after 5 years through 10 years	1,038,149	1,022,240	1,332,063	1,327,238

Due after 10 years	110,078	108,977	260,213	258,226
	1,599,463	1,591,814	2,051,366	2,056,989
Mortgage and asset-backed securities	292,761	289,187	1,727,237	1,717,204
Total	$ 1,892,224	1,881,001	3,778,603	3,774,193

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The Company uses the specific identification method in computing realized gains and losses. Proceeds from sales of securities available for sale during 2007, 2006, and 2005 totaled $35.0 million, $36.4 million, and $29.2 million, respectively. Gross gains and losses realized on those sales are detailed below.

	Years Ended December 31,		
	2007	2006	2005
	(In thousands)		
Gross realized gains	$ 4,897	4,587	3,930
Gross realized losses	(365)	(433)	(255)
Net realized gains	$ 4,532	4,154	3,675

Due to significant credit deterioration, bonds from the held to maturity portfolio were sold during 2007 and 2005. The amortized cost of these bonds sold totaled $5.2 million and $10.0 million, which resulted in realized gains of $0.2 million and $0.9 million for 2007 and 2005, respectively. No held to maturity securities were transferred or sold during 2006. Due to a significant decline in credit quality, the Company transferred debt securities totaling $7.0 million in 2005 from the held to maturity portfolio to the available for sale portfolio. Net unrealized gains of $0.2 million in 2005, related to these transferred securities are included as a separate component of accumulated other comprehensive income.

Except for U.S. government agency mortgage-backed securities, the Company had no other investments in any entity in excess of 10% of stockholders' equity at December 31, 2007 or 2006.

(E) Transfers of Securities

On January 1, 2001, the Company made transfers totaling $112 million to the held to maturity category from securities available for sale. Lower holdings of securities available for sale significantly reduce the Company's exposure to equity volatility while still providing securities for liquidity and asset/liability management purposes. The transfers of securities were recorded at fair values in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. This Statement requires that the unrealized holding gain or loss at the date of the transfer continue to be reported in a separate component of stockholders' equity and be amortized over the remaining life of the security as an adjustment of yield in a manner consistent with the amortization of any premium or discount. The amortization of an unrealized holding gain or loss reported in equity will offset or mitigate the effect on interest income of the amortization of the premium or discount for the held to maturity securities. The transfer of securities from available for sale to held to maturity had no effect on net earnings of the Company. However, stockholders' equity was adjusted as follows:

	Net Unrealized Gains (Losses) as of December 31,		
	2007	2006	2005
	(In thousands)		
Beginning unamortized losses from transfers	$ (79)	(104)	(122)
Amortization of net unrealized losses related to transferred securities, net of effects of deferred costs and taxes	104	25	18

Ending unamortized gains (losses) from transfers	$	25	(79)	(104)

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(F) Net Unrealized Gains on Available for Sale Securities

Net unrealized gains on investment securities included in stockholders' equity at December 31, 2007 and 2006, are as follows:

	December 31,	
	2007	2006
	(In thousands)	
Gross unrealized gains	$ 33,967	33,597
Gross unrealized losses	(37,752)	(38,483)
Adjustments for:		
Deferred costs	5,568	9,849
Deferred Federal income tax expense	(624)	(1,736)
	1,159	3,227
Net unrealized gains (losses) related to securities transferred to held to maturity	25	(79)
Net unrealized gains on investment securities	$ 1,184	3,148

(4) REINSURANCE

Effective January 1, 2004, the Company began reinsuring any risk on any one life in excess of $250,000, subject to a minimum session of $50,000. The Company's general policy prior to December 31, 2003 was to reinsure that portion of any risk in excess of $200,000 on the life of any one individual. The Company is party to several reinsurance agreements. Total life insurance in force was $17.6 billion and $15.9 billion at December 31, 2007 and 2006, respectively. Of these amounts, life insurance in force totaling $5.0 billion and $4.1 billion was ceded to reinsurance companies, primarily on a yearly renewable term basis, at December 31, 2007 and 2006, respectively. In accordance with the reinsurance contracts, reinsurance receivables including amounts related to claims incurred but not reported and liabilities for future policy benefits totaled $9.6 million and $16.5 million at December 31, 2007 and 2006, respectively. Premiums and contract revenues were reduced by $16.3 million, $13.5 million, and $12.3 million for reinsurance premiums incurred during 2007, 2006, and 2005, respectively. Benefit expenses were reduced by $8.5 million, $17.7 million, and $8.2 million, for reinsurance recoveries during 2007, 2006, and 2005, respectively. A contingent liability exists with respect to reinsurance, as the Company remains liable if the reinsurance companies are unable to meet their obligations under the existing agreements. The Company does not assume reinsurance.

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(5) FEDERAL INCOME TAXES

Total Federal income taxes for 2007, 2006, and 2005 were allocated as follows:

	Years Ended December 31,		
	2007	2006	2005
	(In thousands)		
Taxes (benefits) on earnings from continuing operations:			
Current	$ 7,622	38,711	32,874
Deferred	32,254	1,761	6,744
Taxes on earnings	39,876	40,472	39,618
Taxes (benefits) on components of stockholders' equity:			
Net unrealized gains and losses on securities available for sale	(1,056)	(3,905)	(7,879)
Foreign currency translation adjustments	(24)	(96)	70
Change in benefit liability	(714)	(5,385)	(191)
Tax benefit from exercise of stock options	-	-	(1,170)
Total Federal income taxes	$ 38,082	31,086	30,448

The provisions for Federal income taxes attributable to earnings from continuing operations vary from amounts computed by applying the statutory income tax rate to earnings before Federal income taxes. The reasons for the differences and the corresponding tax effects are as follows:

	Years Ended December 31,		
	2007	2006	2005
	(In thousands)		
Income tax expense at statutory rate	$ 43,837	40,885	40,910
Tax-exempt income	(2,005)	(2,003)	(1,719)
Deferred tax liability correction	(2,389)	-	-
Other	433	1,590	427
Taxes on earnings from continuing operations	$ 39,876	40,472	39,618

There were no deferred taxes attributable to enacted tax rate changes for the years ended December 31, 2007, 2006, and 2005.

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.

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The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2007 and 2006 are presented below.

	December 31,	
	2007	2006
	(In thousands)	
Deferred tax assets:		
Future policy benefits, excess of financial accounting liabilities over tax liabilities	$ 172,619	188,466
Debt securities writedowns for financial accounting purposes	3,872	8,043
Capital loss carryforward	-	508
Pension liabilities	6,099	5,385
Real estate, principally due to writedowns for financial accounting purposes	-	1,129
Accrued operating expenses recorded for financial accounting purposes not currently tax deductible	5,396	6,877
Mortgage loans, principally due to valuation allowances for financial accounting purposes	1,248	735
Accrued and unearned investment income recognized for tax purposes and deferred for financial accounting purposes	193	160
Other	1,223	90
Total gross deferred tax assets	190,650	211,393
Deferred tax liabilities:		
Deferred policy acquisition and sales inducement costs, principally expensed for tax purposes	(240,294)	(229,978)
Net unrealized gains on securities available for sale	(639)	(1,695)
Debt securities, principally due to deferred market discount for tax	(4,903)	(2,520)
Foreign currency translation adjustments	(3,216)	(3,297)
Fixed assets, due to different bases	(3,110)	(3,275)
Real estate, principally due to differences in tax and financial accounting for depreciation	-	(176)
Other	(208)	(2,659)
Total gross deferred tax liabilities	(252,370)	(243,600)
Net deferred tax liabilities	$ (61,720)	(32,207)

There was no valuation allowance for deferred tax assets at December 31, 2007 and 2006. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management

believes it is more likely than not that the Company will realize the benefits of these deductible differences.

As discussed in Note 1, the Company adopted FIN 48 in 2007. In connection with the adoption, the Company assessed whether it had any significant uncertain tax positions and determined that there were none. Accordingly, no reserve for uncertain tax positions was recorded. Should the accrual of any interest or penalties relative to unrecognized tax benefits be necessary, it is the Company's policy to record such accruals in its income tax accounts; no such accruals exist as of December 31, 2007. The Company and its corporate subsidiaries file a consolidated U.S. federal income tax return, which is subject to examination for all years after 2003.

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The Company files a consolidated Federal income tax return with its subsidiaries. Allocation of the consolidated tax liability is based on separate return calculations pursuant to the "wait-and-see" method as described in sections 1.1552-1(a)(1) and 1.1502-33(d)(2) of the current Treasury Regulations. Under this method, consolidated group members are not given current credit for net losses until future net taxable income is generated to realize such credits.

(6) TRANSACTIONS WITH CONTROLLING STOCKHOLDER AND AFFILIATES

(A) Life Interest in Libbie Shearn Moody Trust

The Company's wholly-owned subsidiary, NWL Services, Inc., is the beneficial owner of a life interest (1/8 share) in the net income of the trust estate of Libbie Shearn Moody ("Trust") which was previously owned by Robert L. Moody, Chairman of the Board of Directors of the Company. The Company has issued term insurance policies on the life of Mr. Moody which are reinsured through agreements with unaffiliated insurance companies. The Company is the beneficiary of these policies for an amount equal to the statutory admitted value of the Trust, which was $12.8 million at December 31, 2007. The excess of the $27.0 million face amount of the reinsured policies over the statutory admitted value of the Trust has been assigned to Mr. Moody. The recorded net asset values in the accompanying consolidated financial statements for the life interest in the Trust are as follows:

	December 31,	
	2007	2006
	(In thousands)	
Original valuation of life interest at February 26, 1960	$ 13,793	13,793
Less accumulated amortization	(12,173)	(11,858)
Carrying basis at year end	$ 1,620	1,935

Income from the Trust and related expenses reflected in the accompanying consolidated statements of earnings are summarized as follows:

	Years Ended December 31,		
	2007	2006	2005
	(In thousands)		
Income distributions	$ 4,057	4,500	3,915
Deduct:			
Amortization	(314)	(312)	(308)
Reinsurance premiums	(807)	(807)	(807)
Net income from life interest in the Trust	$ 2,936	3,381	2,800

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(B) Common Stock

Robert L. Moody, Chairman of the Board of Directors, owns 198,074 of the total outstanding shares of the Company's Class B common stock and 1,159,096 of the Class A common stock as of December 31, 2007.

Holders of the Company's Class A common stock elect one-third of the Board of Directors of the Company, and holders of the Class B common stock elect the remainder. Any cash or in-kind dividends paid on each share of Class B common stock shall be only one-half of the cash or in-kind dividends paid on each share of Class A common stock. Also, in the event of liquidation of the Company, the Class A stockholders shall first receive the par value of their shares; then the Class B stockholders shall receive the par value of their shares; and the remaining net assets of the Company shall be divided between the stockholders of both Class A and Class B common stock, based on the number of shares held.

(7) PENSION AND OTHER POSTRETIREMENT PLANS

(A) Defined Benefit Pension Plans

The Company sponsors a qualified defined benefit pension plan covering substantially all employees. The plan provides benefits based on the participants' years of service and compensation. The Company makes annual contributions to the plan that comply 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. Using estimated assumptions, the cumulative estimated minimum required contribution for the next five years is $2.1 million at which time the Plan is expected to be fully funded. Future pension expense is projected to be minimal. Fair values of plan assets and liabilities are measured as of December 31 for the respective year. A detail of plan disclosures is provided below.

Obligations and Funded Status

	December 31,	
	2007	2006
	(In thousands)	
Changes in projected benefit obligations:		
Projected benefit obligations at beginning of year	$ 18,257	17,452
Service cost	720	691
Interest cost	1,086	1,021
Plan curtailment	(801)	-
Actuarial (gain) loss	797	(67)
Benefits paid	(1,445)	(840)
Projected benefit obligations at end of year	18,614	18,257
Changes in plan assets:		
Fair value of plan assets at beginning of year	14,153	12,808
Actual return on plan assets	699	1,175
Contributions	1,819	1,010
Benefits paid	(1,445)	(840)

Fair value of plan assets at end of year		15,226	14,153
Funded status at end of year	$	(3,388)	(4,104)

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	December 31,	
	2007	2006
	(In thousands)	
Amounts recognized in the Company's consolidated financial statements:		
Assets	$ -	-
Liabilities	(3,388)	(4,104)
Net amount recognized	$ (3,388)	(4,104)
Amounts recognized in accumulated other comprehensive income:		
Net loss	$ 5,608	5,532
Prior service cost	31	35
Net amount recognized	$ 5,639	5,567

The accumulated benefit obligation was $18.6 million and $17.0 million at December 31, 2007 and 2006, respectively.

Components of Net Periodic Benefit Cost

	Years Ended December 31,		
	2007	2006	2005
	(In thousands)		
Components of net periodic benefit costs:			
Service cost	$ 720	691	685
Interest cost	1,086	1,021	974
Expected return on plan assets	(1,100)	(947)	(910)
Amortization of prior service cost	4	4	4
Amortization of net loss	321	352	331
Net periodic benefit cost	1,031	1,121	1,084
Other changes in plan assets and benefit obligations recognized in other comprehensive income:			
Net (gain) loss	396	(295)	
Amortization of prior service cost	(4)	(4)	
Amortization of net gain	(320)	(352)	
Total recognized in other comprehensive income	72	(651)	
Total recognized in net periodic benefit cost and other comprehensive income	$ 1,103	470	

The estimated net loss that will be amortized from accumulated other comprehensive income into net periodic benefit cost over 2008 will be based on the average expected future service of plan participants. The estimated prior service

cost that will be amortized from accumulated other comprehensive income into net periodic benefit cost over 2008 will be minimal.

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Assumptions

	December 31,	
	2007	2006
Weighted-average assumptions used to determine benefit obligations:		
Discount rate	6.00%	6.00%
Rate of compensation increase	4.50%	4.50%

	December 31,		
	2007	2006	2005
Weighted-average assumptions used to determine net periodic benefit cost:			
Discount rate	6.00%	6.00%	6.00%
Expected long-term return on plan assets	7.50%	7.50%	7.50%
Rate of compensation increase	4.50%	4.50%	4.50%

The assumed long-term rate of return on plan assets is generally set at the rate expected to be earned based on the long-term investment policy of the plan and the various classes of invested funds, based on the input of the plan's investment advisors and consulting actuary and the plan's historic rate of return. As of December 31, 2007, the plan's average 10-year and inception-to-date returns were 5.50% and 7.73%, respectively.

Plan Assets

The plan's weighted-average asset allocations by asset category are as follows:

	December 31,		
	2007	2006	2005
Asset Category			
Equity securities	59%	60%	57%
Debt securities	35%	35%	34%
Cash and cash equivalents	6%	5%	9%
Total	100%	100%	100%

The Company has established and maintains an investment policy statement for the assets held in the plan's trust. The investment strategies are of a long-term nature and are designed to meet the following objectives:

- ensure that funds are available to pay benefits as they become due
- set forth an investment structure detailing permitted assets and expected allocation ranges among classes
- insure that plan assets are managed in accordance with ERISA

The investment policy statement sets forth the following acceptable ranges for each asset's class.

Asset Category	Acceptable Range

Equity securities	55-65%
Debt securities	30-40%
Cash	0-15%

Deviations from these ranges are permitted if such deviations are consistent with the duty of prudence under ERISA. Investments in natural resources, venture capital, precious metals, futures and options, real estate, and other vehicles which do not have readily available objective valuations are not permitted. Short sales, use of margin or leverage, and investment in commodities and art objects are also prohibited.

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The investment policy statement is reviewed annually to insure that the objectives are met considering any changes in benefit plan design, market conditions, or other material considerations.

Contributions

The Company expects to contribute $1.1 million to the plan in 2008.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands):

2008	$ 1,097
2009	1,141
2010	1,198
2011	1,268
2012	1,290
2013-2017	6,442

The Company also sponsors three non-qualified defined benefit pension plans. The first plan covers certain senior officers and provides benefits based on the participants' years of service and compensation. The primary 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 pension 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 this plan to allow an additional employee to participate and to change the benefit formula for the Chairman of the Company. As previously mentioned, these additional obligations are a liability to the Company. Effective December 31, 2004, this plan was frozen with respect to the continued accrual of benefits of the Chairman and the President of the Company in order to comply with law changes under the American Jobs Creation Act of 2004 ("Act").

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

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

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A detail of plan disclosures related to the amendments of the original plan and the additional two plans is provided below:

Obligations and Funded Status

	December 31,	
	2007	2006
	(In thousands)	
Changes in projected benefit obligations:		
Projected benefit obligations at beginning of year	$ 13,696	8,970
Service cost	773	1,631
Interest cost	962	708
Actuarial loss	3,257	3,525
Benefits paid	(1,584)	(1,138)
Projected benefit obligations at end of year	17,104	13,696
Change in plan assets:		
Fair value of plan assets at beginning of year	-	-
Contributions	1,584	1,138
Benefits paid	(1,584)	(1,138)
Fair value of plan assets at end of year	-	-
Funded status at end of year	$ (17,104)	(13,696)

	December 31,	
	2007	2006
	(In thousands)	
Amounts recognized in the Company's consolidated financial statements:		
Assets	$ -	-
Liabilities	(17,104)	(13,696)
Net amount recognized	$ (17,104)	(13,696)
Amounts recognized in accumulated other comprehensive income:		
Net loss	$ 6,532	3,679
Prior service cost	3,591	4,630
Net amount recognized	$ 10,123	8,309

The accumulated benefit obligation was $13.7 million and $10.5 million at December 31, 2007 and 2006, respectively.

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Components of Net Periodic Benefit Cost

	Years Ended December 31,		
	2007	2006	2005
	(In thousands)		
Components of net periodic benefit cost:			
Service cost	$ 773	1,631	1,295
Interest cost	962	708	292
Amortization of prior service cost	1,039	1,040	647
Amortization of net loss	404	182	-
Net periodic benefit cost	3,178	3,561	2,234
Other changes in plan assets and benefit obligations recognized in other comprehensive income:			
Net loss	3,257	3,525	
Amortization of prior service cost	(1,039)	(1,040)	
Amortization of net gain	(404)	(182)	
Total recognized in other comprehensive income	1,814	2,303	
Total recognized in net periodic benefit cost and other comprehensive income	$ 4,992	5,864	

The estimated net loss that will be amortized from accumulated other comprehensive income into net periodic benefit cost over 2008 will be based on the average expected future service of plan participants. The estimated prior service cost that will be amortized from accumulated other comprehensive income into net periodic benefit cost over 2008 will be $1.0 million.

Assumptions

	December 31,	
	2007	2006
Weighted-average assumptions used to determine benefit obligations:		
Discount rate	6.00%	6.00%
Rate of compensation increase	4.00%	4.00%

	December 31,		
	2007	2006	2005
Weighted-average assumptions used to determine net periodic benefit costs:			
Discount rate	6.00%	6.00%	6.00%
Expected long-term return on plan assets	n/a	n/a	n/a
Rate of compensation increase	4.00%	4.00%	4.00%

The plan is unfunded and therefore no assumption has been made related to the expected long-term return on plan assets.

Plan Assets

The plan is unfunded and therefore had no assets at December 31, 2007 or 2006.

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Contributions

The Company expects to contribute $1.7 million to the plan in 2008.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands):

2008	$ 1,708
2009	1,866
2010	1,863
2011	1,859
2012	1,859
2013-2017	9,296

(B) Defined Contribution Pension Plans

In addition to the defined benefit pension plans, the Company sponsors a qualified 401(k) plan for substantially all employees and a non-qualified deferred compensation plan primarily for senior officers. The Company makes annual contributions to the 401(k) plan of two percent of each employee's compensation. Additional Company matching contributions of up to two percent of each employee's compensation are also made each year based on the employee's personal level of salary deferrals to the plan. All Company contributions are subject to a vesting schedule based on the employee's years of service. For the years ended December 31, 2007, 2006, and 2005, Company contributions totaled $432,000, $423,000, and $410,000, respectively.

The non-qualified deferred compensation plan was established to allow eligible employees to defer the payment of a percentage of their compensation and to provide for additional Company contributions. Company contributions are subject to a vesting schedule based on the employee's years of service. For the years ended December 31, 2007, 2006, and 2005, Company contributions totaled $61,000, $32,000, and $50,000, respectively.

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(C) Defined Benefit Postretirement Plans

The Company sponsors two health care plans that were amended in 2004 to provide postretirement benefits to certain fully-vested individuals. The plans are unfunded. The Company uses a December 31 measurement date for the plans. A detail of plan disclosures related to these plans is provided below:

Obligations and Funded Status

	December 31,	
	2007	2006
	(In thousands)	
Changes in projected benefit obligations:		
Projected benefit obligations at beginning of year	$ 2,053	1,746
Interest cost	141	117
Actuarial gain	287	244
Benefits paid	(31)	(54)
Projected benefit obligations at end of year	2,450	2,053
Changes in plan assets:		
Fair value of plan assets at beginning of year	-	-
Contributions	31	54
Benefits paid	(31)	(54)
Fair value of plan assets at end of year	-	-
Funded status at end of year	$ (2,450)	(2,053)

	December 31,	
	2007	2006
	(In thousands)	
Amounts recognized in the Company's consolidated financial statements:		
Assets	$ -	-
Liabilities	(2,450)	(2,053)
Net amount recognized	$ (2,450)	(2,053)
Amounts recognized in accumulated other comprehensive income:		
Net gain	$ 478	221
Prior service cost	1,186	1,289
Net amount recognized	$ 1,664	1,510

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Components of Net Periodic Benefit Cost

	Years Ended December 31,		
	2007	2006	2005
	(In thousands)		
Components of net periodic benefit cost:			
Interest cost	$ 141	117	100
Amortization of prior service costs	103	103	103
Amortization of net loss	29	-	-
Net periodic benefit cost	273	220	203
Other change in plan assets and benefit obligations recognized in other comprehensive income:			
Net loss	287	244	
Amortization of prior service cost	(103)	(103)	
Amortization of net gain	(29)	-	
Total recognized in other comprehensive income	155	141	
Total recognized in net periodic benefit cost and other comprehensive income	$ 428	361	

The estimated net loss that will be amortized from accumulated other comprehensive income into net periodic benefit cost over 2008 will be based on the average expected future service of plan participants. The estimated prior service cost that will be amortized from accumulated other comprehensive income into net periodic benefit cost over 2008 will be $0.1 million.

Assumptions

A weighted-average discount rate assumption of 6% was used to determine benefit obligations and net periodic benefit cost as of and for the years ended December 31, 2007 and 2006. No assumption was made related to the expected long-term return on plan assets as the plan is unfunded.

For measurement purposes, an 8% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2008 and future years.

Assumed health care trend rates have a significant effect on the amounts reported for the health care plans. A 1% point change in assumed health care cost trend rates would have the following effects for the years ended December 31:

	2007		2006	
	1% Point Increase	1% Point Decrease	1% Point Increase	1% Point Decrease
	(In thousands)			
Effect on total of service and interest cost components	$ 32	(24)	27	(20)
Effect on postretirement benefit obligation	$ 560	(428)	468	(357)

Plan Assets

The plans are unfunded and therefore had no assets at December 31, 2007 and 2006.

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Contributions

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands):

2008	$ 75
2009	81
2010	88
2011	95
2012	102
2013-2017	648

The Company expects to recognize $1.1 million of net prior service cost and $0.8 million of net loss as net periodic benefit cost in 2008 for the defined benefit plans.

(8) SHORT-TERM BORROWINGS

The Company has available a $40 million bank line of credit primarily for cash management purposes relating to investment transactions. The Company is required to maintain a collateral security deposit in trust with the sponsoring bank equal to 120% of any outstanding liability. The Company had no outstanding liabilities or collateral security deposits with the bank at December 31, 2007 or 2006.

(9) COMMITMENTS AND CONTINGENCIES

(A) 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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(B) Financial Instruments

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

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amounts, assuming that the amounts are fully advanced and that collateral or other security is of no value. Commitments to extend credit are legally binding agreements to lend to a customer that generally have fixed expiration dates or other termination clauses and may require payment of a fee. Commitments do not necessarily represent future liquidity requirements, as some could expire without being drawn upon. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The Company controls the credit risk of these transactions through credit approvals, limits, and monitoring procedures. The Company had no commitments to extend credit relating to mortgage loans at December 31, 2007. The Company evaluates each customer's creditworthiness on a case-by-case basis. In addition, the Company had commitments at December 31, 2007, of approximately $12.0 million which were approved by the Company’s Board of Directors for the construction of a nursing home facility in Central Texas with approximately $8.1 million remaining to be funded.

(C) Guaranty Association Assessments

The Company is subject to state guaranty association assessments in all states in which it is licensed to do business. These associations generally guarantee certain levels of benefits payable to resident policyholders of insolvent insurance companies. Many states allow premium tax credits for all or a portion of such assessments, thereby allowing potential recovery of these payments over a period of years. However, several states do not allow such credits.

The Company estimates its liabilities for guaranty association assessments by using the latest information available from the National Organization of Life and Health Insurance Guaranty Associations. The Company monitors and revises its estimates for assessments as additional information becomes available which could result in changes to the estimated liabilities. As of December 31, 2007 and 2006, liabilities for guaranty association assessments totaled $1.3 million and $1.7 million, respectively. Other operating expenses related to state guaranty association assessments were minimal for the years ended December 31, 2007, 2006, and 2005.

(D) Leases

The Company leases its executive office building and various computer and other office related equipment under operating leases. Rental expenses for these leases were $0.9 million for the years ended December 31, 2007, 2006, and 2005. Total future annual lease obligations as of December 31, 2007, are as follows (in thousands):

2008	$	846
2009		846
2010		331
2011 and thereafter, in aggregate		-
Total	$	2,023

(E) Compensation Plan

Effective January 1, 2006, the Company implemented a Non-Qualified Deferred Compensation Plan to provide incentive bonuses to eligible agents. Agents qualify for participation by meeting certain sales goals each year. Company contributions are subject to a vesting schedule based on the agents' years of qualification in the plan. The Company expects to contribute $0.5 million to the plan in 2008.

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(10) STOCKHOLDERS' EQUITY

(A) Changes in Common Stock Shares Outstanding

Details of changes in shares of common stock outstanding are provided below.

	Years Ended December 31,		
	2007	2006	2005
	(In thousands)		
Common stock shares outstanding:			
Shares outstanding at beginning of year	3,621	3,613	3,584
Shares exercised under stock option plan	1	8	29
Shares outstanding at end of year	3,622	3,621	3,613

(B) Dividend Restrictions

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 statutory earnings and surplus levels of the Company. The maximum dividend payment which may be made without prior approval in 2008 was $70.7 million. On August 24, 2007, the Board of Directors of the Company declared a cash dividend to stockholders on record as of October 31, 2007 and payable November 29, 2007. The dividends approved were $0.36 per common share to Class A stockholders and $0.18 per common share to Class B stockholders.

(C) Regulatory Capital Requirements

The Colorado Division of Insurance imposes minimum risk-based capital requirements on insurance companies that were developed by the National Association of Insurance Commissioners ("NAIC"). The formulas for determining the amount of risk-based capital ("RBC") specify various weighting factors that are applied to statutory financial balances or various levels of activity based on the perceived degree of risk. Regulatory compliance is determined by a ratio of the Company's regulatory total adjusted capital to its authorized control level RBC, as defined by the NAIC. Companies below specific trigger points or ratios are classified within certain levels, each of which requires specified corrective action. The Company's current statutory capital and surplus is significantly in excess of all RBC requirements.

(D) Share-Based Payments

The Company has a stock and incentive plan ("Plan") which provides 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; (4) incentive awards; and (5) performance awards. The Plan began on April 21, 1995, and was to terminate on April 20, 2005, unless terminated earlier by the Board of Directors. The Plan 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 may be issued under the Plan, or as to which stock appreciation rights or other awards may be granted, may not exceed 300,000. These shares may be authorized and unissued shares or treasury shares. The Company has only issued nonqualified stock options.

All of the employees of the Company and its subsidiaries are eligible to participate in the Plan. In addition, directors of the Company, other than Compensation and Stock Option Committee members, are eligible for restricted stock awards, incentive awards, and performance awards. Company directors, including members of the Compensation and Stock Option Committee, are eligible for nondiscretionary stock options. The directors' stock options vest 20% annually following one full year of service to the Company from the date of grant. The officers' and employees' stock options vest 20% annually following three full years of service to the Company from the date of grant. Options issued expire after ten years. No awards were issued in 2007 or 2006.

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Through December 31, 2005, the Company classified the Plan as equity awards, and as such, utilized the grant date fair value method to measure compensation. Effective March 10, 2006, as more fully described below, the Company's Plan classification was changed to liability and accordingly, the Company began using the current fair value method to measure compensation cost. For the years ended December 31, 2007 and 2006, the liability balance was $7.7 million and $13.2 million, respectively. A summary of shares available for grant and stock option activity is detailed below.

	Shares Available For Grant	Options Outstanding Shares	Options Outstanding Weighted-Average Exercise Price
Balance at December 31, 2006	26,477	128,465	$ 123.00
Stock Options:			
Exercised	-	(32,290)	106.72
Forfeited	1,110	(1,110)	131.23
Expired	81	(81)	85.13
Balance at December 31, 2007	27,668	94,984	$ 128.47

The total intrinsic value of options exercised was $4.6 million, $3.3 million, and $3.3 million for the years ended December 31, 2007, 2006, and 2005, respectively. The total share-based liabilities paid were $4.4 million and $2.2 million for the years ended 2007 and 2006, respectively. For the years ended December 31, 2007 and 2006, the total cash received from the exercise of options under the Plan was $0.1 million and $0.5 million, respectively. The total fair value of shares vested during 2007 and 2006 was $3.2 million and $2.6 million, respectively.

The following table summarizes information about stock options outstanding at December 31, 2007.

	Options Outstanding Number Outstanding	Options Outstanding Weighted-Average Remaining Contractual Life	Options Exercisable
Exercise prices:			
$ 105.25	7,130	0.3 years	7,130
112.38	4,800	0.5 years	4,800
92.13	20,054	3.3 years	13,186
95.00	7,000	3.5 years	7,000
150.00	56,000	6.4 years	12,600
Totals	94,984		44,716
Aggregate intrinsic value (in thousands)	$ 7,494		$ 4,213

The aggregate intrinsic value in the table above is based on the closing stock price of $207.37 per share on December 31, 2007.

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

	2007	2006
Expected term of options	2 to 6 years	2 to 6 years
Expected volatility:		
Range	18.84% to 27.56%	15.60% to 24.43%
Weighted-average	22.25%	19.81%
Expected dividend yield	0.17%	-
Risk-free rate:		
Range	3.02% to 3.68%	4.69% to 5.01%
Weighted-average	3.28%	4.79%

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.

The pre-tax compensation cost recognized in the financial statements related to the Plan was $(1.1) million, $13.1 million, and $0.9 million for the years ended December 31, 2007, 2006, and 2005, respectively. The related tax (expense)/benefit recognized was $(0.4) million and $4.6 million for the years ended December 31, 2007 and 2006, respectively.

Effective March 10, 2006, the Company adopted and implemented a limited stock buy-back program 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 Plan, however the program necessitated a change in accounting from the equity classification to the liability classification. The modification affected 35 plan participants who had options outstanding on the date of modification and resulted in $11.7 million of total incremental pre-tax compensation cost due to the change from the equity to liability classification.

For the years ended December 31, 2007 and 2006, the total compensation cost related to nonvested options not yet recognized was $1.1 million and $2.9 million. This amount is expected to be recognized over a weighted-average period of 2 years. The Company recognizes compensation cost over the graded vesting periods.

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(11) EARNINGS PER SHARE

Earnings per share amounts for the Company are presented using two different computations. Basic earnings per share excludes dilutive effects of certain securities or contracts, such as stock options, and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. Stock options not included in the weighted-average number of diluted shares because such shares would have been anti-dilutive were immaterial. In prior years, earnings per share were presented as one class of stock. In the current year, the Company determined that U.S. GAAP requires a two-class presentation for the Company's two classes of common stock (Note 6B). Accordingly, the earnings per share for both Class A and Class B are now being presented. Prior year amounts have been adjusted to reflect the two-class presentation. The following table sets forth the computations of basic and diluted earnings per share.

	Years Ended December 31,					
	2007		2006		2005	
	Class A	Class B	Class A	Class B	Class A	Class B
	(In thousands except per share amounts)					
Numerator for Basic and Diluted Earnings Per Share:						
Net income	$ 85,371		76,343		77,267	
Dividends – Class A shares	(1,232)		(1,231)		(1,160)	
Dividends – Class B shares	(36)		(36)		(34)	
Undistributed income	$ 84,103		75,076		76,073	
Allocation of net income:						
Dividends	$ 1,232	36	1,231	36	1,160	34
Allocation of undistributed income	81,715	2,388	72,944	2,132	73,908	2,165
Cumulative effect of change in accounting principle	-	-	-	-	-	-
Net income	$ 82,947	2,424	74,175	2,168	75,068	2,199
Denominator:						
Basic earnings per share - weighted-average shares	3,422	200	3,421	200	3,413	200
Effect of dilutive stock options	42	-	36	-	35	-

Diluted earnings per share - adjusted weighted-average shares for assumed conversions		3,464	200	3,457	200	3,448	200
Basic Earnings Per Share	$	24.24	12.12	21.69	10.84	22.06	11.00
Diluted Earnings Per Share	$	23.95	12.12	21.46	10.84	21.83	11.00

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(12) COMPREHENSIVE INCOME

SFAS No. 130, Reporting Comprehensive Income establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains, and losses) in a full set of general-purpose financial statements. This Statement requires that all items required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. This statement requires that an enterprise (a) classify items of other comprehensive income by their nature in a financial statement and (b) display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position.

SFAS No. 130 affects the Company's reporting presentation of certain items such as foreign currency translation adjustments, unrealized gains and losses on investment securities, and minimum pension liabilities. These items are reflected as components of other comprehensive income, as reported in the accompanying consolidated financial statements. Components of other comprehensive income and the related tax effect are provided below for 2007, 2006, and 2005.

	Amounts Before Taxes	Tax (Expense) Benefit	Amounts Net of Taxes
		(In thousands)	
2007:			
Unrealized gains (losses) on securities, net of effects of deferred costs of $4,415:			
Net unrealized holding gains arising during period	$ 1,593	(558)	1,035
Reclassification adjustment for net gains included in net earnings	(4,773)	1,670	(3,103)
Amortization of net unrealized losses related to transferred securities	160	(56)	104
Net unrealized losses on securities	(3,020)	1,056	(1,964)
Foreign currency translation adjustments	(68)	24	(44)
Pension liability adjustment	(2,040)	714	(1,326)
Other comprehensive income (loss)	$ (5,128)	1,794	(3,334)

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	Amounts Before Taxes	Tax (Expense) Benefit	Amounts Net of Taxes
		(In thousands)	
2006:			
Unrealized gains (losses) on securities, net of effects of deferred costs of $12,702:			
Net unrealized holding losses arising during period	$ (6,988)	2,446	(4,542)
Reclassification adjustment for net gains included in net earnings	(4,209)	1,473	(2,736)
Amortization of net unrealized losses related to transferred securities	39	(14)	25
Net unrealized losses on securities	(11,158)	3,905	(7,253)
Foreign currency translation adjustments	(274)	96	(178)
Pension liability adjustment	(1,793)	627	(1,166)
Other comprehensive income (loss)	$ (13,225)	4,628	(8,597)

	Amounts Before Taxes	Tax (Expense) Benefit	Amounts Net of Taxes
		(In thousands)	
2005:			
Unrealized gains (losses) on securities, net of effects of deferred costs of $(26,704):			
Net unrealized holding losses arising during period	$ (20,919)	7,322	(13,597)
Reclassification adjustment for net gains included in net earnings	(1,930)	676	(1,254)
Amortization of net unrealized losses related to transferred securities	28	(10)	18
Unrealized gains on securities transferred during period from held to maturity to available for sale	311	(109)	202
Net unrealized gains on securities	(22,510)	7,879	(14,631)
Foreign currency translation adjustments	200	(70)	130
Pension liability adjustment	(545)	191	(354)
Other comprehensive income (loss)	$ (22,855)	8,000	(14,855)

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(13) SEGMENT AND OTHER OPERATING INFORMATION

(A) Operating Segment Information

Under SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information, the Company defines its reportable operating segments as domestic life insurance, international life insurance, and annuities. The Company's segments are organized based on product types and geographic marketing areas. In addition, the Company regularly evaluates operating performance using non-GAAP financial measures which exclude or segregate realized investment gains and losses from operating revenues and earnings. 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 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.

A summary of segment information, prepared in accordance with SFAS No. 131, is provided below.

	Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
			(In thousands)		
2007:					
Selected Balance Sheet Items:					
Deferred policy acquisition costs and sales inducements	$ 58,883	204,322	505,629	-	768,834
Total segment assets	399,097	796,012	5,500,226	106,039	6,801,374
Future policy benefits	320,287	556,893	4,703,363	-	5,580,543
Other policyholder liabilities	9,641	16,729	94,030	-	120,400
Condensed Income Statements:					
Premiums and contract revenues	$ 25,879	88,782	24,529	-	139,190
Net investment income	18,863	24,690	266,953	7,631	318,137
Other income	41	126	920	12,596	13,683
Total revenues	44,783	113,598	292,402	20,227	471,010
Life and other policy benefits	14,922	22,810	3,594	-	41,326
Amortization of deferred policy acquisition costs	7,998	24,959	55,456	-	88,413
Universal life and investment annuity contract interest	9,463	20,993	133,935	-	164,391
Other operating expenses	11,898	15,271	16,931	11,030	55,130
Federal income taxes	160	9,386	26,187	2,919	38,652
Total expenses	44,441	93,419	236,103	13,949	387,912
Segment earnings	$ 342	20,179	56,299	6,278	83,098

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	Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
			(In thousands)		
2006:					
Selected Balance Sheet Items:					
Deferred policy acquisition costs and sales inducements	$ 50,965	182,268	503,870	-	737,103
Total segment assets	381,490	715,064	5,467,733	103,087	6,667,374
Future policy benefits	314,039	498,997	4,720,421	-	5,533,457
Other policyholder liabilities	7,796	18,480	86,173	-	112,449
Condensed Income Statements:					
Premiums and contract revenues	$ 22,731	78,005	21,389	-	122,125
Net investment income	20,462	28,530	323,326	7,450	379,768
Other income	29	78	5,950	11,247	17,304
Total revenues	43,222	106,613	350,665	18,697	519,197
Life and other policy benefits	13,656	18,161	3,424	-	35,241
Amortization of deferred policy acquisition costs	7,313	23,075	59,970	-	90,358
Universal life and investment annuity contract interest	9,168	25,675	178,893	-	213,736
Other operating expenses	12,630	21,051	21,847	10,181	65,709
Federal income taxes	158	6,460	29,972	2,950	39,540
Total expenses	42,925	94,422	294,106	13,131	444,584
Segment earnings	$ 297	12,191	56,559	5,566	74,613

	Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
			(In thousands)		
2005:					
Selected Balance Sheet Items:					
Deferred policy acquisition costs and sales inducements	$ 46,055	164,989	489,535	-	700,579
Total segment assets	366,939	631,477	5,256,146	94,064	6,348,626
Future policy benefits	307,730	444,513	4,563,676	-	5,315,919
Other policyholder liabilities	10,135	16,936	73,486	-	100,557
Condensed Income Statements:					
Premiums and contract revenues	$ 22,172	70,379	18,816	-	111,367
Net investment income	19,958	23,123	258,485	8,647	310,213
Other income	35	75	588	8,881	9,579
Total revenues	42,165	93,577	277,889	17,528	431,159

Life and other policy benefits	14,932	21,232	2,998	-	39,162
Amortization of deferred policy acquisition costs	5,798	20,389	61,768	-	87,955
Universal life and investment annuity contract interest	8,842	18,118	123,732	-	150,692
Other operating expenses	8,349	13,359	17,019	7,622	46,349
Federal income taxes	1,435	6,920	24,457	3,347	36,159
Total expenses	39,356	80,018	229,974	10,969	360,317
Segment earnings	$ 2,809	13,559	47,915	6,559	70,842

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

	Years Ended December 31,		
	2007	2006	2005
	(In thousands)		
Premiums and Other Revenue:			
Premiums and contract revenues	$ 139,190	122,125	111,367
Net investment income	318,137	379,768	310,213
Other income	13,683	17,304	9,579
Realized gains on investments	3,497	2,662	9,884
Total consolidated premiums and other revenue	$ 474,507	521,859	441,043

	Years Ended December 31,		
	2007	2006	2005
	(In thousands)		
Federal Income Taxes:			
Total segment Federal income taxes	$ 38,652	39,540	36,159
Taxes on realized gains on investments	1,224	932	3,459
Total taxes on consolidated net earnings	$ 39,876	40,472	39,618

	Years Ended December 31,		
	2007	2006	2005
	(In thousands)		
Net Earnings:			
Total segment earnings	$ 83,098	74,613	70,842
Realized gains on investments, net of taxes	2,273	1,730	6,425
Total consolidated net earnings	$ 85,371	76,343	77,267

	December 31,		
	2007	2006	2005
	(In thousands)		
Assets:			
Total segment assets	$ 6,801,374	6,667,374	6,348,626
Other unallocated assets	33,952	26,069	20,382
Total consolidated assets	$ 6,835,326	6,693,443	6,369,008

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(B) Geographic Information

A significant portion of the Company's premiums and contract revenues are from countries other than the United States. Premiums and contract revenues detailed by country are provided below.

	Years Ended December 31,		
	2007	2006	2005
		(In thousands)	
United States	$ 61,637	48,561	42,403
Brazil	20,161	16,851	12,731
Taiwan	10,098	9,052	8,398
Argentina	8,987	8,811	8,881
Chile	8,465	8,324	8,338
Venezuela	7,925	6,905	6,420
Other foreign countries	38,238	37,112	36,570
Revenues, excluding reinsurance premiums	155,511	135,616	123,741
Reinsurance premiums	(16,321)	(13,491)	(12,374)
Total premiums and contract revenues	$ 139,190	122,125	111,367

Premiums and contract revenues are attributed to countries based on the location of the policyholder. The Company has no significant assets, other than financial instruments, located in countries other than the United States.

(C) Major Agency Relationships

A significant portion of the Company's premiums and deposits were sold through two independent marketing agencies in recent years. Combined business from these agencies accounted for approximately 22%, 21%, and 24% of total direct premium revenues and universal life and annuity contract deposits in 2007, 2006, and 2005, respectively.

(14) FAIR VALUES OF FINANCIAL INSTRUMENTS

SFAS No. 107, Disclosures About Fair Values Of Financial Instruments, requires disclosures of fair value information about financial instruments, whether or not recognized in a company's balance sheet, for which it is practicable to estimate a value. The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

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

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

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

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Policy loans. The fair values for policy loans are calculated by discounting estimated cash flows using U.S. Treasury bill rates as of December 31, 2007 and 2006. The estimated cash flows include assumptions as to whether such loans will be repaid by the policyholders or settled upon payment of death or surrender benefits on the underlying insurance contracts. As a result, these assumptions incorporate both Company experience and mortality assumptions associated with such contracts.

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

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

Annuity and supplemental contracts. Fair values of the Company's liabilities for deferred annuity contracts are estimated to be the cash surrender values of each contract. The cash surrender value represents the policyholder's account balance less applicable surrender charges. The fair values of liabilities for immediate annuity contracts and supplemental contracts with and without life contingencies are estimated by discounting estimated cash flows using U.S. Treasury bill rates as of December 31, 2007 and 2006.

Fair values for the Company's insurance contracts other than annuity contracts are not required to be disclosed. This includes the Company's traditional and universal life products. However, the fair values of liabilities under all insurance contracts are taken into consideration in the Company's overall management of interest rate risk, which minimizes exposure to changing interest rates through the matching of investment maturities with amounts due under insurance and annuity contracts.

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

	December 31, 2007		December 31, 2006	
	Carrying Values	Fair Values	Carrying Values	Fair Values
	(In thousands)			
ASSETS				
Investments in debt and equity securities:				
Securities held to maturity	$ 3,778,603	3,774,193	3,603,434	3,567,625
Securities available for sale	1,900,714	1,900,714	1,902,568	1,902,568
Cash and short-term investments	45,206	45,206	49,901	49,901
Mortgage loans	99,033	100,786	103,325	105,919
Policy loans	83,772	117,958	86,856	120,120
Other loans	2,327	2,383	3,048	3,152
Derivatives	25,907	25,907	72,012	72,012
Life interest in Libbie Shearn				
Moody Trust	1,620	12,775	1,935	12,775
LIABILITIES				
Deferred annuity contracts	$ 4,442,799	4,096,947	4,469,843	3,671,116

Immediate annuity and supplemental contracts	320,539	311,694	309,306	295,546

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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.

(15) RELATED PARTY TRANSACTIONS

Robert L. Moody, Jr. ("Mr. Moody, Jr.") is the son of Robert L. Moody, the Company's Chairman and Chief Executive Officer, and is the brother of Ross R. Moody, the Company's President and Chief Operating Officer, and of Russell S. Moody and Frances A. Moody-Dahlberg who serve as directors of National Western. Prior to January 1, 2006, Mr. Moody, Jr. was employed by the Company in an agency marketing position for which he was paid an annual salary of $14,000 and was eligible to participate in the Company's benefit plans. Mr. Moody, Jr. resigned as an employee effective December 31, 2005.

In addition, Mr. Moody, Jr. wholly owns an insurance marketing organization that maintains agency contracts with National Western pursuant to which agency commissions are paid in accordance with the Company's standard commission schedules. Mr. Moody, Jr. also maintains an independent agent contract with National Western for policies personally sold under which commissions are paid in accordance with standard commission schedules. In 2007, commissions paid under these agency contracts aggregated approximately $210,600. In conjunction with these agency contracts, Mr. Moody, Jr. may be eligible to attend Company sales conferences and functions based upon meeting published minimum levels of qualifying sales production. In his capacity as an insurance marketing organization with the Company, Mr. Moody, Jr. also received product development fees associated with a product line of the Company which amounted to $11,600, $28,000 for consulting fees, and a marketing development allowance of $9,000 for the Company’s business efforts in Puerto Rico in 2007. Mr. Moody, Jr. received fees in 2006 and 2005 of $226,300 and $199,000, respectively.

Mr. Moody, Jr. further serves as the agent of record for several of the Company's benefit plans including the self-insured health plan for which Mr. Moody, Jr. provides utilization review services through a wholly-owned utilization review company. In 2007, 2006, and 2005, amounts paid to Mr. Moody, Jr. as commissions and service fees pertaining to the Company's benefit plans approximated $65,500, $54,500, and $47,900, respectively.

During 2007, management fees totaling $846,000 were paid to Regent Management Services, Limited Partnership ("RMS") for services provided to a downstream nursing home subsidiary of National Western. RMS is 1% owned by general partner RCC Management Services, Inc. ("RCC"), and 99% owned by limited partner, Three R Trusts. RCC is 100% owned by the Three R Trusts. The Three R Trusts are four Texas trusts for the benefit of the children of Robert L. Moody (Robert L. Moody, Jr., Ross R. Moody, Russell S. Moody, and Frances A. Moody-Dahlberg). Charles D. Milos, Senior Vice President-Mortgage Loans and Real Estate, and director of the Company, is a director and Vice President of RCC. Ellen C. Otte, Assistant Secretary of the Company, is a director and secretary of RCC.

The Company held a loan in the amount of $4.2 million issued to TMNY, LLC during 2007. As of December 31, 2006, Robert L. Moody owned 20.5% of TMNY, LLC. This loan matured and was paid in full during 2007.

The Company holds a common stock investment totaling approximately 9.4% of the issued and outstanding shares of Moody Bancshares, Inc. at December 31, 2007, the latest available financial information. Moody Bancshares, Inc.

owns 100% of the outstanding shares of Moody Bank Holding Company, Inc., which owns approximately 98% of the outstanding shares of The Moody National Bank of Galveston ("MNB"). The Company utilizes MNB for certain bank custodian services as well as for certain administrative services with respect to the Company's defined benefit and contribution plans. Robert L. Moody serves as Chairman of the Board and Chief Executive Officer of MNB. The ultimate owner of MNB is the Three R Trusts. Fees totaling $193,000, $187,000, and $188,000 were paid to MNB with respect to these services in 2007, 2006, and 2005, respectively.

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(16) UNAUDITED QUARTERLY FINANCIAL DATA

Quarterly results of operations for 2007 are summarized as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands except per share data)			
2007:				
Revenues	$ 114,112	148,695	112,136	99,564
Earnings	$ 18,672	21,851	15,622	29,226
Basic earnings per share:				
Class A	$ 5.30	6.20	4.44	8.30
Class B	$ 2.65	3.10	2.22	4.15
Diluted earnings per share:				
Class A	$ 5.23	6.12	4.38	8.22
Class B	$ 2.65	3.10	2.22	4.15

Quarterly results of operations for 2006 are summarized as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands except per share data)			
2006:				
Revenues	$ 136,255	100,643	129,880	155,081
Earnings	$ 14,045	22,227	16,072	23,999
Basic earnings per share:				
Class A	$ 3.99	6.30	4.56	6.82
Class B	$ 1.99	3.14	2.28	3.41
Diluted earnings per share:				
Class A	$ 3.95	6.23	4.52	6.75
Class B	$ 1.99	3.14	2.28	3.41

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
SCHEDULE I
SUMMARY OF INVESTMENTS
OTHER THAN INVESTMENTS IN RELATED PARTIES
December 31, 2007
(In thousands)

Type of Investment	(1) Cost	Fair Value	Balance Sheet Amount
Fixed maturity bonds:			
Securities held to maturity:			
United States government and government agencies and authorities	$ 426,236	429,106	426,236
States, municipalities, and political subdivisions	13,287	13,271	13,287
Foreign governments	19,944	20,334	19,944
Public utilities	397,639	402,073	397,639
Corporate	1,194,260	1,192,205	1,194,260
Mortgage-backed	1,646,432	1,638,309	1,646,432
Asset-backed	80,805	78,895	80,805
Total securities held to maturity	3,778,603	3,774,193	3,778,603
Securities available for sale:			
United States government and government agencies and authorities	5,000	5,067	5,067
States, municipalities, and political subdivisions	48,280	48,507	48,507
Foreign Government	10,473	10,939	10,939
Public utilities	293,308	291,808	291,808
Corporate	1,242,402	1,235,493	1,235,493
Mortgage-backed	266,534	262,973	262,973
Asset-backed	26,227	26,214	26,214
Total securities available for sale	1,892,224	1,881,001	1,881,001
Total fixed maturity bonds	5,670,827	5,655,194	5,659,604
Equity securities:			
Securities available for sale:			
Common stocks:			
Public utilities	906	1,458	1,458
Banks, trust and insurance companies (2)	120	118	118
Corporate	3,799	4,940	4,940
Preferred stocks	7,255	6,051	6,051
Total equity securities	12,080	12,567	12,567
Derivatives	53,314		25,907
Mortgage loans (3)	91,373		91,373
Policy loans	83,772		83,772
Other long-term investments (4)	18,413		16,562
Total investments other than			

investments in related parties	$ 5,929,779	5,889,785

Notes:
(1) Bonds are shown at amortized cost, mortgage loans are shown at unpaid principal balances before allowances for possible losses, and real estate is stated at cost before allowances for possible losses.
(2) Equity securities with related parties having a cost of $0.2 million and balance sheet amount of $7.1 million have been excluded.
(3) Mortgage loans with related parties totaling $7.7 million have been excluded.
(4) Real estate acquired by foreclosure included in other long-term investments is as follows: cost $1.8 million; balance sheet amount $1.5 million.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
SCHEDULE V
VALUATION AND QUALIFYING ACCOUNTS
For the Years Ended December 31, 2007, 2006, and 2005
(In thousands)

Description	Balance at Beginning of Period	(1) Charged to Costs and Expenses	Reductions	Transfers	Balance at End of Period
Valuation accounts deducted from applicable assets:					
Allowance for possible losses on mortgage loans:					
December 31, 2007	$ 2,100	1,467	-	-	3,567
December 31, 2006	$ -	2,100	-	-	2,100
December 31, 2005	$ 368	(368)	-	-	-
Allowance for possible losses on real estate:					
December 31, 2007	$ -	-	-	-	-
December 31, 2006	$ -	-	-	-	-
December 31, 2005	$ 1,397	(658)	-	-	739

Notes:
(1) These amounts were recorded to realized (gains) losses on investments.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NATIONAL WESTERN LIFE INSURANCE COMPANY
(Registrant)

Date: March 14, 2008

/S/ Robert L. Moody
By: Robert L. Moody, Chairman of the Board and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title (Capacity)	Date
/S/ Robert L. Moody Robert L. Moody	Chairman of the Board and Chief Executive Officer, and Director (Principal Executive Officer)	March 14, 2008
/S/ Ross R. Moody Ross R. Moody	President and Chief Operating Officer, and Director	March 14, 2008
/S/ Brian M. Pribyl Brian M. Pribyl	Senior Vice President - Chief Financial & Administrative Officer, and Treasurer (Principal Financial Officer)	March 14, 2008
/S/ Kay E. Osbourn Kay E. Osbourn	Vice President, Controller & Assistant Treasurer (Principal Accounting Officer)	March 14, 2008
Harry L. Edwards	Director	March 14, 2008
/S/ Stephen E. Glasgow Stephen E. Glasgow	Director	March 14, 2008
/S/ E. Douglas McLeod E. Douglas McLeod	Director	March 14, 2008

/S/ Charles D. Milos Charles D. Milos	Director	March 14, 2008
/S/ Frances A. Moody-Dahlberg Frances A. Moody-Dahlberg	Director	March 14, 2008
/S/ Russell S. Moody Russell S. Moody	Director	March 14, 2008
/S/ Louis E. Pauls, Jr. Louis E. Pauls, Jr.	Director	March 14, 2008
/S/ E.J. Pederson E.J. Pederson	Director	March 14, 2008