

**National Western Life  
NWLI**

<https://www.nationalwesternlife.com>

**Please read Disclaimer at bottom of these notes!**

***“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 contract holders both domestically and internationally. The Company accepts funds from policyholders or contract holders 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.” 2010 10-K***

**March 19, 2013 (187.00) Updated Thesis**

National Western Life Insurance Company is a life insurance and annuity company. They sell their products both domestically and internationally. Most of their annuities are sold domestically, and are typically equity indexed based annuities. In 2012, 37% of their life insurance premiums were domestic, 23% in 2011 ( I previously reported this as 32%) and 19% in 2010. National Western Life Insurance Company has been around since 1956. Their investment portfolio is reported to be of primarily investment quality bonds and matched to their insurance and annuity policies future commitments. Robert Moody owns 34% of Class A, and nearly 100% of Class B.

**Price to Book Value** as of March 19, 2013 (price of \$187.00) is ~49%. The balance sheet as reported, remains strong and secure, as it has since 1956. AM Best has reaffirmed NWLI's 'A' rating on May 26, 2011. I like the apparent conservatism of the company, and that is the primarily reason for our owning National Western Life.

I think book value is the most important metric in valuing NWLI. Book Value at December 31, 2012 was reported at \$382.88 per share, up from \$351.27 at December 31, 2011. If NWLI was to trade at 70% of book value reported as of March 19, 2013, the price would be ~\$268 per share Book Value has grown in a fairly consistent manner, at an annualized rate of 9.61% since 1991. NWLI has a strong balance sheet, even if the sacrifice is some ROIC.

I think NWLI should trade at at least 55% of book value (probably closer to 65% or 70 %+). You can impute a growth rate of book value of say 5%. Currently book is \$382.88. If one was to adjust to 55% of reported book value, the share price would become \$210.58.

I do not see great portfolio risk for the long term holder of NWLI. Yet, I could be wrong. When one is buying at less than 50% of book value I think they have a lot of cushion built in. This cushion leaves room for potential balance sheet impairment of certain assets. Yet, NWLI was trading at less than 40% of book value a year ago.

Robert Moody (77) owns 34% of the company. As stated in the 2011 DEF 14A he is “Chairman of the Board & Chief Executive Officer from 1963-1968, 1971-1980, and 1981-Present; Chief Executive Officer of American National Insurance Company since 1991 and Chairman of the Board since 1982; Director of American National Insurance Company since 1960; Chairman of the Board, Chief Executive Officer, and Director of Moody National Bank (banking services); and Trustee of The Moody Foundation (charitable and educational foundation) since 1955. Mr. Moody’s tenure as Chief Executive Officer affords him extensive insight into the Company’s operations and qualifies him to serve as Chairman of our Board of Directors.”

Ross Moody (50) is the son of Robert Moody. He has been President and COO since 1992.

Management has depth in the industry and longevity with the company. I think the long term growth of the company both operationally; balance sheet, earnings quality, and earnings retention has been exceptional. Moody's appear to be focused on good business, strength of balance sheet, and perhaps not caring of the stock price. I am cool with that. I am patient, and don't mind waiting.

I think Moody, father and son, major holders of NWLI, will continue to make sure the balance sheet remains strong. To me this is evident via AM Best's rating of the company, as well as an upgrade right after the credit crisis, during a time when most companies were being downgraded for risk.

There is a small amount of Level 3 assets on their balance sheet. Hence, the presentation to the shareholder gives greater assurances that the balance sheet is liquid and stable.

Total Investments on December 31, 2012 were \$9,101,169. \$5,962,120 of their total investments of \$9,101,169 is reported at amortized cost. Likewise, \$2,826,001 of their total investments is reported at fair value. If amortized assets were reported at fair value, total assets would increase by \$284,018. This would add \$78.13 to the book value of \$382.88, totaling \$461.01. To put this into perspective, the current market capitalization of the company is ~\$680M. Hence, when adjusting book value to Net Fair Value, the price to Net Fair Value would be 40.56% ( $\$187/\$461.01$ ).

I have discussed our goal with management considering a stock buy back of some type. Management commented on this in the 2011 10-K and in their annual report. The following were our thoughts on management discussing in the 2011 Annual Report, there will be no impending buy back of common stock by the company. The 2012 Annual Report has not been issued as of this writing.

“In regards to stock buy-back, I still can’t fathom how this can be ignored by the company. I realize they are mentioning it and pondering it, yet at 36 cents on the dollar, it seems as though NWLI has no reason not to announce a buyback, or tender shares, or allocate some type of resources to this cause. It almost seems ignoring it by the company is a lack of fiduciary responsibility to minority shareholders. Of course this is based on the premise that operationally and financially there are no issues or skeletons in the closet at National Western Life. I understand the history and the goal of the continuity of a fortress balance sheet, as well as continued positive ratings by AM Best and Standard and Poor’s. I can’t imagine that an announcement as to buy back shares continually for say less than 50 cents on the dollar would negatively affect the company’s ratings. I think if the company announced the purchase, offer or intent for say 300,000 shares, several things could happen. The company would be buying at a bargain, and at worst, they would be unsuccessful in shares purchased, as the share price might increase too much for the buyout to have occurred.” Ronald Redfield  
5/25/12

*"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, 2011, the Company had no commitments beyond its normal operating and investment activities. The Company has declared and paid an annual dividend on its common shares since 2005 although its practice remains to substantially reinvest earnings internally to finance the development of new business. Despite the fact the Company's market price of its Class A common shares has been trading at a substantial discount to the book value for several years, there are no imminent plans for the Company to repurchase its shares as the Board of Directors has adopted a strategic policy of building a strong capital base to maintain high financial strength ratings and the ability to take competitive advantages as they arise. The capacity to pay dividends is limited by law in the state of Colorado to earned profits (statutory unassigned surplus). At December 31, 2011, the maximum amount legally available for distribution without further regulatory approval is \$91.9 million." NWLI 2011, Form 10-K*

### **Risks:**

1. **Deferred Acquisition Costs (DAC)** - are \$858M, or 62% of Shareholder's Equity. Management claims that DAC's are being reported conservatively. DAC as a % of Stockholder's Equity has been consistent for many years. The current levels of DAC as a % of Stockholders Equity is near or at its lowest levels since 1992. I do not have data prior to 1992.
2. **Fraud** - I think this is a standard risk with any financial company. There are related party situations such as Moody National Bank and American National Insurance
3. **Brazil** - *"On October 26, 2011 the Brazilian Superintendence of Private Insurance ("SUSEP") attempted to serve the Company with a subpoena regarding an administrative proceeding initiated by SUSEP in which it alleged that the Company was operating as an insurance company in Brazil without due authorization. The Company has been informed that SUSEP is attempting to impose a penal fine of approximately \$6 billion on the Company. SUSEP has unsuccessfully attempted to serve the Company with notice regarding this matter. The Company does not transact business in Brazil and has no officers, employees, property, or assets in Brazil. The Company and its legal advisors believe that SUSEP has no jurisdiction over the Company, that SUSEP's attempts at service of process have been invalid, and that any penal fine would be unenforceable. For the reasons described above, the Company does not believe that this matter meets the definition of a material pending legal proceeding as such term is defined in Item 103 of Regulation S-K but has included the foregoing description solely due to the purported amount of the fine sought.*

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

### **Catalysts:**

1. An activist investor in theory could start rattling the cage of the company.
2. An alleged goal of Robert Moody is that he would like NWLI to be as large as American National Insurance (Moody is Chairman and CEO). American National Insurance has Stockholder's Equity of \$3.7B as of December 31, 2011.

3. Greater understanding of the company by the investment community, could compress the discount to book value to a more normalized level for a company with the financial strength that National Western Life has.

### **Some Metrics**

	Price	Book	Price / Book
<b>19-Mar-13</b>	187.00	\$382.37	48.91%
<b>31-Dec-12</b>	157.74	\$382.37	41.25%
<b>31-Dec-11</b>	136.16	\$351.27	38.76%
<b>30-Sep-11</b>	135.15	\$351.44	38.46%
<b>30-Jun-11</b>	159.47	\$345.67	46.13%
<b>10-Jun-11</b>	151.50	\$359.45	42.15%
<b>31-Dec-10</b>	167.00	\$335.83	49.73%
<b>31-Dec-09</b>	170.00	\$307.24	55.33%
<b>31-Dec-08</b>	153.00	\$271.99	56.25%
<b>31-Dec-07</b>	206.00	\$279.29	73.76%
<b>31-Dec-06</b>	225.00	\$257.67	87.32%
<b>31-Dec-05</b>	208.00	\$257.00	80.93%
<b>31-Dec-04</b>	168.00	\$237.00	70.89%
<b>31-Dec-03</b>	148.00	\$200.00	74.00%
<b>31-Dec-02</b>	94.00	\$172.00	54.65%
<b>31-Dec-01</b>	110.00	\$159.00	69.18%
<b>31-Dec-00</b>	104.00	\$142.00	73.24%
<b>31-Dec-99</b>	72.00	\$135.00	53.33%
<b>31-Dec-98</b>	117.00	\$123.00	95.12%
<b>31-Dec-97</b>	100.00	\$115.00	86.96%
<b>31-Dec-96</b>	87.00	\$101.00	86.14%
<b>31-Dec-95</b>	56.00	\$89.00	62.92%
<b>31-Dec-94</b>	32.00	\$78.00	41.03%
<b>31-Dec-93</b>	46.00	\$69.00	66.67%
<b>31-Dec-92</b>	47.00	\$53.00	88.68%
<b>31-Dec-91</b>	30.00	\$35.00	85.71%

	(DAC's) Defer	Total Assets	Stockholder's Equity	DAC % TA	DAC % SE	DAC Amort / DAC
31-Dec-12	\$858,241	\$10,263,858	\$1,391,680	8.36%	61.67%	14.21%
31-Dec-11	\$878,295	\$9,727,999	\$1,276,785	9.03%	68.79%	15.15%
31-Dec-10	\$835,783	\$8,773,948	\$1,218,791	9.53%	68.57%	11.54%
31-Dec-09	\$748,672	\$7,518,735	\$1,114,053	9.96%	67.20%	15.38%
31-Dec-08	\$822,939	\$6,786,480	\$986,213	12.13%	83.44%	15.45%
31-Dec-07	\$768,834	\$6,835,326	\$1,011,685	11.25%	76.00%	11.50%
31-Dec-06	\$737,103	\$6,693,443	\$932,984	11.01%	79.00%	12.26%
31-Dec-05	\$700,579	\$6,369,008	\$874,008	11.00%	80.16%	12.55%
31-Dec-04	\$644,458	\$5,991,685	\$808,672	10.76%	79.69%	13.77%
31-Dec-03	\$599,395	\$5,297,720	\$679,858	11.31%	88.16%	8.98%
31-Dec-02	\$442,266	\$4,137,247	\$607,206	10.69%	72.84%	8.09%
31-Dec-01	\$401,380	\$3,808,000	\$559,388	10.54%	71.75%	6.83%
31-Dec-00	\$394,198	\$3,693,820	\$500,106	10.67%	78.82%	12.16%
31-Dec-99	\$369,665	\$3,682,828	\$475,522	10.04%	77.74%	10.59%
31-Dec-98	\$314,493	\$3,518,003	\$438,365	8.94%	71.74%	12.85%
31-Dec-97	\$291,079	\$3,225,563	\$400,863	9.02%	72.61%	13.72%
31-Dec-96	\$295,666	\$3,120,829	\$352,860	9.47%	83.79%	10.27%
31-Dec-95	\$270,167	\$2,958,459	\$311,987	9.13%	86.60%	12.46%
31-Dec-94	\$291,274	\$2,915,054	\$275,134	9.99%	105.87%	11.38%
31-Dec-93	\$287,711	\$2,941,051	\$242,718	9.78%	118.54%	8.72%
31-Dec-92	\$299,186	\$2,698,497	\$186,091	11.09%	160.77%	5.63%

	DAC/Total Deposits	DAC Incurred / Total Deposits	Amort DAC/ Total Deposits	Amort DAC / DAC Incurred	Amort of DAC (TTM)
31-Dec-12	75.66%	7.85%	10.75%	136.92%	\$121,922
31-Dec-11	54.39%	11.98%	8.24%	68.79%	\$133,088
31-Dec-10	51.27%	11.68%	5.92%	50.66%	\$96,449
31-Dec-09	72.66%	5.30%	11.18%	211.03%	\$115,163
31-Dec-08	136.75%	33.86%	21.13%	62.41%	\$127,161
31-Dec-07	122.36%	19.12%	14.07%	73.59%	\$88,413
31-Dec-06	113.26%	19.50%	13.88%	71.21%	\$90,358
31-Dec-05	98.93%	20.35%	12.42%	61.05%	\$87,955
31-Dec-04	62.73%	13.02%	8.64%	66.32%	\$88,733
31-Dec-03	45.68%	16.08%	4.10%	25.52%	\$53,829
31-Dec-02	82.31%	14.27%	6.66%	46.68%	\$35,799
31-Dec-01	104.73%	9.03%	7.16%	79.25%	\$27,424
31-Dec-00	94.39%	17.36%	11.48%	66.15%	\$47,948
31-Dec-99	77.24%	19.71%	8.18%	41.51%	\$39,148
31-Dec-98	60.38%	12.25%	7.76%	63.32%	\$40,415
31-Dec-97	88.65%	10.76%	12.16%	112.98%	\$39,934
31-Dec-96	81.28%	15.36%	8.35%	54.35%	\$30,361
31-Dec-95	67.00%	3.12%	8.35%	267.94%	\$33,675

	Policy DAC Incurred (Calculated)	Total Depos	Annuity Depo	Universal Life De	Traditional Lif
31-Dec-12	\$89,048	\$1,134,313	\$864,719	\$248,118	\$21,476
31-Dec-11	\$193,483	\$1,614,742	\$1,390,990	\$202,774	\$20,978
31-Dec-10	\$190,377	\$1,630,078	\$1,431,011	\$179,682	\$19,385
31-Dec-09	\$54,571	\$1,030,324	\$837,577	\$173,167	\$19,580
31-Dec-08	\$203,766	\$601,764	\$410,133	\$170,933	\$20,698
31-Dec-07	\$120,144	\$628,354	\$437,765	\$168,279	\$22,310
31-Dec-06	\$126,882	\$650,782	\$485,994	\$146,742	\$18,046
31-Dec-05	\$144,076	\$708,148	\$557,940	\$133,579	\$16,629
31-Dec-04	\$133,796	\$1,027,411	\$892,027	\$119,554	\$15,830
31-Dec-03	\$210,958	\$1,312,087	\$1,195,143	\$101,376	\$15,568
31-Dec-02	\$76,685	\$537,293	\$434,442	\$87,984	\$14,867
31-Dec-01	\$34,606	\$383,252	\$296,466	\$71,804	\$14,982
31-Dec-00	\$72,481	\$417,621	\$329,002	\$70,514	\$18,105
31-Dec-99	\$94,320	\$478,623	\$389,563	\$69,906	\$19,154
31-Dec-98	\$63,829	\$520,887	\$431,003	\$69,647	\$20,237
31-Dec-97	\$35,347	\$328,355	\$240,987	\$65,862	\$21,506
31-Dec-96	\$55,860	\$363,775	\$273,202	\$67,438	\$23,135
31-Dec-95	\$12,568	\$403,236	\$309,971	\$68,464	\$24,801

Date Worked On	19-Mar-13
Base Year	12/31/2012
Price	\$186.37
Shares Outstanding	3,635
Market Capitalization	\$677,455
Enterprise Value	\$677,455
Stockholders Equity	\$1,391,680
Depreciation	\$5,688
CapEx	\$0
Revenues	\$664,662
Total Assets	\$10,263,858
Net Income	\$92,558
Dividend	\$0.36
Interest Expense	\$40
Net Income Before Taxes	\$140,581
Enterprise Value Per Share	\$186.37
Price To Enterprise Value	100.00%
Tangible Book Value	\$1,391,680
Book Value Per Share	\$382.86
Tangible Book Value Per Share	\$382.86
Price / Book Value	48.68%

Price / Tangible Book Value	48.68%
Price / Earnings Ratio	7.32
Enterprise Value / Earnings Ratio	7.32
Earnings Yield	13.66%
Earnings / Enterprise Value	13.66%
Price To Sales Ratio	101.92%
Net Income / Total Assets	0.90%
Total Assets / (Revenues/365)	5636.41
Enterprise Value / Revenues	101.92%
Goodwill / Total Assets	0.00%
Goodwill / Stodckholders Equity	0.00%
Debt / Equity	0.00%
Average P/E Last 10 Years	7.0
Operating Cash Flow	\$98,246
Operating Cash Flow Per Share	\$27.03
Free Operating Cash Flow	\$98,246
Free Operating Cash Flow Per Share	27.03
Free Operating Cash Flow Flow Yield	14.50%
Price / Free Operating Cash Flow	6.90
Revenues Per Share	\$182.85
Net Income Per Share	\$25.46
Return on Equity	6.65%
Bond Rating (S&P)	N/A
Growth Rate	5.00%
Dividend Yield	0.19%

Dividend / Net Income	1.41%
Dividend / Cash Flow	1.33%
Interest Coverage Ratio	3,515.53
Insider Activity	None
BuyBacks	None
Dilution	Minor

### **May 25, 2012 (128.31) Updated detailed Thesis**

National Western Life Insurance Company is a life insurance and annuity company. They sell their products both domestically and internationally. Most of their annuities are sold domestically, and are typically equity indexed based annuities. In 2011, 32% of their life insurance premiums were domestic. National Western Life Insurance Company has been around since 1956. Their investment portfolio is reported to be of primarily investment quality bonds and matched to their

insurance and annuity policies future commitments. Robert Moody owns 34% of Class A, and nearly 100% of Class B.

Price to Book Value as of May 25, 2012 (price of \$128.31) is ~36%. The balance sheet as reported, remains strong and secure, as it has since 1956. AM Best has reaffirmed NWLI's 'A' rating on May 26, 2011. I like the apparent conservatism of the company, and that is the primarily reason for our owning National Western Life.

I think book value is the most important metric in valuing NWLI. Book Value at March 31, 2012 was reported at \$358.71 per share, up from \$351.27 at December 31, 2011. If NWLI was to trade at 70% of book value reported as of March 31, 2012, the price would be ~\$251 per share. Book value has grown consistently since 1991. Book Value has grown in a fairly consistent manner, at an annualized rate of 8.66% since 1996. My preference is a strong balance sheet, even if the sacrifice is some ROIC.

I think NWLI should trade at at least 55% of book value (probably closer to 65% or 70 %+). You can impute a growth rate of book value of say 5%. Currently book is \$358. 55% of that would be a share price of \$196.90.

I do not see great portfolio risk for the long term holder of NWLI. Yet, I could be wrong. When one is buying at less than 40% of book value I think they have a lot of cushion built in. This cushion leaves room for potential balance sheet impairment of certain assets.

Robert Moody (76) owns 34% of the company. As stated in the recently filed DEF 14A he is "Chairman of the Board & Chief Executive Officer from 1963-1968, 1971-1980, and 1981-Present; Chief Executive Officer of American National Insurance Company since 1991 and Chairman of the Board since 1982; Director of American National Insurance Company since 1960; Chairman of the Board, Chief Executive Officer, and Director of Moody National Bank (banking services); and Trustee of The Moody Foundation (charitable and educational foundation) since 1955. Mr. Moody's tenure as Chief Executive Officer affords him extensive insight into the Company's operations and qualifies him to serve as Chairman of our Board of Directors."

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I think Moody, father and son, major holders of NWLI, will continue to make sure the balance sheet remains strong. To me this is evident via AM Bests rating of the company, as well as an upgrade right after the credit crisis, during a time when most companies were being downgraded for risk.

There is a small amount of Level 3 assets on their balance sheet. Hence, the presentation to the shareholder gives greater assurances that the balance sheet is liquid and stable. Over \$9.6B of their total assets of \$9.9B is reported at amortized cost. If amortized assets were reported at Fair Value, total assets would increase by approximately \$450M. To put this into perspective, the current market capitalization of the company is ~\$443M.

I have discussed our goal that management considers a stock buy back of some type. Management commented on this in the 2011 10-K and in their annual report. The following are our thoughts on management discussing there will be no impending buy back of common stock by the company.

In regards to stock buy-back, I still can't fathom how this can be ignored by the company. I realize they are mentioning it and pondering it, yet at 36 cents on the dollar, it seems as though NWLI has no reason not to announce a buyback, or tender shares, or allocate some type of resources to this cause. It almost seems ignoring it by the company is a lack of fiduciary responsibility to minority shareholders. Of course this is based on the premise that operationally and financially there are no issues or skeletons in the closet at National Western Life. I understand the history and the goal of the continuity of a fortress balance sheet, as well as continued positive ratings by AM Best and Standard and Poor's. I can't imagine that an announcement as to buy back shares continually for say less than 50 cents on the dollar would negatively affect the company's ratings. I think if the company announced the purchase, offer or intent for say 300,000 shares, several things could happen. The company would be buying at a bargain, and at worst, they would be unsuccessful in shares purchased, as the share price might increase too much for the buyout to have occurred.

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### Some Metrics

	Cash and Inv	(DAC's) Defe	Total Assets	Stockholder'	Cash % TA	Cash % SE	DAC % TA	DAC % SE
31-Dec-11	\$8,683,895	\$878,295	\$9,727,999	\$1,276,785	89.27%	680.14%	9.03%	68.79%
30-Sep-11	\$8,454,200	\$866,548	\$9,502,142	\$1,277,396	88.97%	661.83%	9.12%	67.84%
30-Jun-11	\$8,244,389	\$848,503	\$9,262,430	\$1,256,510	89.01%	656.13%	9.16%	67.53%
31-Mar-11	\$7,993,739	\$859,636	\$9,029,996	\$1,236,158	88.52%	646.66%	9.52%	69.54%
31-Dec-10	\$7,777,503	\$835,783	\$8,773,948	\$1,218,791	88.64%	638.13%	9.53%	68.57%
31-Dec-09	\$6,634,886	\$748,672	\$7,518,735	\$1,114,053	88.24%	595.56%	9.96%	67.20%
31-Dec-08	\$5,840,577	\$822,939	\$6,786,480	\$986,213	86.06%	592.22%	12.13%	83.44%
31-Dec-07	\$5,949,797	\$768,834	\$6,835,326	\$1,011,685	87.04%	588.11%	11.25%	76.00%
31-Dec-06	\$5,840,918	\$737,103	\$6,693,443	\$932,984	87.26%	626.05%	11.01%	79.00%
31-Dec-05		\$700,579	\$6,369,008	\$874,008			11.00%	80.16%
31-Dec-04		\$644,458	\$5,991,685	\$808,672			10.76%	79.69%
31-Dec-03		\$653,374	\$5,297,720	\$679,858			12.33%	96.10%
31-Dec-02		\$491,751	\$4,137,247	\$607,206			11.89%	80.99%

	Price	Book	Price / Book
31-Mar-12	128.31	\$358.71	35.77%
31-Dec-11	136.16	\$351.27	38.76%
30-Sep-11	135.15	\$351.44	38.46%
30-Jun-11	159.47	\$345.67	46.13%
10-Jun-11	151.50	\$359.45	42.15%
31-Dec-10	167.00	\$335.83	49.73%
31-Dec-09	170.00	\$307.24	55.33%
31-Dec-08	153.00	\$271.99	56.25%
31-Dec-07	206.00	\$279.29	73.76%
31-Dec-06	225.00	\$257.67	87.32%
31-Dec-05	208.00	\$257.00	80.93%
31-Dec-04	168.00	\$237.00	70.89%
31-Dec-03	148.00	\$200.00	74.00%
31-Dec-02	94.00	\$172.00	54.65%
31-Dec-01	110.00	\$159.00	69.18%
31-Dec-00	104.00	\$142.00	73.24%
31-Dec-99	72.00	\$135.00	53.33%
31-Dec-98	117.00	\$123.00	95.12%
31-Dec-97	100.00	\$115.00	86.96%
31-Dec-96	87.00	\$101.00	86.14%
31-Dec-95	56.00	\$89.00	62.92%
31-Dec-94	32.00	\$78.00	41.03%
31-Dec-93	46.00	\$69.00	66.67%
31-Dec-92	47.00	\$53.00	88.68%
31-Dec-91	30.00	\$35.00	85.71%

### **10 Largest Institutional Holders as of 3/31/12**

Company Name	Shares Held	Change in Shares	% Change Shares	\$ Market Value	% of Portfolio	% of TSO	Report Date
FRANKLIN RESOURCES INC	160,000	(6,880)	-4.12	\$20,652,800	0.01	4.66	03/31/12
DIMENSIONAL FUND ADVISORS LP	158,637	1,271	0.81	\$20,476,864	0.03	4.62	03/31/12
FMR LLC	148,870	(2,130)	-1.41	\$19,216,140	0.00	4.33	03/31/12
TWEEDY BROWNE CO LLC//	110,813	(3,553)	-3.11	\$14,303,742	0.54	3.23	03/31/12
VANGUARD GROUP INC	110,395	3,452	3.23	\$14,249,787	0.00	3.21	03/31/12
WESTPORT ASSET MANAGEMENT INC	103,381	(13,218)	-11.34	\$13,344,419	3.81	3.01	03/31/12
BARCLAYS GLOBAL INVESTORS UK HOLDINGS LTD	80,928	2,677	3.42	\$10,446,186	0.00	2.36	03/31/12
SHUFRO ROSE & CO LLC	61,825	(205)	-0.33	\$7,980,371	1.12	1.80	03/31/12
PARADIGM CAPITAL MANAGEMENT INC/NY	57,519	3,069	5.64	\$7,424,553	0.39	1.67	03/31/12
WALTHAUSEN & CO., LLC	47,120	160	0.34	\$6,082,250	1.07	1.37	03/31/12

### **Risks:**

1. Deferred Acquisition Costs (DAC) - are \$869M, or 67% of Shareholder's Equity. Management claims that DAC's are being reported conservatively by the company. DAC as a % of Stockholder's Equity has been consistent for many years. The current levels of DAC as a % of Stockholders Equity is near or at its lowest levels since 2002. I do not have data prior to that.
2. Fraud - I think this is a standard risk with any financial company. There are related party situations such as Moody National Bank and American National Insurance

3. Brazil - *“Brazilian insurance regulators have sought to impose substantial penal fines against National Western Life Insurance Company. The Company firmly believes that Brazilian insurance regulators have no jurisdiction over the Company and that any such fines would be unenforceable against it.”*

*“As reported in the Company's Form 10-Q filing for the quarter ended September 30, 2011, Brazilian insurance regulators publicly stated their intention to curtail the sales activity of certain foreign multinational insurers, including National Western, and attempt to levy fines. This public announcement has served to decrease the number of new applications for insurance from residents of Brazil in the past two quarters.”*

I looked back at the September 30, 2011, and did not find any comments that support this statement in the current 10-Q. The following was written in the September 30, 2011 10-Q, *“Brazilian insurance regulators have sought to impose substantial penal fines against National Western and the Company. understands that these regulators will attempt to impose similar fines against other U.S. domiciled insurers.”*

NWLI mentioned the statements regarding the activities of the Brazilian insurance regulators are consistent between the two filings. The primary purpose of the 1st quarter disclosure was to indicate the affect upon sales since the disclosure made in the 3rd quarter 10-Q.

*“Year-to-date, the Company has accepted new business from residents outside of the United States in over thirty different countries with Brazil (21%), Venezuela (18%), and Taiwan (13%) comprising the largest contributions. Sales to residents in Venezuela increased 65% in the first quarter of 2012 compared to the same period in 2011.”*

4. Europe – NWLI holds approximately \$122.5M of foreign bonds as of March 31, 2012. All are currently investment grade. These could become impaired based on the situation in Europe. Yet, the total is less than 1.5% of their total securities portfolio.

### **Catalysts:**

1. I would not be surprised to see some type of buy back announcement or tender of shares in the near future. I think that management is starting to understand that the purchase of their stock at < 50% of Book Value would be complementary to their desire and need of a fortress balance sheet.

2. An activist investor in theory could start rattling the cage of the company.

3. An alleged goal of Robert Moody is that he would like NWLI to be as large as American National Insurance (Moody is Chairman and CEO). American National Insurance has Stockholder's Equity of \$3.7B as of December 31, 2011.

4. Greater understanding of the company by the investment community, could compress the discount to book value to a more normalized level for a company with the financial strength that National Western Life has.

5. Employees of company start asking management to consider or discuss stock buy back. NWLI has 278 employees as of December 31, 2011. Total option shares outstanding as of December 31, 2011 was 66,554 shares. This is not a huge amount, but perhaps enough employees can convince their

fiduciary representatives to think about committing to deploy cash to the potential of a stock buy back.

### **Some favorite quotes from the 2011 Annual Report:**



“But if you have followed National Western for any length of time, you are familiar with how we operate under the guiding hand of a few simple, conservative principles that have served us faithfully in good times as well as in the challenging and uncertain periods such as the one we are gradually emerging from.”

“Nothing is more reassuring during periods of uncertainty and doubt than the dependability of a financial organization that honors its obligations and assists in safeguarding the hard-earned assets of its customers.”

“Our financial management practices not only allowed us to steer clear of cataclysmic investment losses that were routinely being reported by other financial institutions, but our focus on building a strong financial base through the building up of capital over a number of years positioned us to be the landing spot for many of the flight to quality transients.”

“Capital strength is a hallmark of National Western and we receive considerable credit for this with the rating agencies who assign financial strength ratings to us each year. Deployment of this capital determines the sources of earnings which contribute to our growth each year. Our long stated preference is to manage the Company using a longer time horizon premised upon safety and providing the capacity and resources available to maneuver throughout the broad spectrum of possible financial environments which may arise in the future. By definition, this means we are willing to hold excess levels of capital which may earn lesser returns than those embedded in our product pricing across all lines of business. Consequently, we do not pay too much heed to return on equity numerics as they do not provide us with measures consistent with our deliberate focus on building financial solidity through the creation of a substantial capital base.”

“Our investment approach is fairly straightforward. We purchase investment grade, corporate bonds with maturities approximating ten years. This maturity has been determined to be the optimum for

matching with the corresponding duration of our policy liabilities. One only has to track the ten year Treasury bond yield to get a feel for our new bond purchase yields since ten year corporate bonds trade based upon a spread to the ten year Treasury bond.”

“National Western does not subsidize its interest crediting rates on new policies in order to obtain market share.”

“For over 50 years, the people of National Western have overcome barriers and transformed the Company into a model of success that has withstood many challenges since its inception as well as through the recent harrowing times. In the midst of the many struggles, challenges may appear daunting and progress slow, but looking back at the efforts that have resulted in the creation of an infrastructure designed to weather the severest of storms is both inspiring and reassuring.

One of the things largely outside of our control is the capriciousness of financial markets and, more pertinent, how National Western is valued by investors. As we have noted in our past reports to you, prior to the recent financial crisis, the market’s assessment of our investment value moved lockstep with our book value per share. Through our varied conversations with shareholders in the Company, it is clear that National Western investors are those who share the long-term creation of value perspective that is at the foundation of our operating strategy for the Company. As we have communicated in the past, our strategy is focused on building up the intrinsic value of the Company by reinvesting in our core businesses, maintaining a rock-solid balance sheet, building upon our reputation for prudent financial management philosophies and execution, and delivering consistent and profitable growth. Although the dislocation between the publicly traded price per share and our intrinsic worth as measured by the book value per share has caused us to consider alternative uses of our substantial capital position, we ultimately return to our operational premise of continuing to do the right things which create future value over the long-term ultimately, we believe, enhancing shareholder value.”

### **Discussion with NWLI on March 24, 2012**

**Q:** What are potential risks of Deferred Acquisition Costs (DAC) becoming materially impaired?

**A:** They do not see any risk. They claim to have historically been conservative in their approach to calculating DAC’s. The accounting rules changed in 2011 for DAC reporting. This did not materially affect NWLI at all, as they claimed to have been capitalizing costs the most conservative way, that the change, just made other companies report in the same fashion. Other life insurance companies did have material impairments to DAC’s in 2011. NWLI claims that the newly installed actuarial reserve systems helped clean house on DAC’s.

**Q:** Discussion of potential buy back.

**A:** Most of the discussion and my interpretation was identified in write-up dated March 25, 2012. NWLI stated that all board members are cognizant of the buy back discussion. At this point they do not plan on any buy backs. They feel the company needs to stay rock solid. The company is most concerned with policy holders as opposed to shareholders. They are focused on the ratings agencies. It is my understanding that they have more cash to invest right now, but is having difficulty deploying this cash. As I mentioned in my discussion on March 25, 2012, I think there could be a fine compromise between buying back some shares, and hardly sacrificing or denting the reported fortress balance sheet.

I suggested if they were able to buy back 350,000 shares, or 10% of the company, the cost at today's prices of \$129.08 would be \$45.2m. Yet, I don't think they would be able to buy the shares at that price, as any announcement, tender or action, would probably cause a stock price rise in itself.

**Q:** Any thoughts on why stock price is underperforming all or most peers?

**A:** They weren't sure. NWLI claimed not to be familiar with unusual short interest. Claims to be no skeletons in the closet, and no expected shoes to drop. They have considered the possibility of an institutional holder just looking to unload shares.

I recently looked at some 13-F spreadsheets I had saved. Two big sellers over the last year was Third Ave and Westport. I totaled the value of all holdings for various periods (Westport, I only had since 9/30/11). I could be reading the 13F wrong, perhaps cash, fixed income, short positions and alternative investments not listed. What I found is that Westport and Third Avenue are reporting much less Net Assets held on their 13F. My guess is the reason for the sales are due to a high velocity of redemptions.

**Q:** What is status of Brazil situation?

**A:** Nothing has changed since last filing. They still have not been directly notified by Brazilian Insurance regulators (Superintendency of Private Insurance (SUSEP)). They claim to have spoken with high powered lawyers, and see no potential of Brazil clawing back monies. NWLI claims they only sell via Austin office, and hence not subject to Brazil regulators, being in USA. Claims fully discussed with auditors. All sales and payments are in US Dollars. They are not licensed in Brazil, and do not feel and have been advised they need not be licensed in Brazil. They continue to sell a lot of policies to residence of Brazil, yet at a reduced pace.

**Q:** Do you see any potential surprise possibilities which could cause a material permanent loss of capital? This could include hedging, derivatives, actuarial assumptions, etc.

The only issue they mentioned that could be a thorn was if SEC started regulating Equity Indexed Annuities. These are currently regulated by State Insurance Regulators. They discussed that during 2009/2010 Dodd Frank proposed regulating them. The proposals were shot down. They mentioned that Equity Index Annuities are the lions share of their sales. NWLI mentioned that they do not sell variable annuities. Variable annuities are regulated, and the investor could lose money. With Fixed annuities greatest risk would be a break even or zero net return to the policyholder.

**A:** None. They claim there is no investment speculation whatsoever. No derivative exposure other than a third party going bust. They claim to monitor that closely.

**Q:** What are the greatest business risks NWLI encounters?

**A:** The biggest topic is the low interest rate environment. If rates were to pop up suddenly, there would probably large annuity policy cancellations. I asked what would be considered a big sudden rise in rates? NWLI said they weren't sure where that would be. They would guess greater than 100 basis points (bps), but just not sure, "maybe 300 – 400 bps."

They claimed the best case scenario would be a gradual rise of interest rates to historically normal levels. A gradual increase would probably not cause policy holders to dump policies, and at the same time the margin made on the spread would benefit NWLI.

I asked if the rise in 10 year Treasuries a month or so ago was a concern. They increased from 1.70 to 2.39 during the first 3 months of 2012. NWLI stated that rise was not felt at all.

**Q:** Will ratings agencies be issuing new reports?

**A:** Ratings agencies were at NWLI recently. They expect a report to be issued soon, and they do not think there will be any surprises. It was also reaffirmed that ratings agencies prefer life policies over annuities. NWLI has been focusing on increasing the life policy's as a percentage of total premiums.

**Q:** "What are the weaknesses you see competitively for NWLI? How are you addressing them?"

**A:** Domestic life has been weak. They have recently seen traction and growth in domestic life policies. NWLI states that United States has large players with brand recognition, and "we are not going to buy a blimp."

They also stated they were technologically behind the curve. This they claim is changing.

**Q:** What are management incentives? I discussed that certain benchmarks enabled high compensation, yet the share price has faltered.

**A:** It was indicated that stock options have not been exercised because of stock price. I think the company would be happier to see a higher stock price. There were 278 employees at December 31, 2012. I think moral would be increased by a higher share price.

The following table summarizes information about stock options and SARs outstanding at December 31, 2011 .

	Options and SARs Outstanding		Number Exercisable
	Number Outstanding	Weighted-Average Remaining Contractual Life	
Exercise prices:			
\$150.00	51,100	2.3 years	51,100
\$255.13	26,018	6.2 years	5,604
\$208.05	9,000	6.5 years	5,400
\$236.00	750	6.6 years	150
\$251.49	1,000	6.7 years	200
\$114.64	35,893	7.0 years	4,100
\$132.56	37,768	9.8 years	—
Totals	161,529		66,554
Aggregate intrinsic value (in thousands)	\$ 908		\$ 88

**Q:** What would the essential message you would like to convey to long term investors about NWLI?

**A:** I will quote as close as possible. “We are managed for long term intrinsic value growth. We don’t deviate too much in conservative financial management.”

**Q:** What are your long term targets?

**A:** NWLI claims the answer is to continue to be focused on pricing and internal sales goals. “A personal goal of Robert Moody is to become as large as American National Insurance (ANAT).”

**June 5, 2012**

Morgan Stanley
MORGAN STANLEY RESEARCH  
December 29, 2011

Accounting Example for Fixed Annuities

		Revenues			Expenses	
Margin		Premiums (FAS60)	--		Benefits Paid/Payable	--
		Cost of Insurance (FAS97)	--			
Spread		Interest Income	✓		Interest Credited	✓
		Product/Asset Fees	--		DAC Amortization	✓
Other		Other	○		General & Administrative	✓
		Assets			Liabilities/Equity	
		Investments	✓		General A/C Reserve	✓
		Separate A/C Assets	--		Separate A/C Reserve	--
		DAC Asset	✓		Equity	✓
		Policyholder Loans	--			

**Spread Product:**

- Virtually all of the revenues are earned by achieving a positive spread between yield on investments and interest paid to policyholders
- Acquisition costs are substantial, thus the DAC asset and amortization expense can be significant

**Importance:**

- ✓ Significant item
- Of lesser importance
- Typically not important

Source: Morgan Stanley Research

**May 10, 2012 (138.08) Thesis reaffirmed**

**Please hit Ctrl F to see most recent thesis. You can search the term “thesis” after hitting Ctrl F.**

## **May 10, 2012 (138.08) Review of March 31, 2012 10-Q**

As expected, the company reported continued growth in book value. I think book value is the most important metric in valuing NWLI. Book Value at March 31, 2012 was reported at \$358.71 per share, up from \$351.27 at December 31, 2011. If NWLI was to trade at 70% of book value reported as of March 31, 2012, the price would be ~\$251 per share.

*“Brazilian insurance regulators have sought to impose substantial penal fines against National Western Life Insurance Company. The Company firmly believes that Brazilian insurance regulators have no jurisdiction over the Company and that any such fines would be unenforceable against it.”*

*“As reported in the Company's Form 10-Q filing for the quarter ended September 30, 2011, Brazilian insurance regulators publicly stated their intention to curtail the sales activity of certain foreign multinational insurers, including National Western, and attempt to levy fines. This public announcement has served to decrease the number of new applications for insurance from residents of Brazil in the past two quarters.”*

**I looked back at the September 30, 2011, and did not find any comments that support this statement in the current 10-Q.** The following was written in the September 30, 2011 10-Q, *“Brazilian insurance regulators have sought to impose substantial penal fines against National Western and the Company. understands that these regulators will attempt to impose similar fines against other U.S. domiciled insurers.”*

NWLI mentioned the statements regarding the activities of the Brazilian insurance regulators are consistent between the two filings. The primary purpose of the 1st quarter disclosure was to indicate the affect upon sales since the disclosure made in the 3rd quarter 10-Q.

*“Year-to-date, the Company has accepted new business from residents outside of the United States in over thirty different countries with Brazil (21%), Venezuela (18%), and Taiwan (13%) comprising the largest contributions. Sales to residents in Venezuela increased 65% in the first quarter of 2012 compared to the same period in 2011.”*

1. No change in shares outstanding. Very little dilution.
2. Company expects to fund Pension plan by \$1.3M in 2012. At 3/31/11 the company had expected to fund the pension plan by \$406K in 2011.
3. The company holds approximately \$122.5M of foreign bonds as of 3/31/12. All are currently investment grade. These could become impaired based on the situation in Europe. Yet, the total is less than 1.5% of their total securities portfolio.

## **May 7, 2012 (133.91) Review of Annual Report 2011**

<https://www.nationalwesternlife.com/beacon/pdfs/SX-8831-11.pdf>

**The following are some excerpts from the annual report. As I read the report, the reasons I have for owning the company were affirmed. We are basically owning a portfolio of investment grade bonds at a current price of 38 cents on the dollar. The**

**company is well run, by the same group (Moody Family) that started the company in 1956.**



*“But if you have followed National Western for any length of time, you are familiar with how we operate under the guiding hand of a few simple, conservative principles that have served us faithfully in good times as well as in the challenging and uncertain periods such as the one we are gradually emerging from.”*

*“Nothing is more reassuring during periods of uncertainty and doubt than the dependability of a financial organization that honors its obligations and assists in safeguarding the hard-earned assets of its customers.”*

*“Our financial management practices not only allowed us to steer clear of cataclysmic investment losses that were routinely being reported by other financial institutions, but our focus on building a strong financial base through the building up of capital over a number of years positioned us to be the landing spot for many of the flight to quality transients.”*

*“Capital strength is a hallmark of National Western and we receive considerable credit for this with the rating agencies who assign financial strength ratings to us each year. Deployment of this capital determines the sources of earnings which contribute to our growth each year. Our long stated preference is to manage the Company using a longer time horizon premised upon safety and providing the capacity and resources available to maneuver throughout the broad spectrum of possible financial environments which may arise in the future. By definition, this means we are willing to hold excess levels of capital which may earn lesser returns than those embedded in our product pricing across all lines of business. Consequently, we do not pay too much heed to return on equity numerics as they do not provide us with measures consistent with our deliberate focus on building financial solidity through the creation of a substantial capital base.”*

*“Our investment approach is fairly straightforward. We purchase investment grade, corporate bonds with maturities approximating ten years. This maturity has been determined to be the optimum for matching with the corresponding duration of our policy liabilities. One only has to track the ten year Treasury bond yield to get a feel for our new bond purchase yields since ten year corporate bonds trade based upon a spread to the ten year Treasury bond.”*

*“National Western does not subsidize its interest crediting rates on new policies in order to obtain market share.”*

*“For over 50 years, the people of National Western have overcome barriers and transformed the Company into a model of success that has withstood many challenges since its inception as well as through the recent harrowing times. In the midst of the many struggles, challenges may appear*

*daunting and progress slow, but looking back at the efforts that have resulted in the creation of an infrastructure designed to weather the severest of storms is both inspiring and reassuring.*

*One of the things largely outside of our control is the capriciousness of financial markets and, more pertinent, how National Western is valued by investors. As we have noted in our past reports to you, prior to the recent financial crisis, the market's assessment of our investment value moved lockstep with our book value per share. Through our varied conversations with shareholders in the Company, it is clear that National Western investors are those who share the long-term creation of value perspective that is at the foundation of our operating strategy for the Company. As we have communicated in the past, our strategy is focused on building up the intrinsic value of the Company by reinvesting in our core businesses, maintaining a rock-solid balance sheet, building upon our reputation for prudent financial management philosophies and execution, and delivering consistent and profitable growth. Although the dislocation between the publicly traded price per share and our intrinsic worth as measured by the book value per share has caused us to consider alternative uses of our substantial capital position, we ultimately return to our operational premise of continuing to do the right things which create future value over the long-term ultimately, we believe, enhancing shareholder value."*

#### **April 2, 2012 (137.92) Thesis reaffirmed (Ctrl F to see most recent thesis)**

Our thesis remains quite similar and enhanced since our write-up on November 18, 2011, September 27, 2011 and April 15, 2011. NWLI appears to be a stodgy life insurance and annuity company. NWLI has been around since 1956. Their investment portfolio appears to be of high quality, highly rated bonds, and matched to their insurance and annuity policies future commitments. Moody owns 34% of Class A, and nearly 100% of Class B. Price to Book Value as of December 31, 2011 is ~39%. The balance sheet appears to remain strong and secure. AM Best has reaffirmed NWLI's 'A' rating on May 26, 2011. If NWLI was to trade at 70% of book value reported as of 12/31/11, the price would be ~\$246. Book value has consistent growth since 1991.

We previously discussed our goal that management considers a stock buy back of some type. Management commented on this in the 2011 10-K (as of this writing, the annual report has not been issued). The following are our thoughts on management discussing there will be no impending buy back of common stock by the company.

As long as the statement below is the truth, I fully back this statement in the 10-K. I reckon this issue has been and will be discussed by management. We know the issue is not being ignored, and I certainly have no issues with their reasoning. I actually applaud management for discussing it, and disclosing their stance in the 10K. This was not mentioned in 10K from 2010. Our preference is a strong balance sheet, even if the sacrifice is some ROIC.

*"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, 2011, the Company had no commitments beyond its normal operating and investment activities. The Company has declared and paid an annual dividend on its common shares since 2005 although its practice remains to substantially reinvest earnings internally to finance the development of new business. Despite the fact the Company's market price of its Class A common shares has been trading at a substantial discount to the book value for several years, there are no imminent plans for the Company to repurchase its shares as the Board of Directors has adopted a strategic policy of building a strong capital base to maintain high financial strength*

*ratings and the ability to take competitive advantages as they arise. The capacity to pay dividends is limited by law in the state of Colorado to earned profits (statutory unassigned surplus). At December 31, 2011, the maximum amount legally available for distribution without further regulatory approval is \$91.9 million."*

As disclosed in the 9/30/11 10-Q and again in the 2011 Form 10-K, there is mention of a financial situation in Brazil. *"Brazilian insurance regulators have sought to impose substantial penal fines against National Western. The Company firmly believes that Brazilian insurance regulators have no jurisdiction over the Company and that any such fines would be unenforceable against it."* Prior to the issuance of the 10-Q I did ask management about the Brazil regulatory situation. Their response was:

1. The disclosure in the 9/30/11 Form 10-Q is still applicable.
2. There is no new information that NWLI is privy to regarding this case.
3. There has yet to be a fine assessed to NWLI.

The following are some updated metrics on National Western Life:

**If NWLI was to trade at 70% of book value reported as of 12/31/11, the price would be ~\$246.**

	Price	Book	Price / Book
31-Dec-11	136.16	\$351.27	38.76%
30-Sep-11	135.15	\$351.44	38.46%
30-Jun-11	159.47	\$345.67	46.13%
10-Jun-11	151.50	\$359.45	42.15%
31-Dec-10	167.00	\$335.83	49.73%
31-Dec-09	170.00	\$307.24	55.33%
31-Dec-08	153.00	\$271.99	56.25%
31-Dec-07	206.00	\$279.29	73.76%
31-Dec-06	225.00	\$257.67	87.32%
31-Dec-05	208.00	\$257.00	80.93%
31-Dec-04	168.00	\$237.00	70.89%
31-Dec-03	148.00	\$200.00	74.00%
31-Dec-02	94.00	\$172.00	54.65%
31-Dec-01	110.00	\$159.00	69.18%
31-Dec-00	104.00	\$142.00	73.24%
31-Dec-99	72.00	\$135.00	53.33%
31-Dec-98	117.00	\$123.00	95.12%
31-Dec-97	100.00	\$115.00	86.96%
31-Dec-96	87.00	\$101.00	86.14%
31-Dec-95	56.00	\$89.00	62.92%
31-Dec-94	32.00	\$78.00	41.03%
31-Dec-93	46.00	\$69.00	66.67%
31-Dec-92	47.00	\$53.00	88.68%
31-Dec-91	30.00	\$35.00	85.71%

	Cash and Inv	(DAC's) Defe	Total Assets	Stockholder	Cash % TA	Cash % SE	DAC % TA	DAC % SE
31-Dec-11	\$8,683,895	\$878,295	\$9,727,999	\$1,276,785	89.27%	680.14%	9.03%	68.79%
30-Sep-11	\$8,454,200	\$866,548	\$9,502,142	\$1,277,396	88.97%	661.83%	9.12%	67.84%
30-Jun-11	\$8,244,389	\$848,503	\$9,262,430	\$1,256,510	89.01%	656.13%	9.16%	67.53%
31-Mar-11	\$7,993,739	\$859,636	\$9,029,996	\$1,236,158	88.52%	646.66%	9.52%	69.54%
31-Dec-10	\$7,777,503	\$835,783	\$8,773,948	\$1,218,791	88.64%	638.13%	9.53%	68.57%
31-Dec-09	\$6,634,886	\$748,672	\$7,518,735	\$1,114,053	88.24%	595.56%	9.96%	67.20%
31-Dec-08	\$5,840,577	\$822,939	\$6,786,480	\$986,213	86.06%	592.22%	12.13%	83.44%
31-Dec-07	\$5,949,797	\$768,834	\$6,835,326	\$1,011,685	87.04%	588.11%	11.26%	76.00%
31-Dec-06	\$5,840,918	\$737,103	\$6,693,443	\$932,984	87.26%	626.05%	11.01%	79.00%
31-Dec-05		\$700,579	\$6,369,008	\$874,008			11.00%	80.16%
31-Dec-04		\$644,458	\$5,991,685	\$808,672			10.76%	79.69%
31-Dec-03		\$653,374	\$5,297,720	\$679,858			12.33%	96.10%
31-Dec-02		\$491,751	\$4,137,247	\$607,206			11.89%	80.99%

## November 18, 2011 (140.00) Thesis reaffirmed (Ctrl F to see most recent thesis)

Our thesis remains quite similar and enhanced since our write-up on September 27, 2011 and April 15, 2011. NWLI appears to be a stodgy life insurance and annuity company. NWLI has been around since 1956. Their investment portfolio appears to be of high quality, highly rated bonds, and matched to their insurance and annuity policies future commitments. Moody owns 34% of Class A, and nearly 100% of Class B. Price to Book Value is now ~39%. As of June 30, 2011, the balance sheet appears to remain strong and secure. AM Best has reaffirmed NWLI's 'A' rating on May 26, 2011. If NWLI was to trade at 70% of book value reported as of 9/30/11, the price would be \$246. Book value has consistent growth since 1991.

I think investors should consider teaming together to make a more organized effort to get management to explicitly discuss their strategy of not buying back stock that is trading at less than 40% of book value. I can not fathom a better use of capital than buying dollars for thirty eight cents.

	Price	Book	Price / Book
30-Sep-11	135.15	\$351	38.46%
30-Jun-11	159.47	\$346	46.13%
10-Jun-11	151.50	\$359	42.15%
31-Dec-10	167.00	\$336	49.73%
31-Dec-09	170.00	\$307	55.33%
31-Dec-08	153.00	\$272	56.25%
31-Dec-07	206.00	\$279	73.76%
31-Dec-06	225.00	\$258	87.32%
31-Dec-05	208.00	\$257	80.93%
31-Dec-04	168.00	\$237	70.89%
31-Dec-03	148.00	\$200	74.00%
31-Dec-02	94.00	\$172	54.65%
31-Dec-01	110.00	\$159	69.18%
31-Dec-00	104.00	\$142	73.24%
31-Dec-99	72.00	\$135	53.33%
31-Dec-98	117.00	\$123	95.12%
31-Dec-97	100.00	\$115	86.96%
31-Dec-96	87.00	\$101	86.14%
31-Dec-95	56.00	\$89	62.92%
31-Dec-94	32.00	\$78	41.03%
31-Dec-93	46.00	\$69	66.67%
31-Dec-92	47.00	\$53	88.68%
31-Dec-91	30.00	\$35	85.71%

	Cash and Inv	(DAC's) Defe	Total Assets	Stockholder's	Cash % TA	Cash % SE	DAC % TA	DAC % SE
30-Sep-11	\$8,454,200	\$866,548	\$9,502,142	\$1,277,396	88.97%	661.83%	9.12%	67.84%
30-Jun-11	\$8,244,389	\$848,503	\$9,262,430	\$1,256,510	89.01%	656.13%	9.16%	67.53%
31-Mar-11	\$7,993,739	\$859,636	\$9,029,996	\$1,236,158	88.52%	646.66%	9.52%	69.54%
31-Dec-10	\$7,777,503	\$835,783	\$8,773,948	\$1,218,791	88.64%	638.13%	9.53%	68.57%
31-Dec-09	\$6,634,886	\$748,672	\$7,518,735	\$1,114,053	88.24%	595.56%	9.96%	67.20%
31-Dec-08	\$5,840,577	\$822,939	\$6,786,480	\$986,213	86.06%	592.22%	12.13%	83.44%
31-Dec-07	\$5,949,797	\$768,834	\$6,835,326	\$1,011,685	87.04%	588.11%	11.25%	76.00%
31-Dec-06	\$5,840,918	\$737,103	\$6,693,443	\$932,984	87.26%	626.05%	11.01%	79.00%
31-Dec-05		\$700,579	\$6,369,008	\$874,008			11.00%	80.16%
31-Dec-04		\$644,458	\$5,991,685	\$808,672			10.76%	79.69%
31-Dec-03		\$653,374	\$5,297,720	\$679,858			12.33%	96.10%
31-Dec-02		\$491,751	\$4,137,247	\$607,206			11.89%	80.99%

**December 29, 2011 (135.35)**

### How New DAC Rules will Effect the Insurers' Financials

Mgmt Est DAC Write-Down and Impact on Balance Sheet & Earnings

	Balance Sheet Impact				Earnings Impact		
	2010 DAC	Write-Off	% DAC	% Equity	EPS	% EPS	ROE
AFL	9,734	-923	-9.5	-5.4	0.00	0.0	1.1
AMP	4,619	-2,100	-45.5	-14.1	0.03	0.5	2.5
CNO	1,764	-750	-42.5	-11.9	-0.11	-14.4	-0.6
GNW	7,256	-2,231	-30.7	-11.7	ND	ND	ND
HIG	9,857	-2,300	-23.3	-7.0	-0.08	-2.4	0.3
LNC	7,552	-1,050	-13.9	-5.7	-0.24	-6.0	0.0
MET	16,219	-3,615	-22.3	-24.9	-0.40	-7.4	-0.6
PFG	3,530	-650	-18.4	-4.5	-0.13	-4.6	0.0
PRU	16,345	-4,250	-26.0	-10.1	-0.50	-7.8	0.3
RGA	3,726	-475	-12.7	-7.5	-0.60	-8.0	-0.1
SFG	277	-35	-12.5	-1.3	-0.05	-1.4	0.0
TMK	3,364	-673	-20.0	-11.1	-0.08	-1.6	1.7
UNM	2,521	-769	-30.5	-5.8	-0.05	-1.5	0.5

Source: Morgan Stanley Research

**December 21, 2011 (131.50) - Institutional Holders Should Question NWLI Management about reasoning for lack of stock buyback**

Westport, Tweedy, Shufro Rose, Third Ave (if still a desired owner) and other institutional holders of NWLI.

Just wondering if any of you, have in the past, or are considering discussing with management, the issue of a share buyback.

I am merely looking for a logical explanation by management to explain their theory of not buying back stock at 38% of book value. I am clearly not asking that a buyback be put in place. I am asking that NWLI explicitly discuss their reasoning of not buying back stock to their shareholders.

I can think of four possible reasons as to why stock is not being bought back. Perhaps there are other reasons that make total sense. If there are, I am not familiar with them.

**Here are my four potential reasons for lack of buyback:**

1. Perhaps NWLI is not operating as liquid as one would expect, and can not afford a buyback. I expect and hope this is not the case, but until discussed, to me, it is certainly a possibility.
2. Perhaps there is a regulatory restriction.
3. Perhaps it has been discussed with AM Best, and Best has suggested that if a buyback occurred, NWLI would be in danger of losing their A rating.
4. Perhaps Moody's (34%+ control of company) want the stock price to remain low for estate planning and valuation issues. This would make most sense to me as a reason. Yet, all officers have a fiduciary responsibility to the company and her shareholders, as opposed to personal estate optimization, via the valuation of a public company.

Again, let me emphasize, I am merely requesting that NWLI publicly discuss the reasoning for deciding not to buy back shares. Perhaps, a discussion would lead NWLI Board of Directors to see that indeed a stock buyback would be excellent for the company, the shareholders and employees of NWLI. It is very possible that NWLI is avoiding a buyback, and at the same time, just not fully comprehend the power of such.

**Review of AMERICAN NATIONAL INSURANCE COMPANY. Moody's are directors and majority shareholders.**

1. Compensation upwards of \$20M for Robert Moody. I would love to see his tax return. Compensation from all sources must be huge.

As of December 31, 2010, the Moody Foundation, a charitable trust controlled by Robert L. Moody, Sr. and members of his family, beneficially owned 6,157,822 shares of our common stock. In addition to these shares and as of such date, Moody National Bank, of which Robert L. Moody, Sr. is chairman and chief executive officer, in its capacity as trustee or agent had the power to vote an additional 12,489,462 shares of our common stock. These two stockholders have the power to vote approximately 70% of our common stock. As a result, these two stockholders have the ability to exercise a controlling influence over all matters affecting us, including:

As of December 31, 2010, approximately 19,960,277 shares of our common stock (approximately 74%) were beneficially owned by The Moody Foundation, Moody National Bank, our executive officers, directors, and advisory directors and family members of our executive officers and directors. As of that same date, approximately 6,859,889 shares (approximately 26%), with an aggregate market value of \$587,343,696 were held by other stockholders.

### Summary Compensation Table

The following table sets forth all of the compensation awarded to or earned by the Named Executive Officers for the years ended December 31, 2010, 2009 and 2008. None of the Named Executive Officers has a written or unwritten employment agreement or arrangement with us.

Name and Principal Position	Year	Salary (a)	Bonus (b)	Stock Awards (c)	SAR Awards (d)	Non-Equity Incentive Plan Compensation (e)	Change in Pension Value and Non-qualified Deferred Compensation Earnings (f)	All Other Compensation (g)	Total
Robert L. Moody, Sr., Chairman of the Board and Chief Executive Officer	2010	\$2,000,000	\$ 157	\$1,154,969	\$ 0	\$ 5,390,000	\$ 7,457,759	\$ 480,271*	\$16,483,156
	2009	\$2,000,000	\$ 157	\$ 416,813	\$ 0	\$ 5,390,000	\$ 13,926,478	\$ 591,984*	\$22,325,432
	2008	\$5,000,000	\$ 157	\$5,824,000	\$ 0	\$ 1,350,000	\$ 5,788,062	\$ 603,599*	\$18,565,818
G. Richard Ferdinandtsen, President and Chief Operating Officer	2010	\$1,000,000	\$ 157	\$ 319,980	\$ 0	\$ 960,000	\$ 2,248,465	\$ 177,356*	\$ 4,705,958
	2009	\$1,000,000	\$ 157	\$ 24,714	\$ 0	\$ 754,774	\$ 3,461,612	\$ 196,679*	\$ 5,437,936
	2008	\$1,000,000	\$ 158	\$2,329,600	\$ 0	\$ 240,000	\$ 1,458,632	\$ 199,911*	\$ 5,228,301
Ronald J. Welch, Senior Executive Vice President, Corporate Risk Officer and Chief Actuary	2010	\$ 408,887	\$ 136	\$ 81,720	\$ 0	\$ 245,332	\$ 496,690	\$ 20,505	\$ 1,253,270
	2009	\$ 408,887	\$ 136	\$ 81,759	\$ 0	\$ 190,419	\$ 539,636	\$ 23,363	\$ 1,244,200
	2008	\$ 402,221	\$ 136	\$ 0	\$178,433	\$ 72,400	\$ 483,255	\$ 18,616	\$ 1,155,061
James E. Pozzi, Senior Executive Vice President and Chief Administrative Officer	2010	\$ 425,759	\$ 136	\$ 85,062	\$ 0	\$ 255,455	\$ 374,352	\$ 19,108	\$ 1,159,872
	2009	\$ 412,425	\$ 136	\$ 82,468	\$ 0	\$ 108,552	\$ 360,037	\$ 27,366	\$ 990,984
	2008	\$ 404,092	\$ 136	\$ 0	\$178,433	\$ 122,039	\$ 282,622	\$ 24,286	\$ 1,011,608
Stephen E. Pavlicek, (1) Executive Vice President, Chief Financial Officer and Corporate Treasurer	2010	\$ 262,362	\$ 136	\$ 26,198	\$ 28,189	\$ 66,567	\$ 268,906	\$ 18,980	\$ 671,338
	2009	\$ 252,362	\$ 136	\$ 25,201	\$ 0	\$ 32,426	\$ 236,402	\$ 29,308	\$ 575,835
	2008	\$ 248,493	\$ 136	\$ 0	\$ 76,471	\$ 45,052	\$ 203,564	\$ 24,774	\$ 598,490
John J. Dunn, Jr., (2) Executive Vice President and Corporate Chief Financial Officer	2010	\$ 112,500	\$ 34	\$ 38,165	\$ 0	\$ 57,375	\$ 0	\$ 65,555	\$ 273,629

2. "Ms. Moody-Dahlberg has twenty-four years of experience as a member of our Board." Interesting, she is listed as 41 years old. I guess she has been on the board since she was 17 years old.
3. ANAT seems to be a diversified insurance company. Largest revenues are from P&C, followed by Life, accident and health and then annuities.
4. When looking at the 9/30/11 Form 10-Q, it seems as NWLI investment portfolio is one of higher quality than ANAT.

The following table identifies the total bonds by credit quality rating, using both S&P and Moody's ratings (in thousands, except percentages):

	September 30, 2011			December 31, 2010		
	Amortized Cost	Estimated Fair Value	% of Fair Value	Amortized Cost	Estimated Fair Value	% of Fair Value
AAA	\$ 1,121,945	\$ 1,210,687	8.5%	\$ 1,258,952	\$ 1,311,152	10.0%
AA	1,638,033	1,738,691	12.2	1,289,870	1,343,653	10.2
A	5,115,219	5,493,637	38.5	4,551,294	4,848,986	37.0
BBB	4,898,694	5,218,725	36.6	4,613,315	4,871,583	37.2
BB and below	609,045	597,589	4.2	725,436	728,073	5.6
<b>Total</b>	<b>\$13,382,936</b>	<b>\$14,259,329</b>	<b>100.0%</b>	<b>\$12,438,867</b>	<b>\$13,103,447</b>	<b>100.0%</b>

5. A.M. Best rating is the same as NWLI, 'A.'

**Our Ratings**

Insurer financial strength ratings reflect current independent opinions of rating agencies regarding the financial capacity of an insurance company to meet the obligations of its insurance policies and contracts in accordance with their terms. They are based on comprehensive quantitative and qualitative evaluations of a company and its management strategy. The rating agencies do not provide ratings as a recommendation to purchase insurance or annuities, nor a guarantee of an insurer's current or future ability to meet its contractual obligations. Ratings may be changed, suspended, or withdrawn at any time.

American National Insurance Company's insurer financial strength ratings from two of the most widely referenced rating organizations as of the date of this filing are as follows:

- A.M. Best Company: A (Excellent) <sup>(1)</sup>
- Standard & Poor's: A+ (Strong) <sup>(2)</sup>

- (1) A.M. Best's active company rating scale consists of thirteen ratings ranging from A++ (Superior) to D (poor). A is the third highest of such thirteen ratings and represents companies' "excellent ability to meet their ongoing insurance obligations."
- (2) Standard & Poor's active company rating scale ranges from AAA (Extremely Strong) to CC (Extremely Weak). Plus (+) or Minus (-) modifiers show the relative standing within the categories from AA to CCC. A rating of A is in the "strong" category and represents "Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances. A+ is the fifth highest of twenty active company ratings.

December 19, 2011 (131.00)

**Value Line Statistics October 14, 2011**

Composite Statistics: LIFE INSURANCE INDUSTRY							
2007	2008	2009	2010	2011	2012		14-16
138293	133523	133239	128195	<b>145400</b>	<b>153600</b>	Premium Inc (\$mill)	<b>184000</b>
70758	62465	60263	62233	<b>65050</b>	<b>68800</b>	Investment Inc (\$mill)	<b>82300</b>
24168	21003	24788	29662	<b>30500</b>	<b>32200</b>	Other Income (\$mill)	<b>40000</b>
233218	216992	218290	220090	<b>240950</b>	<b>254600</b>	Total Income (\$mill)	<b>306300</b>
145969	141829	134096	132488	<b>145250</b>	<b>152725</b>	Benefits & Reserves (\$m)	<b>189375</b>
27.7%	28.9%	15.0%	26.3%	<b>27.5%</b>	<b>27.5%</b>	Income Tax Rate	<b>27.5%</b>
22230	10629	12861	13980	<b>20100</b>	<b>22000</b>	Net Profit (\$mill)	<b>28200</b>
1833.8	1772.9	1000.0	1740.8	<b>1420</b>	<b>1495</b>	Insur in Force (\$bill)	<b>1750</b>
1000.0	1961.6	2115.8	1102.5	<b>2322</b>	<b>2490</b>	Total Assets (\$bill)	<b>3000</b>
165681	116926	164854	191750	<b>187000</b>	<b>202200</b>	Shr. Equity (\$mill)	<b>254150</b>
13.4%	9.1%	7.8%	7.3%	<b>10.5%</b>	<b>11.0%</b>	Return on Shr. Equity	<b>11.0%</b>
11.0%	5.9%	6.2%	5.9%	<b>9.0%</b>	<b>9.5%</b>	Retained to Com Eq	<b>9.5%</b>
23%	44%	29%	25%	<b>17%</b>	<b>15%</b>	All Div'ds to Net Prof	<b>15%</b>
12.0	20.1	10.3	12.2	<i>Bold figures are Value Line estimates</i>		Avg Ann'l P/E Ratio	<b>10.0</b>
.64	1.21	.69	.78			Relative P/E Ratio	<b>.65</b>
1.7%	2.3%	2.3%	1.8%			Avg Ann'l Div'd Yield	<b>1.3%</b>

In regards to management. I think the long term growth of the company both operationally; balance sheet, earnings and earnings retention has been exceptional. Moody's appear to be focused on good business, strength of balance sheet, and perhaps not caring of the stock price. I am cool with that. I am patient, and don't mind waiting.

I think Moody, father and son, major holders of NWLI, will fiduciarly make sure the balance sheet remains strong. To me this is evident via AM Best's rating of the company, as well as an upgrade right after the credit crisis, during a time when most companies were being downgraded for risk.

Another thing I like about NWLI is the small amount of Level 3 assets on their balance sheet. Hence, the presentation to the shareholder gives greater assurances that the balance sheet is liquid and stable.

I think NWLI should trade at at least 55% of book value (probably closer to 65% or 70 %+). You can impute a growth rate of book value of say 5%. We will soon see new book value. Currently book is \$351. 55% of that would be a share price of \$193.05.

I do not see great portfolio risk for the long term holder of NWLI. Yet, I could be wrong. When one is buying at less than 40% of book value I think they have a lot of cushion built in. This cushion leaves room for potential balance sheet impairment of certain assets.

It doesn't make sense to me, for any logical reason that management has decided to not buy back stock. You also have some insider selling, albeit small, from Moody (200 shares sold filed on 11/15) and Lacey (Sr. VP and Chief Actuary 320 shares sold filed on 11/17).

NWLI presents most of their investments at amortized cost. In the footnotes of each quarterly or annual filing they present fair value and amortized cost. IIRC, fair value is higher than the amortized cost presented on the balance sheet. Most of their investments are level 1, hence you can somewhat probably rely on the values being presented. On top of that, you have book value of \$351, which I think brings in a huge margin of safety.

They have consistently grown shareholders equity since 1956. They had their AM Best ratings raised and continually affirmed, even during the financial crisis, when most other life insurance companies were being downgraded. They continue to build a fortress balance sheet. NWLI claims they keep the dividend low to keep the balance sheet fortress like.

What I don't understand is why they refuse to buy back their own stock, or at least announce a plan. NWLI is currently trading at 38% of stated book value. If management was confident in the future of the business, it makes no sense to me whatsoever to not buy back shares. I can not see a better use of capital, assuming that all is good under the hood at NWLI.

Management has been stubborn on this, and I just don't get it. The BOD did address this issue, and claim they are just looking to maintain a fortress balance sheet. To me, that is short sighted. Unless the reason is that they don't believe in the future of NWLI.

If they announced a share buy back, I think the price would immediately go to \$200 per share. NWLI wouldn't even have to buy that many shares, as only incremental demand would probably increase the stock price.

Management could easily make a buy back plan, and indicate that they will buy shares anytime the price to stated book value is for example < 50%.

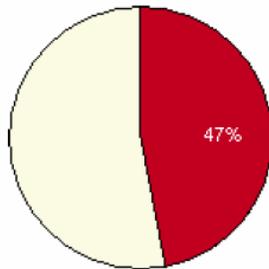
I think investors should consider teaming together to make a more organized effort to get management to explicitly discuss their strategy of not buying back stock that is trading at 38% of book value. I can not fathom a better use of capital than buying dollars for thirty eight cents.

As of 9/30/11 foreign government debt was an immaterial amount.

## Top 9 holders as of 9/30/11

### NATIONAL WESTERN LIFE INSURANCE CO (NWLI)

### Institutional Holders



Total Number of Holders	77
% of Shares Outstanding	47.26%
Total Shares Held	1,623,252
Total Value of Holdings	\$212,646,012.00
Net Activity	(12,579)

Ownership Analysis	# Of Holders	Shares	Company Details	
Total Shares Held	77	1,623,252	Total Shares Out Standing (millions)	3
New Positions	5	25,893	Market Capitalization (\$ millions)	\$450
Increased Positions	25	60,389	Institutional Ownership	47.26%
Decreased Positions	33	72,968	Price (as of 12/16/2011)	\$131.00
Holdings With Activity	58	133,357		
Sold Out Positions	8	11,197		

### All Holders

Results 1-25 of 77

Company Name	Shares Held	Change in Shares	% Change Shares	\$ Market Value	% of Portfolio	% of TSO	Report Date
FRANKLIN RESOURCES INC	173,000	0	0.00	\$22,663,000	0.02	5.04	09/30/11
DIMENSIONAL FUND ADVISORS LP	153,413	1,330	0.87	\$20,097,103	0.03	4.47	09/30/11
WESTPORT ASSET MANAGEMENT INC	152,223	0	0.00	\$19,941,213	4.15	4.43	09/30/11
FMR LLC	148,870	0	0.00	\$19,501,970	0.00	4.33	09/30/11
TWEEDY BROWNE CO LLC//	111,761	6,129	5.80	\$14,640,691	0.55	3.25	09/30/11
THIRD AVENUE MANAGEMENT LLC	105,182	(44,351)	-29.66	\$13,778,842	0.33	3.06	09/30/11
VANGUARD GROUP INC	103,139	464	0.45	\$13,511,209	0.00	3.00	09/30/11
BARCLAYS GLOBAL INVESTORS UK HOLDINGS LTD	70,194	(129)	-0.18	\$9,195,414	0.00	2.04	09/30/11
SHUFRO ROSE & CO LLC	64,245	1,070	1.69	\$8,416,095	1.21	1.87	09/30/11
	54,450	(525)	-0.95	\$7,132,950	0.40		

## Largest Shares Sold during 9/30/11 as of 12/19/11

### All Holders

Results 1-25 of 77

Company Name	Shares Held	Change in Shares <sup>A</sup>	% Change Shares	\$ Market Value	% of Portfolio	% of TSO	Report Date
THIRD AVENUE MANAGEMENT LLC	105,182	(44,351)	-29.66	\$13,778,842	0.33	3.06	09/30/11
INVESCO LTD.	3,054	(4,117)	-57.41	\$400,074	0.00	0.09	09/30/11
BLACKROCK FUND ADVISORS	43,557	(3,134)	-6.71	\$5,705,967	0.00	1.27	09/30/11
AMERIPRISE FINANCIAL INC	48,320	(3,059)	-5.95	\$6,329,920	0.00	1.41	09/30/11

## November 18, 2011 (\$140) Review of 10-Q 9/30/11

### Debt Securities Purchased to Fund Insurance Operations

	Nine Months Ended September 30, 2011	Year Ended December 31, 2010
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(\$ In thousands)

Cost of acquisitions	1,028,880	\$ 1,559,154
Average S&P <sup>®</sup> quality	AA-	AA-
Effective annual yield	4.33%	4.45%
Spread to treasuries	1.32%	1.35%
Effective duration	7.2 years	6.8 years

### Debt Securities Portfolio

	September 30, 2011		December 31, 2010	
	Carrying Value	%	Carrying Value	%
	(In thousands)		(In thousands)	
Corporate	\$ 4,119,711	51.1	\$ 3,559,508	48.4
Mortgage-backed securities	2,244,978	27.9	2,141,867	29.1
Public utilities	1,047,423	13.0	1,077,314	14.7
State and political subdivisions	346,789	4.3	331,731	4.5
U.S. agencies	208,300	2.6	154,265	2.1
Asset-backed securities	58,609	0.7	64,878	0.9
Foreign governments	30,290	0.4	20,921	0.3
U.S. Treasury	1,937	—	1,909	—
<b>Totals</b>	<b>\$ 8,058,037</b>	<b>100.0</b>	<b>\$ 7,352,393</b>	<b>100.0</b>

### **Moody National Bank**

	<b>9/30/11</b>	<b>6/30/11</b>
Tier 1 leverage ratio	9.24	Unknown (perhaps 9.07)
Tier 1 risk-based capital ratio	16.32	15.35
Total risk-based capital ratio	17.54	16.51
Total Assets	871,378	944,406
Total Equity Capital	88,681	86,019

As of 6/30/11, Tangible Book Value of Moody National Bank \* (use a range you are comfortable with, say 60% to 115% of TBV).

TBV of Moody National Bank as of 6/30/11 is \$86M, total assets are \$944M.

You also have HomeTown Bank, National Association, which has \$344M in assets and around \$2.4M in equity. Their tier 1 ratio is around 8.75%. I am not sure of the ownership here.

I would gather that NWLI's interest in Moody National Bank is worth around \$9M. Not a real material amount. Perhaps I am wrong, and perhaps HomeTown Bank is owned or not owned by NWLI. With that said, you could have a value of somewhere between \$7M to \$12M on that asset.

My only concern with the banks would be a properly audited and proper segregation of assets, liabilities and equity b/w NWLI and all related party banking affiliates.

### **NWLI Notes**

I think the long term growth of the company both operationally; balance sheet, earnings and earnings retention has been exceptional. Moody's appear to be focused on good business, strength of balance sheet, and perhaps not caring of the stock price. I am cool with that. I am patient, and don't mind waiting.

I think Moody's via their ownership will be careful of the balance sheet.

I was informed on October 22, 2011, that the board considered my letter, but will refrain from share buy backs. The reasoning is to keep focusing on balance sheet strength.

I think Moody, father and son, major holders of NWLI, will make sure the balance sheet remains strong. To me this is evident via AM Best's rating of the company, as well as an upgrade right after the credit crisis, during a time when most companies were being downgraded for risk.

Another thing I like about NWLI is the small amount of Level 3 assets on their balance sheet. Hence, the presentation to the shareholder gives greater assurances that the balance sheet is liquid and stable.

I think NWLI should trade at at least 55% of book value (probably closer to 65% or 70 %+). You can impute a growth rate of book value of say 5%. We will soon see new book value. Currently book is \$346. 55% of that would be a share price of \$190.

I do not see great portfolio risk for the long term holder of NWLI. Yet, I could be wrong. When one is buying at 39% of book value I think they have a lot of cushion built in. This cushion leaves room for potential balance sheet impairment of certain assets, if they already exist.

It doesn't make sense to me, for any logical reason that management has decided to not buy back stock. You also have some insider selling, albeit small, from Moody (200 shares sold filed on 11/15) and Lacey (Sr. VP and Chief Actuary 320 shares sold filed on 11/17).

I bought more shares yesterday at \$140.00.

**October 18, 2011 (136.75) Letter we sent to NWLI regarding question on potential of share buyback**

October 12, 2011

National Western Life Insurance Company  
850 East Anderson Lane  
Austin, Texas 78752-1602

Mr. Robert L. Moody - Chairman of the Board and Chief Executive Officer  
Mr. Brian M. Pribyl - Senior Vice President - Chief Financial Officer and Treasurer

**To The Board of Directors of National Western Life Insurance Company:**

We are an investment management firm located in Cranford, New Jersey. As of October 12, 2011 we are responsible for the ownership of 28,784 shares of National Western Life Insurance Company Class A shares (NWLI).

I would like to respectfully request the board consider and comment about buying back shares of National Western Life Insurance Company Class A shares (NWLI).

The following is a table I compiled which may be of interest to you.

<u>Price to Book Value Metrics</u>				
	Price	Book	Price / Book	
27-Sep-11	136.00	\$346	39.34%	estimated
30-Jun-11	159.47	\$346	46.13%	
10-Jun-11	151.50	\$359	42.15%	
31-Dec-10	167.00	\$336	49.73%	
31-Dec-09	170.00	\$307	55.33%	
31-Dec-08	153.00	\$272	56.25%	
31-Dec-07	206.00	\$279	73.76%	
31-Dec-06	225.00	\$258	87.32%	
31-Dec-05	208.00	\$257	80.93%	
31-Dec-04	168.00	\$237	70.89%	
31-Dec-03	148.00	\$200	74.00%	
31-Dec-02	94.00	\$172	54.65%	
31-Dec-01	110.00	\$159	69.18%	
31-Dec-00	104.00	\$142	73.24%	
31-Dec-99	72.00	\$135	53.33%	
31-Dec-98	117.00	\$123	95.12%	
31-Dec-97	100.00	\$115	86.96%	
31-Dec-96	87.00	\$101	86.14%	
31-Dec-95	56.00	\$89	62.92%	
31-Dec-94	32.00	\$78	41.03%	
31-Dec-93	46.00	\$69	66.67%	
31-Dec-92	47.00	\$53	88.68%	
31-Dec-91	30.00	\$35	85.71%	

Please do not take this email in anyway to be a disappointment in the share price. I understand that you can not control the share price. I would just like to know the boards thinking if a share buy back is not to be implemented, as to the reasons why not.

Respectfully Submitted,

REDFIELD, BLONSKY & CO., LLC



Ronald R. Redfield, CPA, PFS  
Partner

### **September 27, 2011 (136.24) Thesis Reaffirmed**

Our thesis remains quite similar and enhanced since our write-up on April 15, 2011. NWLI appears to be a stodgy life insurance and annuity company. NWLI has been around since 1956. Their investment portfolio appears to be of high quality, highly rated bonds, and matched to their insurance and annuity policies future commitments. Moody owns 34% of Class A, and nearly 100% of Class B. Price to Book Value is now ~39%. As of June 30, 2011, the balance sheet appears to remain strong and secure. AM Best has reaffirmed NWLI's 'A' rating on May 26, 2011. If NWLI was to trade at 70% of book value, the price would be \$242.

**As of 6/30/11, five holders account for 22.58% of the shares outstanding.**

Company Name	Shares Held	Change in Shares	% Change Shares	\$ Market Value	% of Portfolio	% of TSO	Report Date
FRANKLIN RESOURCES INC	173,000	0	0.00	\$23,586,820	0.02	5.04	06/30/11
WESTPORT ASSET MANAGEMENT INC	152,223	32,163	26.79	\$20,754,084	4.42	4.43	06/30/11
DIMENSIONAL FUND ADVISORS LP	152,083	855	0.57	\$20,734,996	0.03	4.43	06/30/11
THIRD AVENUE MANAGEMENT LLC	149,533	(69,902)	-31.86	\$20,387,329	0.52	4.35	06/30/11
FMR LLC	148,870	0	0.00	\$20,296,936	0.00	4.33	06/30/11
TWEEDY BROWNE CO LLC//	105,632	(20,814)	-16.46	\$14,401,867	0.55	3.08	06/30/11
VANGUARD GROUP INC	102,675	(1,049)	-1.01	\$13,998,710	0.00	2.99	06/30/11
BARCLAYS GLOBAL INVESTORS UK HOLDINGS LTD	70,323	4,328	6.56	\$9,587,838	0.00	2.05	06/30/11
SHUFRO ROSE & CO LLC	63,175	5,429	9.40	\$8,613,280	1.29	1.84	06/30/11

**Price to Book Value Metrics**

	Price	Book	Price / Book	
27-Sep-11	136.00	\$346	39.34%	estimated
30-Jun-11	159.47	\$346	46.13%	
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31-Dec-10	167.00	\$336	49.73%	
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31-Dec-92	47.00	\$53	88.68%	
31-Dec-91	30.00	\$35	85.71%	

### Various metrics including Deferred Acquisition Costs

	Cash and Inv (DAC's)	Defer	Total Assets	Stockholder's	Cash % TA	Cash % SE	DAC % TA	DAC % SE
30-Jun-11	\$8,244,389	\$848,503	\$9,262,430	\$1,256,510	89.01%	658.13%	9.16%	67.53%
31-Mar-11	\$7,993,739	\$859,638	\$9,029,998	\$1,236,158	88.52%	646.66%	9.52%	69.54%
31-Dec-10	\$7,777,503	\$835,783	\$8,773,948	\$1,218,791	88.64%	638.13%	9.53%	68.57%
31-Dec-09	\$6,634,886	\$748,672	\$7,518,735	\$1,114,053	88.24%	595.56%	9.96%	67.20%
31-Dec-08	\$5,840,577	\$822,939	\$6,786,480	\$986,213	86.06%	592.22%	12.13%	83.44%
31-Dec-07	\$5,949,797	\$768,834	\$6,835,328	\$1,011,685	87.04%	588.11%	11.25%	76.00%
31-Dec-06	\$5,840,918	\$737,103	\$6,693,443	\$932,984	87.26%	628.05%	11.01%	79.00%

**April 15, 2011 (155.43)**

#### Thesis:

Stodgy Life Insurance Co and Annuity Co. Been around since 1956. Prides itself on being boring and safe. Moody owns 34% of Class A, and nearly 100% of Class B. Currently selling at 48% of Book Value. In their 2009 AR, they wrote, "*We believe that it is just a matter of time until market investors also recognize the excellence embedded within National Western.*" No insider selling. Institutional Investors include Third Ave., FMR, Tweedy Brown, Franklin Resources and Vanguard. These 5 holders account for 24% of the market cap of the company. One day, value should come through. Patience is key. Must understand illiquidity due to small cap nature and thinly trades.

Trades only 4K a day. Compensation policies do not seem excessive at all. Robert Moody makes ~700K (4/10 filing). Related party transactions do exist, but I assume fairness. Revenues, earnings and book value growing, whereas stock price is not. Could be hidden value.

They have built a balance sheet that is considered conservative and secure by Best's. Many investors complain that NWLI should be buying back stock or increasing dividends. Had NWLI paid out dividends, the balance sheet would not be as fortress-like. They have increased book value at a more than decent pace. They continue to grow and improve most, if not all, metrics.

The 2010 10-K wrote, *"In June 2009, A.M. Best upgraded the Company's rating to "A" from "A-". This was particularly noteworthy given the financial crisis backdrop that framed this time period and the number of companies that were negatively impacted, often significantly, during this time. In June 2010, Standard & Poor's upgraded its outlook of the Company from "negative" to "stable". Generally speaking, 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 subsequently downgraded, the Company's business may be negatively impacted."*

They seem to be forthcoming in their annual reports. They are growing premiums, eps, and capital surplus.

The growth of NWLI's stock price has exceeded that of Berkshire Hathaway since 1990. NWLI is diversifying internationally, and could have future growth.

If company traded at 80% of 12/31/10 book value price would be \$269 per share.

### **October 14, 2011            Moody National Bank**

I have read the financials at [www.fdic.gov](http://www.fdic.gov) on Moody National Bank. I also verified that they are under the regulatory authority of The Office of the Comptroller of the Currency (OCC), since they are a national bank. After many contacts I was given the information that the independent auditing firm is DRDA, PLLC 1120 Bay Area Blvd Houston, Texas 77058 (281) 488-2022 [www.drdacpa.com](http://www.drdacpa.com)

It is my understanding NWLI owns 9.5% of Moody National Bank. I wanted to find the auditor, just for a higher level of assurance on our NWLI research. I was able to determine that BBB rates DRDA an 'A+.' Also, they are a member of good standing with Texas Board of Accountancy. Financial position looks fairly strong according to filings. Tier 1 ratio is 9.5%.

### **September 27, 2011 (136.24)**

### **May 26, 2011 Best's Affirms rating**

A.M. Best #: 006811 NAIC #: 66850 FEIN #: 840467208

Assigned to companies that have, in our opinion, an excellent ability to meet their ongoing insurance obligations.



Stock Ticker The Nasdaq Stock Market [NASDAQ NWLI](#)  
 Address: 850 East Anderson Lane  
 Austin, TX 78752-1602  
[UNITED STATES](#)

Phone: 512-836-1010  
 Fax: 512-719-8511  
 Web: [www.nationalwesternlife.com](http://www.nationalwesternlife.com)

**Best's Ratings**

**Financial Strength Ratings** [View Definitions](#)    **Issuer Credit Ratings** [View Definitions](#)

Rating: <b>A (Excellent)</b>	Long-Term: <b>a</b>
Financial Size Category: <b>XI</b> (\$750 Million to \$1 Billion)	Outlook: <b>Stable</b>
Outlook: <b>Stable</b>	Action: <b>Affirmed</b>
Action: <b>Affirmed</b>	Date: <b>May 26, 2011</b>
Effective Date: <b>May 26, 2011</b>	

\* Denotes Under Review [Best's Ratings](#)

**Auditors are KPMG LLP.**

**Notes from 6/30/11 10-Q**

**(B) Debt and Equity Securities**

The table below presents amortized costs and fair values of securities held to maturity at June 30, 2011 .

	Securities Held to Maturity			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
	(In thousands)			
Debt securities:				
U.S. agencies	\$ 228,876	3,226	(2,260)	229,842
U.S. Treasury	1,936	460	—	2,396
States and political subdivisions	340,743	7,758	(4,303)	344,198
Foreign governments	9,975	1,074	—	11,049
Public utilities	707,792	58,268	(4,365)	761,695
Corporate	1,932,748	149,917	(8,006)	2,074,659
Mortgage-backed	2,038,765	137,817	(5,905)	2,170,677
Home equity	24,699	541	(1,928)	23,312
Manufactured housing	17,332	1,000	(74)	18,258
<b>Totals</b>	<b>\$ 5,302,866</b>	<b>360,061</b>	<b>(26,841)</b>	<b>5,636,086</b>

The table below presents amortized costs and fair values of securities available for sale at June 30, 2011 .

	Securities Available for Sale			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
	(In thousands)			
Debt securities:				
States and political subdivisions	\$ 3,980	—	(360)	3,620
Foreign governments	10,263	442	—	10,705
Public utilities	327,794	31,010	(110)	358,694
Corporate	1,748,559	138,500	(2,361)	1,884,698
Mortgage-backed	187,062	13,262	(328)	199,996
Home equity	12,535	—	(3,379)	9,156
Manufactured housing	8,499	1,075	—	9,574
	<u>2,298,692</u>	<u>184,289</u>	<u>(6,538)</u>	<u>2,476,443</u>
Equity private	195	7,923	—	8,118
Equity public	6,026	2,663	(87)	8,602
Totals	<u>\$ 2,304,913</u>	<u>194,875</u>	<u>(6,625)</u>	<u>2,493,163</u>

Six Months Ended June 30,	
2011	2010

Percentage of International Sales:

Latin America	87.0%	79.7%
Pacific Rim	11.6	18.5
Eastern Europe	1.4	1.8
Totals	<u>100.0%</u>	<u>100.0%</u>

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

	Insurance In Force as of June 30,	
	2011	2010
(\$ in thousands)		
Universal life:		
Number of policies	61,900	64,760
Face amounts	\$ 7,493,470	7,511,240
Traditional life:		
Number of policies	44,290	46,020
Face amounts	\$ 2,779,660	2,485,080
Fixed-indexed life:		
Number of policies	31,440	28,750
Face amounts	\$ 7,633,830	6,738,550
Rider face amounts	\$ 2,255,580	2,155,850
Total life insurance:		
Number of policies	137,630	139,530
Face amounts	\$ 20,162,540	18,890,720

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

	June 30, 2011		December 31, 2010	
	Carrying Value	%	Carrying Value	%
(In thousands)		(In thousands)		
Debt securities	\$ 7,779,309	95.3	\$ 7,352,393	95.6
Mortgage loans	160,897	2.0	141,247	1.8
Derivatives, index options	97,698	1.2	80,284	1.0
Policy loans	75,743	0.9	78,448	1.0
Real estate	18,963	0.2	20,088	0.3
Equity securities	16,720	0.2	15,230	0.2
Other	14,392	0.2	9,481	0.1
Totals	\$ 8,163,722	100.0	\$ 7,697,171	100.0

## Debt and Equity Securities

The Company maintains a diversified portfolio which consists mostly 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"). The Company's investment guidelines prescribe limitations by type of security as a percent of the total investment portfolio and all holdings were within these threshold limits. As of June 30, 2011 and December 31, 2010, the Company's debt securities portfolio consisted of the following:

	June 30, 2011		December 31, 2010	
	Carrying Value (In thousands)	%	Carrying Value (In thousands)	%
Corporate	\$ 3,817,446	49.1	\$ 3,559,508	48.4
Mortgage-backed securities	2,238,761	28.8	2,141,867	29.1
Public utilities	1,066,486	13.7	1,077,314	14.7
State and political subdivisions	344,363	4.4	331,731	4.5
U.S. agencies	228,876	2.9	154,265	2.1
Asset-backed securities	60,761	0.8	64,878	0.9
Foreign governments	20,680	0.3	20,921	0.3
U.S. Treasury	1,936	—	1,909	—
<b>Totals</b>	<b>\$ 7,779,309</b>	<b>100.0</b>	<b>\$ 7,352,393</b>	<b>100.0</b>

Substantially all of the Company's investable cash flows are directed toward the purchase of debt securities. The Company's investment policy calls for investing in debt securities that are investment grade, meet quality and yield objectives, and provide adequate liquidity for obligations to policyholders. Debt securities with intermediate maturities are targeted by the Company as they more closely match the intermediate nature of the Company's policy liabilities and provides an appropriate strategy for managing cash flows. Debt securities purchased to fund insurance company operations are summarized below.

	Six Months Ended June 30, 2011	Year Ended December 31, 2010
	(\$ In thousands)	
Cost of acquisitions	678,479	\$ 1,559,154
Average S&P <sup>®</sup> quality	AA-	AA-
Effective annual yield	4.56%	4.45%
Spread to treasuries	1.23%	1.35%
Effective duration	7.4 years	6.8 years

## 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, 2010, 2009, and 2008.

Name and Principal Position	Year	Salary (a)	Option/SAR Awards (b)	Non-Equity Incentive Plan Compensation	Change in Pension Value and Nonqualified Deferred Compensation Earnings (e)	All Other Compensation (f)	Total
Robert L. Moody Chairman of the Board and Chief Executive Officer	2010	\$ 1,740,096	\$ -	\$ 593,431(c)	\$ (262,842)	\$ 859,445	\$ 2,930,130
	2009	1,692,703	474,707	552,393	(367,985)	693,056	3,044,874
	2008	1,648,582	903,076	263,757	1,100,754	703,007	4,619,176
Ross R. Moody President and Chief Operating Officer	2010	625,774	-	193,421(c)	135,426	67,568	1,022,189
	2009	605,888	336,039	189,678	113,121	71,053	1,315,779
	2008	588,956	579,765	90,490	123,587	88,626	1,471,424
Brian M. Pribyl Senior Vice President, Chief Financial Officer and Treasurer	2010	273,836	-	41,264(d)	17,476	30,186	362,762
	2009	269,283	52,240	40,655	22,190	25,640	410,008
	2008	253,165	93,064	41,863	4,580	34,937	427,609
Charles D. Milos Senior Vice President, Mortgage Loans and Real Estate	2010	266,779	-	34,828(d)	139,663	45,287	486,557
	2009	258,728	100,024	34,145	218,201	56,941	668,039
	2008	249,130	159,321	-	88,350	44,980	541,781
Scott E. Arendale Senior Vice President, International Marketing	2010	162,847	-	194,602(d)	48,260	15,352	421,061
	2009	160,102	52,240	137,044	44,796	14,445	408,627
	2008	158,878	93,064	321,700	15,271	20,403	609,316

Note: Columns with no data have been omitted.

## 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 Compensation
Robert L. Moody Chairman of the Board and Chief Executive Officer	2010	\$ 5,285	\$ 18,987	\$ 2,450	\$ 804,245(4)	\$ 28,478 (5)	\$ 859,445
	2009	3,466	37,708	2,450	617,143	32,289	693,056
	2008	5,264	8,613	2,300	670,684	16,146	703,007
Ross R. Moody President and Chief Operating Officer	2010	4,393	19,067	37,607	-	6,501 (6)	67,568
	2009	2,742	27,315	33,837	-	7,159	71,053
	2008	4,284	7,296	32,557	-	16,493	60,630
Brian M. Pribyl Senior Vice President, Chief Financial Officer and Treasurer	2010	9,111	6,043	14,332	-	700 (7)	30,186
	2009	5,656	5,433	13,851	-	700	25,640
	2008	8,540	9,638	13,854	-	2,905	34,937
Charles D. Milos Senior Vice President, Mortgage Loans and Real Estate	2010	9,111	19,139	13,518	-	3,519 (8)	45,287
	2009	5,656	27,128	15,561	-	8,596	56,941
	2008	8,670	21,496	13,043	-	1,771	44,980
Scott E. Arendale Senior Vice President, International Marketing	2010	5,526	-	8,419	-	1,407 (9)	15,352
	2009	3,475	-	8,179	-	2,791	14,445
	2008	5,305	3,065	8,286	-	3,747	20,403

**June 8, 2011 (151.97)**

**Someone wrote the following to me in regards to my 4/15/11 thesis. My comments are in regular text, and his/her comments are *italicized in blue*.**

*“While your analysis on the firm's site is intriguing, candidly, Ron, I am not a fan of life insurers. The business has dreadful characteristics: ease of entry encourages tough competition & products sold are not differentiated in any meaningful way. Plus, NWLI has put great emphasis on its annuity sales effort but many low cost reputable competitors are casting a big shadow. Vanguard is a perfect example of a new entrant gobbling up sizeable market share at very low cost.”*

NWLI has been focusing on annuity sales for many years. NWLI has a strong rating with Best. Annuity business has been a strong growth area for NWLI since the beginning of the financial crisis. They certainly will always face excellent competition. So far, their operations continue to show growth accompanied by financial strength. I would have no issues owning a policy backed by NWLI.

*“Life insurance is a commodity-like biz. Only very low cost, high volume carriers that are financially sound would seem to have a decent chance to survive and prosper.*

*As for NWLI, the SEC filings evidence a dramatic decline in US underwriting (down 33%) while growth is being realized with high income customers abroad - 86% in Latin Am mostly in Brazil. Why would not those customers be low hanging fruit for competitors, especially those based in Brazil?”*

As I mentioned above, competition always exists. The large decline you mention was from 1Q11. Most of their business is and has been in their annuity operations. NWLI explains in their 10-Q footnotes that the ratings agencies were looking for a greater emphasis on life insurance revenues; I think the ratings agencies were looking for greater revenue diversification. In regards to domestic life insurance we need to monitor the trends going forward. Yet, in the 10-Q for 3/31/11, NWLI mentioned that the domestic life revenue in the month of April alone was greater than the entire first quarter of 2011. I do not see any trends that have altered my thesis. Time will tell on this one.

*“The US economy is worsening, the public is pressed (and being cajoled into cutting back its cost of living). Life insurance premiums are often perceived as an "extra" that is all too easily allowed to lapse (but not the HBO bill!). I am not optimistic NWLI can staunch the ongoing bleeding domestically. With an eroding economy, significant annuity competition and policy limits that are steadily dropping each year, can NWLI rely on high income customers in Brazil as the way to stabilize downward trajectory in their US sales efforts?”*

*Each year, there are lower policy face values in the US. That means, in turn, a reduction in premium payments.”*

I am not so sure the economy is worsening long term as you mentioned. With that said, annuity revenue has been growing for NWLI. As I mentioned above competition will always exist.

*“Finally, I don't get what the company is doing with its cash. Dividend is anemic, there are no major acquisitions in the pipeline and share buy backs do not appear to be on the horizon. Perhaps mgmt awaits an opportunity to deploy that cash but the history here is one of caution and restraint.”*

Management has typically been deploying cash in quality fixed income investments, and they look to match the maturities of such investments with expected payouts of their annuity and life insurance policies. The lack of a material dividend has been discussed in my notes, and the cash preservation has enabled them to have ratings agency upgrades in a period when many firms were being downgraded.

*“NWLI, in my opinion, could offer hidden value or...could be a value trap.”*

I don't see where the value trap could be. Unless of course there is fraud, or real bad events. This could happen with any investment. I think the value is the major discount to book value. I think book value is not far from liquidation value.

### **Review of 1Q11 10-Q**

1. NWLI is instituting a new actuarial system. It is expected to be completed during 2011. There was a \$2.7M adjustment for March 2010, and the change increased Deferred Policy Acquisition Costs (“DPAC”) amortization expense. There have been “certain amounts” reclassified, and the company deems it immaterial. I only note this, since Forensic accounting specialist Howard Schilit, mentioned that you need to watch out for these types of changes. Could be symptomatic of something else. I am guessing this really is immaterial.

2. Domestic life insurance has declined in the first quarter. Yet, NWLI indicates that the month of April alone, domestic life revenues have exceeded those of the first quarter of 2011. The annuity operations are primarily located in the United States.

*“Life insurance sales as measured by annualized first year premiums increased 13.5% in the first quarter of 2011 as compared to the first quarter of 2010. The Company's international life insurance line of business was the underlying driver of higher overall life insurance sales posting a 20% increase over the comparable results in the first quarter of 2010 while domestic life sales declined 33%.”*

*“The Company's domestic operations have historically been more heavily skewed toward annuity sales rather than life insurance sales. In response to comments from outside rating agencies who expressed a preference for a greater proportion of overall Company earnings to derive from the life insurance line of business, several years ago management began placing emphasis on building domestic life insurance sales as a strategic focus for future growth.”*

*“While first quarter domestic sales lagged the prior year, domestic life sales in the month of April alone exceeded the cumulative first quarter total as these life products have begun to take traction with the Company's distributors.”*

*“In addition to reduced sales levels, the economic environment of the past few years precipitated an increase in policy terminations, particularly with regard to international life products. During 2009, international policy terminations spiked during the first half of the year and eventually ended the year at an annualized rate of 13.7%. In 2010, the annualized lapse percentage for the international block of business declined to 9.6% and has remained below that level during the first quarter of 2011.”*

*The Company's domestic in force business includes final expense policies and other smaller face amount traditional life policies written over the past several decades. As the Company's domestic*

*product portfolio has changed to higher face amount universal life and fixed-indexed life policies, a decline in the number of traditional life policies in force has been steadily occurring.*

	Three Months Ended March 31,	
	2011	2010
	(In thousands)	
International:		
Universal life	\$ 1,678	1,483
Traditional life	792	631
Fixed-indexed life	4,204	3,454
	<u>6,674</u>	<u>5,568</u>
Domestic:		
Universal life	21	217
Traditional life	7	28
Fixed-indexed life	485	521
	<u>513</u>	<u>766</u>
Totals	<u>\$ 7,187</u>	<u>6,334</u>

3. *“Our operating strategy continues to be to maintain capital levels substantially above regulatory and rating agency requirements. The Company maintains resources more than adequate to fund future growth and absorb abnormal periods of cash outflows.”*

4. *“To ensure the Company will be able to honor future commitments to policyholders and provide a financial return, the funds received as premium payments and deposits are invested in high quality investments, primarily fixed maturity debt securities.”*

*“Substantially all of the Company’s investable cash flows are directed toward the purchase of debt securities. The Company’s investment policy calls for investing in debt securities that are investment grade, meet quality and yield objectives, and provide adequate liquidity for obligations to policyholders. Debt securities with intermediate maturities are targeted by the Company as they more closely match the intermediate nature of the Company’s policy liabilities and provides an appropriate strategy for managing cash flows.”*

	Three Months Ended March 31, 2011	Year Ended December 31, 2010
	(\$ In thousands)	
Cost of acquisitions	\$ 386,819	\$ 1,559,154
Average S&P® quality	AA-	AA-
Effective annual yield	4.57%	4.45%
Spread to treasuries	1.13%	1.35%
Effective duration	7.8 years	6.8 years

*“The Company does not purchase below investment grade securities. Investments held in debt securities below investment grade are the result of subsequent downgrades of the securities.”*

**April 15, 2011 (155.43)**

### Fundamental Analysis

<b>Company Name</b>	<b>National Western Life</b>
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<b>Symbol</b>	<b>NWLI</b>
<b>Date Worked On</b>	22-Apr-11
<b>Base Year</b>	
<b>Price</b>	\$160.00
<b>Shares Outstanding</b>	3,632
<b>Market Capitalization</b>	\$581,062
<b>Cash and CE</b>	\$80,332
<b>Long Term Debt</b>	\$0
<b>Minority Interests</b>	\$0
<b>Goodwill</b>	\$0
<b>Intangibles</b>	\$0
<b>Other Intangibles</b>	\$0
<b>Enterprise Value</b>	\$500,730
<b>Short Term Debt</b>	\$0
<b>Stockholders Equity</b>	\$1,218,791
<b>Depreciation</b>	\$2,386
<b>CapEx</b>	\$0
<b>Revenues</b>	\$575,992
<b>Total Assets</b>	\$8,773,948
<b>Net Income</b>	\$72,897
<b>Dividend</b>	\$0.36
<b>Interest Expense</b>	\$40
<b>Net Income Before Taxes</b>	\$104,563

<b>Enterprise Value Per Share</b>	\$137.88
<b>Price To Enterprise Value</b>	116.04%
<b>Total Debt</b>	\$0
<b>Total Debt / Net Income</b>	0.00%
<b>Total Debt Per Share</b>	0
<b>Tangible Book Value</b>	\$1,218,791
<b>Book Value Per Share</b>	\$335.60
<b>Tangible Book Value Per Share</b>	\$335.60
<b>Price / Book Value</b>	47.68%
<b>Price / Tangible Book Value</b>	47.68%
<b>Price / Earnings Ratio</b>	7.97
<b>Enterprise Value / Earnings Ratio</b>	6.87
<b>Earnings Yield</b>	12.55%
<b>Earnings / Enterprise Value</b>	14.56%
<b>Price To Sales Ratio</b>	100.88%
<b>Net Income / Total Assets</b>	0.83%
<b>Total Assets / (Revenues/365)</b>	5559.96
<b>Enterprise Value / Revenues</b>	86.93%
<b>Goodwill / Total Assets</b>	0.00%
<b>Goodwill / Stockholders Equity</b>	0.00%
<b>Debt / Equity</b>	0.00%
<b>Average P/E Last 10 Years</b>	9.0
<b>Operating Cash Flow</b>	\$75,283
<b>Operating Cash Flow Per Share</b>	\$20.73
<b>Free Operating Cash Flow</b>	\$75,283
<b>Free Operating Cash Flow Per Share</b>	20.73
<b>Free Operating Cash Flow Flow</b>	12.96%

<b>Yield</b>	
<b>Price / Free Operating Cash Flow</b>	7.72
<b>Revenues Per Share</b>	\$158.60
<b>Net Income Per Share</b>	\$20.07
<b>Return on Equity</b>	5.98%
<b>Bond Rating (S&amp;P)</b>	N/A
<b>Growth Rate</b>	5.00%
<b>Dividend Yield</b>	0.23%
<b>Dividend / Net Income</b>	1.79%
<b>Dividend / Cash Flow</b>	1.74%
<b>Interest Coverage Ratio</b>	2,615.08
<b>Insider Activity</b>	None
<b>Buybacks</b>	None
<b>Dilution</b>	Minor
<b>Management Compensation</b>	TBD
<b>Price to consider to buy more</b>	\$160.00
<b>Price to sell or consider reducing</b>	\$300.00
<b>Action</b>	Buy
<b>Portfolio Allocation Suggestion</b>	7%

<b>As of Date</b>	December 31, 2010
<b>EV Analysis</b>	
	April 22, 2011
<b>Share Outstanding</b>	3,632.00

Share Price	\$160.00
Market Capitalization	\$581,120.00
Less: Cash and Short Term Investments	(\$80,332.00)
Add: Long Term Debt	\$0.00
Minority Interest	\$0.00
<b>Enterprise Value</b>	<b>\$500,788.00</b>
EV per share	\$137.88
Stockholders' Equity	\$1,218,791.00
Adjustments:	
Goodwill	\$0.00
Tradenames	\$0.00
Other Intangibles	\$0.00
Net Stockholders' Equity	\$1,218,791.00
Adjusted Book Value per Share	\$335.57
<b>Quick Projections 2011</b>	April 22, 2011
Revenue	\$575,992.00
Net Margin % before tax	18.50%
Net Margin before taxes	\$106,558.52
Tax Rate	30.30%
Corporate Taxes	\$32,287.23
Net Income after Taxes	\$74,271.29
Net Margin %	12.89%
Shares Outstanding	3,632.00
eps	\$20.45
<b>FV of current equity and future earnings</b>	22-Apr-11
Adjusted Stockholder's Equity	\$1,218,791.00
Net Income after Taxes	\$74,271.29
Growth Rate of Net Profit for 10N	<b>2.50%</b>
Growth Rate of Net Profit after 10N through 15N	<b>2.50%</b>

FV of Net Profit in 10N	\$95,073.53
FV of Net Profit in 15N	\$107,566.97
FV of tangible book value plus Net Profits for 10N	\$2,392,245.12
FV of tangible book value plus Net Profits for years 11 - 15N	\$3,206,343.48
Current Enterprise Value	\$500,788.00
FV of tangible book value plus Net Profits for 10N	(\$2,392,245.12)
Years	10
ROI on tangible book value plus Net Profits for 10N	16.93%
FV of tangible book value plus Net Profits for 10N	\$2,392,245.12
FV of tangible book value multiplier	0.80
<b>FV of Tangible Book Value using BV multiplier in year 10</b>	<b>\$1,913,796.10</b>
Current Enterprise Value	\$500,788.00
FV of tangible book value plus Net Profits for years 11 - 15N	(\$3,206,343.48)
Years	15
ROI on tangible book value plus Net Profits for 15N	13.18%
FV of tangible book value plus Net Profits for 15N	\$3,206,343.48
FV of tangible book value multiplier	0.8
<b>FV of Tangible Book Value using BV multiplier in year 15</b>	<b>\$2,565,074.78</b>
<b>Potential Future EV using BV multiplier above</b>	
Current Enterprise Value	\$500,788.00
FV of Tangible Book Value using BV multiplier in year 10	(\$1,913,796.10)
Years	10
<b>ROI on FV of Tangible Book Value using BV multiplier in year 10</b>	<b>14.35%</b>
Current Enterprise Value	\$500,788.00
FV of Tangible Book Value using BV multiplier in year 15	(\$2,565,074.78)
Years	15

ROI on FV of Tangible Book Value using BV multiplier in year 15	11.51%
<b>Sanity Checks:</b>	
<b>P/E in future</b>	
FV of Net Profit in 15N	\$107,567
P/E estimate	10.00
Market Cap on above	-\$1,075,670
Years	15
Current Enterprise Value	\$500,788
ROI in 15N using above	5.23%
<b>Potential Revenue Growth</b>	
Current Revenues	\$575,992
Growth Rate of Revenues for 10N	2.50%
Growth Rate of Revenues after 10N through 15N	2.50%
FV of Revenues in 10N	(\$737,318)
FV of Revenues in 15N	\$834,208
FV of Revenues in 15N	\$834,208
Revenue Multiplier based on Al Meyer Rule of Thumb net margins	2.2
Possible Market Cap year 15	(\$1,835,258)
Years	15
Current Enterprise Value	\$500,788
ROI in 15N using above	9%
Company	National West Life
Report Date	22-Apr-11
Price	160
<b>Growth Rate</b>	<b>3.00%</b>
Price/Sales	1.01
Price/ Net Cash Flow	8.74
Price/ Net Book Value	0.48
P/E Ratio Current	7.62
P/E Ratio Year 2	7.44

Current Ratio	#DIV/0!
Quick Ratio	#DIV/0!
LT Debt / Shr. Equity	0.00%
LT Debt / Current Assets	#DIV/0!
Return on Shr. Equity	5.98%
PEG Ratio (Current)	2.54
PEG Ratio Year 2	2.48
PEGY Ratio (Current)	2.36
PEGY Ratio Year 2	2.31
Graham Ratio (current)	3.63
Graham Ratio Year 2	3.54
Growth Flow Ratio (<12=nrml)	7.62
Cash King (s/b > 10 % )	11.54%
Flow Ratio (s/b < 1.25 )	#DIV/0!
Earnings Per Share	21.00
Projected EPS Year 2	21.50
Projected EPS Year 3	21.50
Projected EPS Year 4	21.50
Projected EPS Year 5	21.50
Intrinsic Value (current)	243.60
Intrinsic Value Year 2	249.40
Intrinsic Value Year 3	256.88
Intrinsic Value Year 4	264.59
Intrinsic Value Year 5	272.53
Intrinsic Value / Price (current)	52.25%
Intrinsic Value / Price Year 2	55.88%
Intrinsic Value / Price Year 3	60.55%
Intrinsic Value / Price Year 4	65.37%
Intrinsic Value / Price Year 5	70.33%

**April 15, 2011 (155.43)**

**From 10-K**

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

A.M. Best has 13 financial strength ratings assigned to solvent insurance companies which currently range from A++ (Superior) to D (Poor). Standard & Poor's has eight financial strength ratings assigned to solvent insurance companies, ranging from "AAA" (Extremely Strong) to "CC" (Extremely Weak). Both rating agencies further qualify their current ratings with outlook designations of "Positive", "Stable", and "Negative".

**Interesting Chart comparing Berkshire to NWLI.**



**Geographic Information from 2010 10-K**

	Years Ended December 31,		
	2010	2009	2008
	(In thousands)		
United States	\$ 57,190	69,323	66,091
Brazil	31,015	31,370	25,786
Taiwan	12,421	13,297	12,246
Argentina	9,639	9,711	9,352
Venezuela	10,205	8,740	8,739
Chile	8,600	9,482	9,245
Other foreign countries	36,565	41,426	40,150
Revenues, excluding reinsurance premiums	165,635	183,349	171,609
Reinsurance premiums	(21,878)	(20,655)	(20,433)
Total premiums and contract revenues	\$ 143,757	162,694	151,176

## Observations:

1. Concerns I have if interest rates increase sharply. Very interest rate sensitive. Company claims that a gradual increase in interest rates would be a positive development, as there would be a rise in incremental net investment income, as well as increased sales of fixed rate products.

2. Best's ratings claims "conservative portfolio," in their July 2010 report.

*"Diversified business profile, positive operating performance, increasing statutory capital and surplus and GAAP stockholders' equity trends, strong risk adjusted capitalization, conservative investment portfolio that has thus far avoided significant realized and unrealized losses, well-defined hedging strategies and strong cash flow and improving asset/liability management (ALM) analytics."*

*"Partly offsetting these positive factors are the challenges to sustain and improve its overall operating performance and manage its increasing exposure to interest-sensitive liabilities and industry issues related to potential market conduct and suitability, sales practices and regulatory changes surrounding fixed indexed annuity (FIA) products. In addition, the company remains challenged to continue to grow its domestic and international ordinary life business...."*

3. Underfunded Defined Benefit Pension Plan of \$3.4M. Discount rate of 5.75% to determine benefit cost (previously 6.0%), Discount rate for benefit obligations of 5.25% (previously 5.75%). Expected long-term return on plan assets is 7.005 (previously 7.50%). 62% of plan is in equities.

4. Company owns 6.9% of related party, Moody Bancshares, Inc. Moody Bancshares owns 98% of 'The Moody National Bank of Galveston.'

5. Third Avenue owns almost 8% of common at 12/31/10. Yet, both Third Ave. and Tweedy sold a few shares as of 12/31/10.

6. At current price of \$154, and using 12/31/10 book value, the Price/Book value ratio is 45.83%.

7. No insider selling for as long as I could see.

8. "We believe that it is just a matter of time until market investors also recognize the excellence embedded within National Western." 2009 Annual Report.

9. **Top Institutional Holders as of 12/31/10**

Created by EDGAR Online, Inc.			
<b>NATIONAL WESTERN LIFE INSURANCE CO --- All Positions</b>			
Company Name	Shares Held	% of TSO	Report Date
THIRD AVENUE MANAGEMENT LLC	271,434	7.91	12/31/2010
FRANKLIN RESOURCES INC	173,000	5.04	12/31/2010
FMR LLC	148,870	4.34	12/31/2010
DIMENSIONAL FUND ADVISORS LP	145,458	4.24	12/31/2010
TWEEDY BROWNE CO LLC//	127,170	3.71	12/31/2010
WESTPORT ASSET MANAGEMENT INC	120,060	3.5	12/31/2010
VANGUARD GROUP INC	100,843	2.94	12/31/2010
BARCLAYS GLOBAL INVESTORS UK HOLDINGS LTD	65,938	1.92	12/31/2010
SHUFRO ROSE & CO LLC	57,866	1.69	12/31/2010
BLACKROCK FUND ADVISORS	52,226	1.52	12/31/2010
AMERIPRISE FINANCIAL INC	48,919	1.43	12/31/2010
STATE STREET CORP	43,612	1.27	12/31/2010
WALTHAUSEN & CO., LLC	42,890	1.25	12/31/2010
PARADIGM CAPITAL MANAGEMENT INC/NY	36,750	1.07	12/31/2010

10. **Price to book Value Metrics**

	Price	Book	Price / Book
2010	\$167	\$336	49.73%
2009	\$170	\$307	55.33%
2008	\$153	\$272	56.25%
2007	\$206	\$279	73.76%
2006	\$225	\$258	87.32%
2005	\$208	\$257	80.93%
2004	\$168	\$237	70.89%
2003	\$148	\$200	74.00%
2002	\$94	\$172	54.65%
2001	\$110	\$159	69.18%
2000	\$104	\$142	73.24%
1999	\$72	\$135	53.33%
1998	\$117	\$123	95.12%
1997	\$100	\$115	86.96%
1996	\$87	\$101	86.14%
1995	\$56	\$89	62.92%
1994	\$32	\$78	41.03%
1993	\$46	\$69	66.67%
1992	\$47	\$53	88.68%
1991	\$30	\$35	85.71%

## 11. Deferred Policy Acquisition Cost Metrics

	(DAC's) Deferred Policy Acquisition Costs	Total Assets	Stockholder's Equity	DAC % TA	DAC % SE
2010	\$835,783	\$8,773,948	\$1,218,791	9.53%	68.57%
2009	\$748,672	\$7,518,735	\$1,114,053	9.96%	67.20%
2008	\$822,939	\$6,786,480	\$986,213	12.13%	83.44%
2007	\$768,834	\$6,835,326	\$1,011,685	11.25%	76.00%
2006	\$737,103	\$6,693,443	\$932,984	11.01%	79.00%
2005	\$700,579	\$6,369,008	\$874,008	11.00%	80.16%
2004	\$644,458	\$5,991,685	\$808,672	10.76%	79.69%
2003	\$653,374	\$5,297,720	\$679,858	12.33%	96.10%
2002	\$491,751	\$4,137,247	\$607,206	11.89%	80.99%

**March 16, 2011 (153.90) some Articles which introduced me to NWLI**

<http://boards.fool.com/the-value-gets-deeper-29174586.aspx?sort=whole>

<http://seekingalpha.com/article/255355-deep-value-at-nationa...>

# Disclaimer

If you are a client of ours, and if you have questions regarding National Western Life (NWLI), please call our office. If you are not a client of Redfield, Blonsky & Co. LLC Investment Management Division and are reading these notes, we urge you to do your own research. We will not be responsible for any person making an investment decision based on these notes. These notes are a "by-product" of our research. We are not responsible for the accuracy of these notes. We are not responsible for errors that may occur in these notes. Please do not rely on us to monitor or update this or any other report we may issue. In theory, we could come across some type of data or idea, which causes us to eliminate our long or short position of National Western Life (NWLI) from our portfolios. We will not notify reader's revisions to these notes. We are not responsible to keep readers of these notes updated for changes or material errors or for any reason whatsoever. We manage portfolios for clients, and those clients are our greatest concern as it relates to investing. Certain clients of Redfield, Blonsky & Co LLC may not have National Western Life (NWLI) in their portfolios. There could be various reasons for this. Again, if you would like to discuss National Western Life (NWLI), please contact Ronald R. Redfield, CPA, PFS (partner in charge of investment management division).

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