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

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

FORM 10-Q

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

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

For the transition period from __________ to __________

Commission File Number: 000-55522

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

DELAWARE	47-3339380
(State of Incorporation)	(I.R.S. Employer Identification Number)
850 EAST ANDERSON LANE	
AUSTIN, TEXAS 78752-1602	(512) 836-1010
(Address of Principal Executive Offices)	(Telephone Number)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). :
Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated file" in Rule 12b-2 of the Exchange Act.
Large accelerated filer o Accelerated filer x Non-accelerated filer o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x
As of August 4, 2016, the number of shares of Registrant's common stock outstanding was: Class A – 3,436,166 and Class B - 200,000.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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NATIONAL WESTERN LIFE GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
For the Three Months Ended June 30, 2016 and 2015
(Unaudited)
(In thousands, except per share amounts)

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

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

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NATIONAL WESTERN LIFE GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
For the Six Months Ended June 30, 2016 and 2015
(Unaudited)
(In thousands, except per share amounts)

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

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

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

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

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

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

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

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

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NATIONAL WESTERN LIFE GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Six Months Ended June 30, 2016 and 2015
(Unaudited)
(In thousands)

	2016	2015
Common stock:		
Balance at beginning of period	$ 36	3,636
Shares exercised under stock option plan	—	—
Balance at end of period	36	3,636
Additional paid-in capital:		
Balance at beginning of period	41,716	38,116
Shares exercised under stock option plan	—	—
Balance at end of period	41,716	38,116
Accumulated other comprehensive income:		
Unrealized gains on non-impaired securities:		
Balance at beginning of period	12,347	54,229
Change in unrealized gains (losses) during period, net of tax	45,530	(13,850)
Balance at end of period	57,877	40,379
Unrealized losses on impaired held to maturity securities:		
Balance at beginning of period	(240)	(1,262)
Amortization	34	172
Other-than-temporary impairments, non-credit, net of tax	—	—
Additional credit loss on previously impaired securities	—	—
Change in shadow deferred policy acquisition costs	(16)	(79)
Balance at end of period	(222)	(1,169)
Unrealized losses on impaired available for sale securities:		
Balance at beginning of period	(1)	(1)
Other-than-temporary impairments, non-credit, net of tax	—	—
Change in shadow deferred policy acquisition costs	—	—
Recoveries, net of tax	—	—
Balance at end of period	(1)	(1)

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

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

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

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

	2016	2015
Cash flows from operating activities:		
Net earnings	$43,545	50,184
Adjustments to reconcile net earnings to net cash from operating activities:		
Universal life and annuity contract interest	111,816	98,470
Surrender charges and other policy revenues	(11,782)	(8,302)
Realized (gains) losses on investments	(5,163)	(5,236)
Accretion/amortization of discounts and premiums, investments	4	102
Depreciation and amortization	4,012	1,671
(Increase) decrease in value of derivatives	10,806	17,069
(Increase) decrease in deferred policy acquisition and sales inducement costs	11,677	(2,190)
(Increase) decrease in accrued investment income	656	(3,311)
(Increase) decrease in other assets	(3,373)	(6,938)
Increase (decrease) in liabilities for future policy benefits	(533)	2,588
Increase (decrease) in other policyholder liabilities	(5,960)	4,558
Increase (decrease) in Federal income taxes liability	22,450	(10,882)
Increase (decrease) in deferred Federal income tax	9,914	15,735
Increase (decrease) in other liabilities	(2,605)	4,658
Net cash provided by operating activities	185,464	158,176
Cash flows from investing activities:		
Proceeds from sales of:		
Securities held to maturity	—	—
Securities available for sale	7,966	13,131
Other investments	3,712	—
Proceeds from maturities and redemptions of:		
Securities held to maturity	188,498	257,063
Securities available for sale	98,929	163,057
Derivatives, index options	2,090	64,619
Purchases of:		
Securities held to maturity	(185,189)	(534,663)
Securities available for sale	(122,013)	(310,637)
Derivatives, index options	(38,376)	(40,977)
Other investments	(23,231)	(420)
Net change in short-term investments	(69,255)	—

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

	2016	2015
Principal payments on mortgage loans	16,254	18,962
Cost of mortgage loans acquired	(38,550)	(1,632)
Decrease (increase) in policy loans	1,370	1,712
Net cash used in investing activities	(157,795)	(369,785)
Cash flows from financing activities:		
Deposits to account balances for universal life and annuity contracts	429,101	452,124
Return of account balances on universal life and annuity contracts	(468,639)	(445,871)
Net cash provided by (used in) financing activities	(39,538)	6,253
Effect of foreign exchange	(157)	(12)
Net increase (decrease) in cash and cash equivalents	(12,026)	(205,368)
Cash and cash equivalents at beginning of period	106,007	277,078
Cash and cash equivalents at end of period	$93,981	$71,710

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid (received) during the period for:		
Interest	$23	20
Income taxes	$(10,000)	22,647
Noncash operating activities:		
Deferral of sales inducements	$(5,366)	(6,895)

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

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

(1) CONSOLIDATION AND BASIS OF PRESENTATION

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

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

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

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

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

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

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

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

(2) NEW ACCOUNTING PRONOUNCEMENTS

In June 2014, the Financial Accounting Standards Board ("FASB") issued guidance that applies to all reporting entities that grant their employees share-based payments in which the terms of the award provide that a performance target that affects vesting could be achieved after the requisite service period. It requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition and follows existing accounting guidance for the treatment of performance conditions. The standard is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015, with early adoption permitted. The Company adopted this standard during the three month period ended March 31, 2016. The adoption of this standard did not have a material impact on the Company’s financial position, results of operations or cash flows.
In January 2016, the FASB released accounting standards update 2016-01 Recognition and Measurement of Financial Assets and Liabilities. The main provisions of the update are to eliminate the available for sale classification of accounting for equity securities and to adjust the fair value disclosures for financial instruments carried at amortized costs such that the disclosed fair values represent an exit price as opposed to an entry price. The provisions of this update will require that equity securities be carried at fair market value on the balance sheet and any periodic changes in value will be adjustments to the income statement. The provisions of this update become effective for interim and annual periods beginning after December 15, 2017. The Company does not expect the requirements of this update to have a material impact on the Company’s financial position, results of operations or cash flows.
In June 2016, the FASB released accounting standards update 2016-13, Financial Instruments-Credit Losses, which revises the credit loss recognition criteria for certain financial assets measured at amortized cost. The new guidance replaces the existing incurred loss recognition model with an expected loss recognition model. The objective of the expected credit loss model is for the reporting entity to recognize its estimate of expected credit losses for affected financial assets in a valuation allowance deducted from the amortized cost basis of the related financial assets that results in presenting the net carrying value of the financial assets at the amount expected to be collected. The guidance is effective for interim and annual periods beginning after December 15, 2019, and for most affected instruments must be adopted using a modified retrospective approach, with a cumulative effect adjustment recorded to beginning retained income. Adoption of the guidance is not expected to have a material effect on the Company’s results of operations or financial position.

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

(3) STOCKHOLDERS' EQUITY

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

As discussed in Note 1, Consolidation and Basis of Presentation, on October 1, 2015, NWLIC completed its previously announced holding company reorganization and became a wholly owned subsidiary of NWLGI. While remaining under the same Colorado Division of Insurance restrictions pertaining to dividend amounts, dividends declared by NWLIC from that date forward are payable entirely to NWLGI as the sole owner of NWLIC.

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

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

(4) EARNINGS PER SHARE

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

	Three Months Ended June 30,			
	2016		2015	
	Class A	Class B	Class A	Class B
	(In thousands except per share amounts)			
Numerator for Basic and Diluted Earnings Per Share:				
Net income	$26,286		28,858	
Dividends - Class A shares	—		—	
Dividends - Class B shares	—		—	
Undistributed income	$26,286		28,858	
Allocation of net income:				
Dividends	$—	—	—	—
Allocation of undistributed income	25,543	743	28,042	816
Net income	$25,543	743	28,042	816
Denominator:				
Basic earnings per share - weighted-average shares	3,436	200	3,436	200
Effect of dilutive stock options	—	—	1	—
Diluted earnings per share - adjusted weighted-average shares for assumed conversions	3,436	200	3,437	200
Basic Earnings Per Share	$7.43	3.72	8.16	4.08
Diluted Earnings Per Share	$7.43	3.72	8.16	4.08

Stock options that were outstanding during the three months ended June 30, 2016 and 2015, but were not included in the computation of diluted earnings per share because the effect was anti-dilutive, were approximately 20,800 and 20,800, respectively.

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

	Six Months Ended June 30,			
	2016		2015	
	Class A	Class B	Class A	Class B
	(In thousands except per share amounts)			
Numerator for Basic and Diluted Earnings Per Share:				
Net income	$43,545		50,184	
Dividends - Class A shares	—		—	
Dividends - Class B shares	—		—	
Undistributed income	$43,545		50,184	
Allocation of net income:				
Dividends	$—	—	—	—
Allocation of undistributed income	42,313	1,232	48,765	1,419
Net income	$42,313	1,232	48,765	1,419
Denominator:				
Basic earnings per share - weighted-average shares	3,436	200	3,436	200
Effect of dilutive stock options	—	—	1	—
Diluted earnings per share - adjusted weighted-average shares for assumed conversions	3,436	200	3,437	200
Basic Earnings Per Share	$12.31	6.16	14.19	7.10
Diluted Earnings Per Share	$12.31	6.16	14.19	7.10

Stock options that were outstanding during the six months ended June 30, 2016 and 2015, but were not included in the computation of diluted earnings per share because the effect was anti-dilutive were approximately 20,800 and 21,300, respectively.

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

(5) PENSION AND OTHER POSTRETIREMENT PLANS

(A) Defined Benefit Pension Plans

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In thousands)			
Service cost	$27	51	53	102
Interest cost	250	246	500	492
Expected return on plan assets	(304)	(330)	(608)	(660)
Amortization of prior service cost	—	1	—	2
Amortization of net loss	193	196	386	392
Net periodic benefit cost	$166	164	331	328

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

The company's minimum required contribution for the 2016 plan year is $0.2 million. There was no remaining contribution payable for the 2015 plan year as of June 30, 2016. As of June 30, 2016, the company had contributed a total of $0.1 million to the plan for the 2016 plan year.

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In thousands)			
Service cost	$109	64	218	128
Interest cost	264	219	529	438
Amortization of prior service cost	15	15	30	30
Amortization of net loss	501	379	1,002	757
Net periodic benefit cost	$889	677	1,779	1,353

The company expects to contribute $2.0 million to these plans in 2016. As of June 30, 2016, the company has contributed $0.9 million to the plans.

(B) Defined Benefit Postretirement Healthcare Plans

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In thousands)			
Interest cost	$30	33	60	65
Amortization of prior service cost	26	26	52	52
Amortization of net loss	—	15	—	30
Net periodic benefit cost	$56	74	112	147

The company expects to contribute minimal amounts to the plan in 2016.

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(6) SEGMENT AND OTHER OPERATING INFORMATION

The Company defines its reportable operating segments as domestic life insurance, international life insurance, and annuities. These segments are organized based on product types and geographic marketing areas. A summary of segment information for the quarters ended June 30, 2016 and June 30, 2015 is provided below.

Selected Segment Information:

	Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
			(In thousands)		
June 30, 2016					
Condensed Consolidated Balance Sheet Items:					
Deferred policy acquisition costs and sales inducements	$77,592	242,335	615,582	—	935,509
Total segment assets	918,422	1,252,093	9,193,956	289,974	11,654,445
Future policy benefits	782,641	926,045	8,050,635	—	9,759,321
Other policyholder liabilities	14,741	15,345	119,215	—	149,301
Three Months Ended June 30, 2016					
Condensed Consolidated Income Statements:					
Premiums and contract revenues	$8,648	31,437	6,280	—	46,365
Net investment income	9,584	10,593	86,556	6,518	113,251
Other revenues	6	4	(54)	4,740	4,696
Total revenues	18,238	42,034	92,782	11,258	164,312
Life and other policy benefits	4,670	4,583	6,287	—	15,540
Amortization of deferred policy acquisition costs	3,309	(681)	26,338	—	28,966
Universal life and annuity contract interest	7,217	2,673	52,909	—	62,799
Other operating expenses	3,323	5,650	5,927	4,503	19,403
Federal income taxes (benefit)	(86)	10,402	444	2,367	13,127
Total expenses	18,433	22,627	91,905	6,870	139,835
Segment earnings (loss)	$(195)	19,407	877	4,388	24,477

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	Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
			(In thousands)		
Six months ended June 30, 2016					
Condensed Consolidated Income Statements:					
Premiums and contract revenues	$ 16,307	64,225	12,016	—	92,548
Net investment income	15,717	17,440	164,195	11,399	208,751
Other revenues	30	40	6	9,498	9,574
Total revenues	32,054	81,705	176,217	20,897	310,873
Life and other policy benefits	8,291	9,751	13,099	—	31,141
Amortization of deferred acquisition costs	5,320	4,424	54,442	—	64,186
Universal life and annuity contract interest	11,060	8,356	92,400	—	111,816
Other operating expenses	6,898	11,176	15,517	9,119	42,710
Federal income taxes (benefit)	166	16,386	259	4,020	20,831
Total expenses	31,735	50,093	175,717	13,139	270,684
Segment earnings (loss)	$ 319	31,612	500	7,758	40,189

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Selected Segment Information:

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In thousands)			
Premiums and Other Revenues:				
Premiums and contract revenues	$46,365	43,507	92,548	85,167
Net investment income	113,251	102,259	208,751	202,182
Other revenues	4,696	5,194	9,574	10,523
Realized gains (losses) on investments	2,782	4,258	5,163	5,236
Total condensed consolidated premiums and other revenues	$167,094	155,218	316,036	303,108

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In thousands)			
Federal Income Taxes:				
Total segment Federal income taxes	$13,127	12,446	20,831	22,201
Taxes on realized gains (losses) on investments	973	1,491	1,807	1,833
Total condensed consolidated Federal income taxes	$14,100	13,937	22,638	24,034

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In thousands)			
Net Earnings:				
Total segment earnings	$24,477	26,091	40,189	46,781
Realized gains (losses) on investments, net of taxes	1,809	2,767	3,356	3,403
Total condensed consolidated net earnings	$26,286	28,858	43,545	50,184

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	June 30, 2016	2015
	(In thousands)	
Assets:		
Total segment assets	$11,654,445	11,324,301
Other unallocated assets	146,772	190,993
Total condensed consolidated assets	$11,801,217	11,515,294

(7) SHARE-BASED PAYMENTS

The Company had a stock and incentive plan ("1995 Plan") which provided for the grant of any or all of the following types of awards to eligible employees: (1) stock options, including incentive stock options and nonqualified stock options; (2) stock appreciation rights, in tandem with stock options or freestanding; (3) restricted stock or restricted stock units; and, (4) performance awards. The 1995 Plan began on April 21, 1995, and was amended on June 25, 2004 to extend the termination date to April 20, 2010. The number of shares of Class A, $1.00 par value, common stock which were allowed to be issued under the 1995 Plan, or as to which stock appreciation rights ("SARs") or other awards were allowed to be granted, could not exceed 300,000. Effective June 20, 2008, the Company's shareholders approved a 2008 Incentive Plan (“2008 Plan”). The 2008 Plan is substantially similar to the 1995 Plan and authorized an additional number of Class A, $0.01 par value, common stock shares eligible for issue not to exceed 300,000. These plans were assumed by NWLGI from National Western pursuant to the terms of the reorganization.

All of the employees of the Company and its subsidiaries are eligible to participate in the current 2008 Plan. In addition, directors of the Company are eligible to receive the same types of awards as employees except that they are not eligible to receive incentive stock options. Company directors, including members of the Compensation and Stock Option Committee, are eligible for nondiscretionary stock options. Employee grants vest 20% annually following three years of service following the grant date. Directors' grants vest 20% annually following one year of service from the date of grant.

Effective during March 2006, the Company adopted and implemented a limited stock buy-back program with respect to the 1995 Plan which provides option holders the additional alternative of selling shares acquired through the exercise of options directly back to the Company. Option holders may elect to sell such acquired shares back to the Company at any time within ninety (90) days after the exercise of options at the prevailing market price as of the date of notice of election. The buy-back program did not alter the terms and conditions of the 1995 Plan; however, the program necessitated a change in accounting from the equity classification to the liability classification. In August 2008, the Company implemented another limited stock buy-back program, substantially similar to the 2006 program, for shares issued under the 2008 Plan.

On February 17, 2016, the Company granted 14,643 SARs to officers of National Western at the closing market price per Class A common share of $216.48. These SARs, unlike prior grants, will vest annually at a rate of 33.3% per year from the date of grant. No stock option or SAR awards were issued during the first six months of 2015.

While not previously utilized, the 2008 Plan allows for certain other share or unit awards which are solely paid out in cash based on the value of the Company's shares, or changes therein, as well as the financial performance of the Company under pre-determined target performance metrics. Certain awards, such as restricted stock units (RSUs) provide solely for cash settlement based upon the market price of the Company's Class A commons shares, often referred to as "phantom stock-based awards". Unlike share-settled awards, which have a fixed grant-date fair value, the fair value of unsettled or unvested liability awards is remeasured at the end of each reporting period based on the change in fair value of a share. The liability and corresponding expense are adjusted accordingly until the award is settled. Other awards may involve performance share units (PSUs) which are units granted at a specified dollar amount per unit, typically linked to the Company's Class A common share price, that are subsequently multiplied by an attained performance factor to derive the number of PSUs to be paid as cash compensation at the vesting date.

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On February 17, 2016, the Company granted 5,727 performance stock units and 3,661 restricted stock units to officers of National Western based upon the closing market price per Class A common share of $216.48. Both the PSUs and RSUs vest three years from the date of grant. The RSUs are payable in cash at the vesting date equal to the closing price of the Company's Class A common share at that time. For PSUs, the performance period begins the first day of the calendar year, in this case January 1, 2016, and runs three years. At that time, the three-year performance outcome will be measured against the pre-defined target amounts to determine the number of PSUs earned as compensation.

On April 14, 2016, the Company granted 2,563 restricted stock units to directors of NWLGI, based upon the closing market price per Class A common share of $226.84. The RSUs vest one year from the date of grant, and are payable in cash at the vesting date equal to the closing price of the Company's Class A common share at that time.

The Company uses the current fair value method to measure compensation cost. As of June 30, 2016 and 2015, the liability balance was $4.8 million and $7.3 million, respectively. A summary of shares available for grant and activity is detailed below.

		Options Outstanding	
	Shares Available For Grant	Shares	Weighted-Average Exercise Price
Stock Options:			
Balance at January 1, 2016	291,000	27,768	$ 243.26
Exercised	—	—	$ —
Forfeited	—	—	$ —
Expired	—	—	$ —
Stock options granted	—	—	$ —
Balance at June 30, 2016	291,000	27,768	$ 243.26

	Liability Awards		
	SAR	RSU	PSU
Balance at January 1, 2016	86,261	—	—
Exercised	(375)	—	—
Forfeited	(982)	(45)	—
Granted	14,643	6,224	5,727
Balance at June 30, 2016	99,547	6,179	5,727

Stock options and SARs shown as forfeited in the above tables represent vested and unvested awards not exercised by plan participants prior to their termination from the Company. Forfeited stock options, if any, are not shown as being added back to the "Shares Available For Grant" balance as they were awarded under the 1995 Plan which was terminated during calendar year 2010.

The total intrinsic value of SARs exercised was $0.0 million and $0.4 million for the six months ended June 30, 2016 and 2015, respectively. The total share-based liabilities paid for the exercised SARs were $0.0 million and $0.4 million for the six months ended June 30, 2016 and 2015, respectively. The total fair value of stock options and SARs vested during the six months ended June 30, 2016 and 2015 was $0.3 million and $0.6 million, respectively. For the six months ended June 30, 2016 and 2015, the total cash received from the exercise of stock options under the Plans was $0.0 million and $0.0 million, respectively.

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The following table summarizes information about stock options and SARs outstanding at June 30, 2016.

	Options/SARs Outstanding		
	Number Outstanding	Weighted-Average Remaining Contractual Life	Number Exercisable
Exercise prices:			
255.13 (options)	20,768	1.8 years	20,768
208.05 (options)	7,000	2.0 years	7,000
114.64 (SARs)	23,168	2.6 years	23,168
132.56 (SARs)	27,918	5.5 years	13,508
210.22 (SARs)	34,000	7.5 years	3,600
216.48 (SARs)	14,461	9.6 years	—
Totals	127,315		68,044
Aggregate intrinsic value (in thousands)	$3,619		$ 2,715

The aggregate intrinsic value in the table above is based on the closing stock price of $195.27 per share on June 30, 2016.

In estimating the fair value of the share based awards outstanding at June 30, 2016 and December 31, 2015, the Company employed the Black-Scholes option pricing model with assumptions detailed below.

	June 30, 2016		December 31, 2015	
Expected term of options	1.8 to 9.6 years		2.3 to 8.0 years	
Expected volatility:				
Range	22.53% to 28.81%		21.11% to 37.77%	
Weighted-average	23.83	%	23.89	%
Expected dividend yield	0.18	%	0.14	%
Risk-free rate:				
Range	0.54% to 1.52%		0.22% to 1.67%	
Weighted-average	1.03	%	0.63	%

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

The pre-tax compensation cost (benefit) recognized in the financial statements related to the two plans defined above was $(1.3) million and $(2.8) million for the three and six months ended June 30, 2016, and $(0.8) million and $(1.6) million for the three and six months ended June 30, 2015, respectively. The related tax (expense)/benefit recognized was $0.5 million and $1.0 million for the three and six months ended June 30, 2016 and to $0.3 million and $0.6 million for the three and six months ended June 30, 2015, respectively.

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As of June 30, 2016, the total compensation cost related to nonvested share based awards not yet recognized was $3.7 million. This amount is expected to be recognized over a weighted-average period of 1.6 years. The Company recognizes compensation cost over the graded vesting periods.

(8) COMMITMENTS AND CONTINGENCIES

(A) Legal Proceedings

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

On October 26, 2011 the Brazilian Superintendence of Private Insurance (“SUSEP”) attempted to serve National Western with a subpoena regarding an administrative proceeding initiated by SUSEP in which it alleged that National Western was operating as an insurance company in Brazil without due authorization. National Western had been informed that SUSEP was attempting to impose a penal fine, based on currency exchange rates at that time, of approximately $6.0 billion on the company. SUSEP unsuccessfully attempted to serve National Western with notice regarding this matter. National Western does not transact business in Brazil and has no officers, employees, property, or assets in Brazil. National Western believes that SUSEP has no jurisdiction over the company, that SUSEP's attempts at service of process were invalid, and that any penal fine would be unenforceable. In addition, a new law recently enacted in Brazil would limit the amount of any penal fine to 3 million reais (approximately $800,000 based on current exchange rates). For the reasons described above, the Company does not believe that this matter meets the definition of a material pending legal proceeding as such term is defined in Item 103 of Regulation S-K but has included the foregoing description solely due to the purported amount of the fine sought at that time. Nonetheless, National Western is in discussions with SUSEP in an effort to resolve this matter. No conclusion can be drawn at this time as to the outcome of these discussions, or whether they will continue, or how any such outcome may impact the Company’s business, results of operations, or financial condition. However, in light of the pendency of discussions with Brazilian authorities, National Western has ceased accepting new applications from residents in Brazil.

National Western was the named defendant in the case of Damaris Maldonado Vinas, et al. vs. National Western Life Insurance, in which the plaintiffs, after National Western had paid the death benefits to the beneficiary (Francisco Iglesias-Alvarez) upon the annuitant’s (Carlos Iglesias-Alvarez) death, sought to annul two annuity policies issued by National Western at the behest of Carlos Iglesias-Alvarez and which named Francisco Iglesias-Alvarez as their beneficiary. On March 31, 2016, the United States District Court for the District of Puerto Rico (the “Court”) issued its Opinion and Order on the pending Motions for Summary Judgment submitted by the parties, and therein denied National Western’s motion and granted plaintiffs’ motion voiding the two annuities and requesting a refund of the premiums paid ($2.9 million). National Western vigorously defended the case and believes that the Court’s Opinion and Order is contrary to applicable law. As such, National Western filed a Motion for Reconsideration of Opinion and Order and Corresponding Judgment with the Court on April 27, 2016, which the Court denied on May 5, 2016. National Western filed a Notice of Appeal on May 31, 2016.

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

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

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(B) Financial Instruments

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

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

The Company had $20.0 million commitments to fund new loans and $1.2 million commitments on existing loans to extend credit relating to loans at June 30, 2016. The Company evaluates each customer's creditworthiness on a case-by-case basis.

(9) INVESTMENTS

(A) Investment Gains and Losses

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In thousands)			
Available for sale debt securities:				
Realized gains on disposal	$5	2,985	682	3,198
Realized losses on disposal	—	(65)	(6)	(74)
Held to maturity debt securities:				
Realized gains on disposal	997	1,404	1,486	2,128
Realized losses on disposal	—	—	(106)	—
Equity securities realized gains (losses)	169	41	206	91
Real estate gains (losses)	1,611	—	2,901	—
Totals	$2,782	4,365	5,163	5,343

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The Company uses the specific identification method in computing realized gains and losses. For the three and six months ended June 30, 2016 and 2015 the percentage of gains on bonds due to the call of securities was 99.5% and 67.1%, respectively. This includes calls out of the Company's available for sale portfolio of debt securities.

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

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
	(In thousands)			
Total other-than-temporary impairment gains (losses) on debt securities	$27	105	53	265
Portion of loss (gain) recognized in other comprehensive income	(27)	(105)	(53)	(265)
Net impairment losses on debt securities recognized in earnings	—	—	—	—
Equity securities impairments	—	(107)	—	(107)
Totals	$—	(107)	—	(107)

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

	For the Three Months Ended June 30, 2016	Six Months Ended June 30, 2016	For the Year Ended December 31, 2015
	(In thousands)		
Beginning balance, cumulative credit losses related to other-than-temporary impairments	$1,649	2,278	2,298
Reductions for securities sold during current period	—	(629)	(20)
Additions for credit losses not previously recognized in other-than-temporary impairments	—	—	—
Ending balance, cumulative credit losses related to other-than-temporary impairments	$1,649	1,649	2,278

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(B) Debt and Equity Securities

The table below presents amortized costs and fair values of securities held to maturity at June 30, 2016.

	Securities Held to Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Debt securities:				
U.S. agencies	$10,005	58	—	10,063
U.S. Treasury	1,930	335	—	2,265
States and political subdivisions	443,968	44,172	—	488,140
Public utilities	1,055,574	73,470	(387)	1,128,657
Corporate	4,211,086	252,707	(9,849)	4,453,944
Residential mortgage-backed	1,442,872	95,630	(54)	1,538,448
Home equity	9,883	1,574	—	11,457
Manufactured housing	1,817	170	—	1,987
Totals	$7,177,135	468,116	(10,290)	7,634,961

The table below presents amortized costs and fair values of securities available for sale at June 30, 2016.

	Securities Available for Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Debt securities:				
States and political subdivisions	$583	—	(11)	572
Foreign governments	9,951	724	—	10,675
Public utilities	129,939	7,922	—	137,861
Corporate	2,663,808	158,546	(8,482)	2,813,872
Residential mortgage-backed	31,363	3,095	(42)	34,416
Home equity	12,443	343	(3)	12,783
Manufactured housing	808	15	—	823
	2,848,895	170,645	(8,538)	3,011,002
Equity securities	14,144	5,680	(167)	19,657
Totals	$2,863,039	176,325	(8,705)	3,030,659

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The table below presents amortized costs and fair values of securities held to maturity at December 31, 2015.

	Securities Held to Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Debt securities:				
U.S. agencies	$15,019	275	—	15,294
U.S. Treasury	1,927	317	—	2,244
States and political subdivisions	435,941	29,129	(662)	464,408
Public utilities	1,044,063	42,271	(6,621)	1,079,713
Corporate	4,160,628	114,920	(72,913)	4,202,635
Residential mortgage-backed	1,503,021	59,013	(6,227)	1,555,807
Home equity	11,047	1,701	—	12,748
Manufactured housing	2,321	266	—	2,587
Totals	$7,173,967	247,892	(86,423)	7,335,436

The table below presents amortized costs and fair values of securities available for sale at December 31, 2015.

	Securities Available for Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Debt securities:				
States and political subdivisions	$586	—	(34)	552
Foreign governments	9,947	408	—	10,355
Public utilities	129,980	5,354	(775)	134,559
Corporate	2,635,536	73,132	(54,503)	2,654,165
Residential mortgage-backed	36,463	3,103	—	39,566
Home equity	20,123	825	(12)	20,936
Manufactured housing	1,063	26	—	1,089
	2,833,698	82,848	(55,324)	2,861,222
Equity securities	13,716	4,797	(152)	18,361
Totals	$2,847,414	87,645	(55,476)	2,879,583

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The following table shows the gross unrealized losses and fair values of the Company's held to maturity investments by investment category and length of time the individual securities have been in a continuous unrealized loss position at June 30, 2016.

	Securities Held to Maturity					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Debt securities:						
States and political subdivisions	$—	—	—	—	—	—
Public utilities	—	—	13,597	(387)	13,597	(387)
Corporate	53,047	(1,793)	269,952	(8,056)	322,999	(9,849)
Residential mortgage-backed	—	—	9,373	(54)	9,373	(54)
Total temporarily impaired securities	$53,047	(1,793)	292,922	(8,497)	345,969	(10,290)

The following table shows the gross unrealized losses and fair values of the Company's available for sale investments by investment category and length of time the individual securities have been in a continuous unrealized loss position at June 30, 2016.

	Securities Available for Sale					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Debt securities:						
States and political subdivisions	$—	—	572	(11)	572	(11)
Public utilities	—	—	—	—	—	—
Corporate	40,837	(1,603)	133,679	(6,879)	174,516	(8,482)
Residential mortgage-backed	1,432	(42)	—	—	1,432	(42)
Home equity	—	—	4,677	(3)	4,677	(3)
	42,269	(1,645)	138,928	(6,893)	181,197	(8,538)
Equity securities	829	(116)	224	(51)	1,053	(167)
Total temporarily impaired securities	$43,098	(1,761)	139,152	(6,944)	182,250	(8,705)

Unrealized losses for securities held to maturity and securities available for sale decreased during the first six months of 2016 primarily due to the downward movement in market interest rates (which increases the market price of debt securities). The Company does not consider investments with unrealized losses to be other-than-temporarily impaired since it does not anticipate selling these securities prior to maturity and expects to receive all amounts due relative to principal and interest.

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The following table shows the gross unrealized losses and fair values of the Company's held to maturity investments by investment category and length of time the individual securities have been in a continuous unrealized loss position at December 31, 2015.

	Securities Held to Maturity					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Debt securities:						
States and political subdivisions	$16,763	(387)	8,723	(275)	25,486	(662)
Public utilities	298,962	(5,953)	17,840	(668)	316,802	(6,621)
Corporate	1,522,544	(54,295)	323,567	(18,618)	1,846,111	(72,913)
Residential mortgage-backed	148,712	(2,726)	95,443	(3,501)	244,155	(6,227)
Total temporarily impaired securities	$1,986,981	(63,361)	445,573	(23,062)	2,432,554	(86,423)

The following table shows the gross unrealized losses and fair values of the Company's available for sale investments by investment category and length of time that the individual securities have been in a continuous unrealized loss position at December 31, 2015.

	Securities Available for Sale					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Debt securities:						
States and political subdivisions	$—	—	552	(34)	552	(34)
Public utilities	42,093	(775)	—	—	42,093	(775)
Corporate	843,679	(32,500)	151,319	(22,003)	994,998	(54,503)
Home equity	—	—	4,823	(12)	4,823	(12)
	885,772	(33,275)	156,694	(22,049)	1,042,466	(55,324)
Equity securities	649	(124)	102	(28)	751	(152)
Total temporarily impaired securities	$886,421	(33,399)	156,796	(22,077)	1,043,217	(55,476)

The Company does not consider securities to be other-than-temporarily impaired when the market decline is attributable to factors such as interest rate movements, market volatility, liquidity, spread widening and credit quality and when recovery of all amounts due under the contractual terms of the security is anticipated. Based on the review and the Company's ability and intent not to sell these securities until maturity, the Company does not consider these investments to be other-than-temporarily impaired at June 30, 2016. The Company will monitor the investment portfolio for future changes in issuer facts and circumstances that could result in future impairments beyond those currently identified.

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During the three and six months ended 2016, the Company recorded no other-than-temporary impairment on debt and equity securities.

Debt securities. The gross unrealized losses for debt securities are made up of 67 individual issues, or 5.0% of the total debt securities held by the Company at June 30, 2016. The market value of these bonds as a percent of amortized cost averages 96.6%. Of the 67 securities, 52, or 77.6%, fall in the 12 months or greater aging category; and 56 were rated investment grade at June 30, 2016.

Equity securities. The gross unrealized losses for equity securities are made up of 27 individual issues at June 30, 2016. These holdings are reviewed quarterly for impairment.

The amortized cost and fair value of investments in debt securities at June 30, 2016, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Debt Securities Available for Sale		Debt Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Due in 1 year or less	$135,446	138,866	177,456	178,252
Due after 1 year through 5 years	873,573	946,963	1,716,263	1,871,397
Due after 5 years through 10 years	1,751,148	1,830,111	3,537,662	3,718,111
Due after 10 years	44,114	47,040	291,182	315,309
	2,804,281	2,962,980	5,722,563	6,083,069
Mortgage and asset-backed securities	44,614	48,022	1,454,572	1,551,892
Total	$2,848,895	3,011,002	7,177,135	7,634,961

(C) Transfer of Securities

During the three and six months ended June 30, 2016 and 2015, the Company made no transfers from the held to maturity category to securities available for sale.

(D) Mortgage Loans and Real Estate

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

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

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Loans in foreclosure, loans considered impaired or loans past due 90 days or more are placed on a non-accrual status. If a mortgage loan is determined to be on non-accrual status, the mortgage loan does not accrue any revenue into the Condensed Consolidated Statements of Earnings. The loan is independently monitored and evaluated as to potential impairment or foreclosure. If delinquent payments are made and the loan is brought current, then the Company returns the loan to active status and accrues income accordingly. The Company had no mortgage loans past due 90 days or more at June 30, 2016 or 2015 and as a result all interest income was recognized at June 30, 2016 and 2015.

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

	June 30, 2016		December 31, 2015	
	Amount (In thousands)	%	Amount (In thousands)	%
Mortgage Loans by Loan-to-Value Ratio (1):				
Less than 50%	$49,830	37.9	$64,986	59.7
50% to 60%	7,553	5.8	9,714	8.9
60% to 70%	46,694	35.6	10,134	9.3
70% to 80%	3,366	2.5	4,843	4.4
80% to 90%	23,884	18.2	19,284	17.7
Greater than 90%	—	—	—	—
Gross balance	131,327	100.0	108,961	100.0
Allowance for possible losses	(650)	(0.5)	(650)	(0.6)
Totals	$130,677	99.5	$108,311	99.4

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

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

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

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The following table represents the mortgage loan allowance.

	June 30, 2016	December 31, 2015
	(In thousands)	
Balance, beginning of period	$ 650	650
Provision	—	—
Releases	—	—
Balance, end of period	$ 650	650

The Company's direct investments in real estate are not a significant portion of its total investment portfolio totaling approximately $32.1 million and $16.3 million at June 30, 2016 and December 31, 2015, respectively. During the first six months of 2016 the Company purchased two properties, one located in Cypress, Texas and the other in Tupelo, Mississippi for a total of $16.8 million. The Company recognized operating income on real estate properties of approximately $1.3 million for the first six months of 2016. In addition, the Company recorded a net realized investment gain on disposed properties located in Brazoria County (Texas), Ruidoso, New Mexico, and Austin, Texas, totaling $2.9 million during the first six months of 2016.

(10) FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

	June 30, 2016			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Debt securities, available for sale	$3,011,002	—	3,011,002	—
Equity securities, available for sale	19,657	19,267	390	—
Derivatives, index options	63,319	—	—	63,319
Total assets	$3,093,978	19,267	3,011,392	63,319
Policyholder account balances (a)	$76,237	—	—	76,237
Other liabilities (b)	4,819	—	—	4,819
Total liabilities	$81,056	—	—	81,056

During the three and six months ended June 30, 2016, the Company had no transfers into or out of Levels 1, 2 or 3.

	December 31, 2015			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Debt securities, available for sale	$2,861,222	—	2,861,222	—
Equity securities, available for sale	18,361	17,980	381	—
Derivatives, index options	38,409	—	—	38,409
Total assets	$2,917,992	17,980	2,861,603	38,409
Policyholder account balances (a)	$58,359	—	—	58,359
Other liabilities (b)	7,669	—	—	7,669
Total liabilities	$66,028	—	—	66,028

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

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

	June 30, 2016			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Debt securities, available for sale:				
Priced by third-party vendors	$3,011,002	—	3,011,002	—
Priced internally	—	—	—	—
Subtotal	3,011,002	—	3,011,002	—
Equity securities, available for sale:				
Priced by third-party vendors	19,657	19,267	390	—
Priced internally	—	—	—	—
Subtotal	19,657	19,267	390	—
Derivatives, index options:				
Priced by third-party vendors	63,319	—	—	63,319
Priced internally	—	—	—	—
Subtotal	63,319	—	—	63,319
Total	$3,093,978	19,267	3,011,392	63,319
Percent of total	100.0 %	0.6 %	97.3 %	2.1 %

	December 31, 2015			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Debt securities, available for sale:				
Priced by third-party vendors	$2,861,222	—	2,861,222	—
Priced internally	—	—	—	—
Subtotal	2,861,222	—	2,861,222	—
Equity securities, available for sale:				
Priced by third-party vendors	18,361	17,980	381	—
Priced internally	—	—	—	—
Subtotal	18,361	17,980	381	—
Derivatives, index options:				
Priced by third-party vendors	38,409	—	—	38,409
Priced internally	—	—	—	—
Subtotal	38,409	—	—	38,409

Total	$2,917,992	17,980	2,861,603	38,409
Percent of total	100.0 %	0.6 %	98.1 %	1.3 %

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

	For the Three Months Ended June 30, 2016				
	Debt Securities, Available for Sale	Equity Securities, Available for Sale	Derivatives, Index Options	Total Assets	Other Liabilities
	(In thousands)				
Balance at April 1, 2016	$—	—	42,179	42,179	69,470
Total realized and unrealized gains (losses):					
Included in net income	—	—	2,094	2,094	(7,760)
Purchases, sales, issuances and settlements, net:					
Purchases	—	—	19,046	19,046	19,046
Sales	—	—	—	—	—
Issuances	—	—	—	—	309
Settlements	—	—	—	—	(9)
Transfers into (out of) Level 3	—	—	—	—	—
Balance at end of period	$—	—	63,319	63,319	81,056
Change in unrealized gains or losses for the period included in earnings (or changes in net assets) for assets held at the end of the reporting period:					
Net investment income	$—	—	2,100	2,100	—
Benefits and expenses	—	—	—	—	458
Total	$—	—	2,100	2,100	458

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	For the Three Months ended June 30, 2015				
	Debt Securities, Available for Sale	Equity Securities, Available for Sale	Derivatives, Index Options	Total Assets	Other Liabilities
	(In thousands)				
Balance at April 1, 2015	$—	—	95,987	95,987	119,987
Total realized and unrealized gains (losses):					
Included in net income	—	—	(8,782)		