National Western Life Group, Inc.
Form 10-K
March 11, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 2015

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

For the transition period from to

Commission File Number: 000-55522

NATIONAL WESTERN LIFE GROUP, INC.
(formerly NATIONAL WESTERN LIFE INSURANCE COMPANY)
(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
(Address of Principal Executive Offices)

(512) 836-1010
(Telephone Number)

Securities registered pursuant to Section 12 (b) of the Act:

Title of each class to be so registered:	Name of each exchange on which each class is to be registered:
Class A Common Stock, $0.01 par value	The NASDAQ Stock Market LLC

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes o No x
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

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated file" in Rule 12b-2 of the Exchange Act. (Check One)
Large accelerated filer o Accelerated filer x Non-accelerated filer o Smaller reporting company o

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

The aggregate market value of the common stock (based upon the closing price) held by non-affiliates of the Registrant on June 30, 2015 was $545,566,144.

As of March 10, 2016, the number of shares of Registrant's common stock outstanding was: Class A - 3,436,166 and Class B - 200,000.

DOCUMENTS INCORPORATED BY REFERENCE

Documents incorporated by reference: Portions of the registrant's definitive proxy statement for the annual meeting of shareholders to be held June 15, 2016, which will be filed within 120 days after December 31, 2015 are incorporated by reference into Part III of this report.

(formerly NATIONAL WESTERN LIFE INSURANCE COMPANY)

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Cautionary Statement Regarding Forward Looking Information

This Form 10-K includes statements pertaining to anticipated financial performance, business endeavors, product development, and other similar matters. These statements, which may include words such as "may," "likely," "projected," "expect," "anticipate," "believe," "intend," and other like expressions, constitute forward-looking statements under the Private Securities Litigation Reform Act of 1995. A variety of factors could cause actual results and experiences to differ materially from the anticipated results or other expectations expressed in forward-looking statements. The risks and uncertainties that may affect the operations, performance, and results of business include, but are not limited to, the following:

Difficult conditions globally and in the U.S. economy may materially and adversely affect our business and results of operations.

Our investment portfolio is subject to several risks which may lessen the value of our invested assets and the amounts credited to policyholders.

The determination of valuation and impairments of fixed income securities include estimations and assumptions that are subjective and prone to differing interpretations and could materially impact our results of operations or financial condition.

Changing interest rates and credit spreads, market volatility and general economic conditions affect the risks and the returns on both our investment portfolio and our products.

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

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

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

We are subject to regulation, changes to existing laws, and investigations which may affect our profitability or means of operation.

Changes in accounting standards issued by standard-setting bodies may adversely affect our financial statements and affect the management of business operations.

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

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

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

- We are subject to assumption inaccuracies regarding future mortality, persistency, and interest rates used in determining deferred policy acquisition costs which may require us to accelerate our amortization.

- Occurrence of natural or man-made disasters and catastrophes could adversely affect our ability to conduct business operations and the financial condition and results of operations.

- Our enterprise risk management practices and procedures may prove to be ineffective exposing us to unidentified or unanticipated risks.

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

- The Company could be adversely affected by changes to tax law or interpretations of existing tax law which could reduce the demand for certain insurance products.

- The Company may be required to establish a valuation allowance against its deferred tax assets which could materially affect the Company's results of operations and financial condition.

- Competition for employees is intense and the Company may not be able to attract and retain highly skilled people needed to support its business.

See Part 1A, Risk Factors, for additional information.

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PART I

ITEM 1. BUSINESS

General

National Western Life Insurance Company (hereinafter referred to as "National Western" or "company" where insurance operations are being discussed) is a stock life insurance company, chartered in the State of Colorado in 1956, and doing business in forty-nine states, the District of Columbia, and four U.S. territories or possessions. National Western is also licensed in Haiti, and although not otherwise licensed, accepts applications from and issues policies to residents of various international countries. Such policies are underwritten, accepted, and issued in the United States based upon applications submitted by independent contractors. National Western provides life insurance products for the savings and protection needs of approximately 123,000 policyholders and for the asset accumulation and retirement needs of 137,900 annuity contract holders.

On October 1, 2015, National Western completed its previously announced holding company reorganization pursuant to the Agreement and Plan of Merger, dated April 6, 2015, which was approved by the shareholders of National Western at its Annual Meeting of Shareholders held on June 19, 2015. As a result of the reorganization, National Western became a wholly owned subsidiary of National Western Life Group, Inc. (hereinafter referred to as "NWLGI", "Company", or "Registrant"), a Delaware Corporation, and NWLGI replaced National Western as the publicly held company. Consequently, all filings with the Securities and Exchange Commission ("SEC") from October 2, 2015 and forward will be filed by NWLGI under CIK No. 0001635984. For purposes of filing this Form 10-K, the accompanying consolidated financial statements and notes thereto have been titled "National Western Life Group, Inc." to reflect the current name of the public registrant with the parenthetical notation "formerly National Western Life Insurance Company and Subsidiaries" to reflect the reporting entity for the periods covered herein.

The Company's total assets increased to $11.6 billion at December 31, 2015, from $11.4 billion at December 31, 2014. The Company generated revenues of $589.8 million, $708.8 million and $860.3 million in 2015, 2014 and 2013, respectively. In addition, NWLGI generated net income of $98.4 million, $105.6 million and $96.2 million in 2015, 2014 and 2013, respectively.

Products

National Western offers a broad portfolio of individual whole life, universal life and term insurance plans, and annuities, including supplementary riders. In the following discussion, the Company reports sales and other statistical information. These statistics are derived from various sales tracking and administrative systems and are not derived from the Company's financial reporting systems or financial statements.These statistics are used to measure the relative progress of our marketing and acquisition efforts. Sales data for traditional life insurance is based upon annualized premiums, while universal life sales are based on annualized "target" premiums which are those premiums upon which full first year commissions are paid. Sales of annuities are measured based on the amount of deposits received. These statistics attempt to measure only some of the many factors that may affect future profitability, and therefore, are not intended to be predictive of future profitability.

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

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

The following table sets forth information regarding the company's sales activity by product type. Life insurance sales are measured by annualized first year premiums.

	Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Annuities:			
Fixed-index deferred	$685,928	730,693	717,258
Other deferred	52,001	70,505	74,834
Single premium immediate	5,839	15,313	13,380
Total annuities	$743,768	816,511	805,472
Life:			
Fixed-index universal life insurance	$31,972	34,239	35,643
Other universal life insurance	2,805	4,748	5,223
Traditional life and other	2,995	3,597	3,312
Total life	$37,772	42,584	44,178

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

	Insurance In Force as of December 31,	
	2015	2014
	($ in thousands)	
Universal life:		
Number of policies	47,660	50,950
Face amounts	$5,497,270	$6,819,120
Traditional life:		
Number of policies	35,710	37,310
Face amounts	$3,618,290	$3,585,380
Fixed-index life:		
Number of policies	39,600	38,480
Face amounts	$9,781,290	$9,693,530
Rider face amounts	$3,129,350	$2,982,970
Total life insurance:		
Number of policies	122,970	126,740
Face amounts	$22,026,200	$23,081,000

The following table sets forth information regarding annuities in force for each date presented.

	Annuities In Force as of December 31,	
	2015	2014
	($ in thousands)	
Fixed-index annuities		
Number of policies	72,450	68,840
GAAP annuity reserves	$5,506,213	$5,221,891
Other deferred annuities		
Number of policies	50,510	54,460
GAAP annuity reserves	$2,078,845	$2,286,489
Immediate annuities		
Number of policies	14,900	15,830
GAAP annuity reserves	$360,769	$369,065
Total annuities		
Number of policies	137,860	139,130
GAAP annuity reserves	$7,945,827	$7,877,445

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Operating Segments

The company manages its business between Domestic Insurance Operations and International Insurance Operations. For segment reporting purposes, the company's annuity business, which is predominantly domestic, is separately identified. The Company also has a Corporate segment, which consists of the assets and activities of wholly-owned subsidiaries that have not been allocated to any other operating segment.

Domestic Insurance Operations. The company is currently licensed to do business in all states and the District of Columbia, except for New York. Products marketed are annuities, universal life insurance, and traditional life insurance, which include both term and whole life products. The majority of domestic sales are the company's annuities. National Western markets and distributes its domestic products primarily through independent national marketing organizations ("NMOs"). These NMOs assist the company in recruiting, contracting, and managing independent agents. The company's agents are independent contractors who are compensated on a commission basis. At December 31, 2015, the company's NMO relationships had contracted approximately 21,000 independent agents with the company. Over 13% of these contracted agents submitted policy applications to the company in the past twelve months. At December 31, 2015, the company had 54,270 domestic life insurance policies in force representing $3.1 billion in face amount of coverage and 137,900 annuity contracts representing account balances of $7.9 billion.

The following table sets forth the company's domestic life insurance sales as measured in annualized first year premium for the last three years.

	Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Fixed-index life	$18,317	$17,131	19,122
Universal life	55	177	211
Traditional life	162	96	67
Total	$18,534	17,404	19,400

International Insurance Operations. National Western's international operations generally focus on foreign nationals in upper socioeconomic classes. Insurance products are issued primarily to residents of countries in Central and South America, the Caribbean, the Pacific Rim, Eastern Europe, and Asia. Issuing policies to residents of countries in these different regions provides diversification that helps to minimize large fluctuations that could arise due to various economic, political, and competitive pressures that may occur from one country to another. Products issued to international residents are almost entirely universal life and traditional life insurance products. However, certain annuity and investment contracts are also available. At December 31, 2015, the company had approximately 68,700 international life insurance policies in force representing nearly $19.0 billion in face amount of coverage.

International applications are submitted by independent contractors, consultants and broker-agents, many of whom have been submitting policy applications to National Western for 20 or more years. The company had relationships with approximately 2,500 of these independent international individuals at December 31, 2015, 39% of which submitted policy applications to the company in the past twelve months.

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The following table sets forth the company's international life insurance sales as measured in annualized first year premium for the past three years.

	Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Fixed-index life	$13,655	$17,108	16,521
Universal life	2,750	4,571	5,012
Traditional life	2,833	3,501	3,245
Total	$19,238	25,180	24,778

There are some inherent risks of accepting international applications which are not present within the domestic market that are reduced substantially by the company in several ways. As previously described, National Western accepts applications from foreign nationals in upper socioeconomic classes who have substantial financial resources. This targeted customer base coupled with National Western's conservative underwriting practices have historically resulted in claims experience, due to natural causes, similar to that in the United States. The company minimizes exposure to foreign currency risks by requiring payment of premiums and claims in United States dollars. In addition, experience with the international products for over fifty years and the company's longstanding business relationships further serve to minimize risks.

The company's implementation of commission caps on domestic policies in 2009 discouraged sales of larger face amounts resulting in lower levels in amounts of insurance per policy. However, the increased domestic sales activity, particularly in the past several years, has produced a modest upward trend in this figure. National Western's sales to international residents witnessed a steady growth in the average face amount of insurance coverage per policy over the same time period until 2015 when the company ceased accepting applications from residents of several countries, most notably Brazil. Empirical evidence suggests that policy persistency generally improves with larger face amounts of insurance.

	Average New Policy Face Amount	
	Domestic	International
Year ended December 31, 2009	201,400	315,300
Year ended December 31, 2010	164,800	338,600
Year ended December 31, 2011	178,500	363,600
Year ended December 31, 2012	254,900	380,200
Year ended December 31, 2013	286,000	384,000
Year ended December 31, 2014	286,600	382,600
Year ended December 31, 2015	274,500	342,500

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

	Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
United States domestic products:			
Annuities	$773,315	828,982	811,339
Life insurance	154,824	142,640	155,620
Total domestic products	928,139	971,622	966,959
International products:			
Annuities	1,694	4,290	2,530
Life insurance	145,567	160,992	162,829
Total international products	147,261	165,282	165,359
Total direct premiums and deposits collected	$1,075,400	1,136,904	1,132,318

Although many agents sell National Western's products, the company's annuity sales in any year typically reflect several NMOs whose contracted independent agents sold 10% or more of the company’s total annuity sales. In 2015, there were two NMOs that exceeded this threshold accounting for approximately 14% and 10%, respectively, of the company’s annuity sales. Similarly, domestic life insurance sales in any year may include several NMOs who accounted for 10% or more of total domestic life insurance sales. In 2015, there were two NMOs who generated 21% and 19%, respectively, of total domestic life insurance sales. Given the historically lower level of domestic life insurance sales relative to international life sales and annuity sales, the proportionate percentage of domestic life sales for these particular NMOs is not considered a significant concentration of business within the total context of new business. In addition, with the independent distribution model National Western employs, the concentration of sales within a particular NMO is not as an acute concern as compared to other distribution channels given that the underlying agents are free to contract with the company through any NMO the company has a relationship with.

Applications submitted from residents of Latin America and the Pacific Rim perennially have comprised the majority of the company's international life insurance sales. As noted previously, National Western's international sales by geographic market tend to fluctuate with the socio and economic climates in these regions. The company's mix of international sales by geographic region is as follows.

	Years Ended December 31,			
	2015		2014	
Percentage of International Sales:				
Latin America	83.9	%	84.4	%
Pacific Rim	13.3		12.5	
Eastern Europe	2.8		3.1	
Totals	100.0	%	100.0	%

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International life insurance sales are much more diversified by independent consultants and contractors. In terms of sales to residents of international countries, Venezuela, Peru, and Taiwan were the countries exceeding 10% of total international sales with shares of 22%, 16%, and 11%, respectively.

As previously disclosed in the Company's Form 10-Q as of September 30, 2015, in 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 the company was operating as an insurance company in Brazil without due authorization. While the company believes that SUSEP has no jurisdiction over the company, the company is in discussions with SUSEP in an effort to resolve this matter. In light of the pendency of discussions with Brazilian authorities, the company has ceased accepting new applications from residents in Brazil. Additionally, after careful consideration of various factors, including segment performance and the volume of application submissions, the company ceased accepting applications from residents in certain other countries. For the years ended December 31, 2015 and 2014, sales of new policies issued to residents in these countries, including Brazil, were approximately \$4.6 million and \$9.6 million, respectively, which represented 24% and 38% of total international life insurance new business placed for such respective periods.

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

	Domestic Life Insurance (In thousands)	International Life Insurance	Annuities	All Others	Totals
Revenues, excluding realized gains (losses):					
2015	$57,971	151,807	322,419	50,390	582,587
2014	63,551	170,749	420,707	42,168	697,175
2013	63,414	181,471	563,353	43,376	851,614
Segment earnings (losses): (A)					
2015	$568	42,647	29,564	20,931	93,710
2014	2,812	37,092	42,935	15,204	98,043
2013	2,094	35,718	37,725	15,085	90,622
Segment assets: (B)					
2015	$868,466	1,260,538	9,054,951	268,675	11,452,630
2014	746,051	1,250,629	8,933,274	257,568	11,187,522
2013	610,570	1,200,347	8,586,871	260,007	10,657,795

Notes to Table:

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

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

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Competition and Ratings

National Western operates in a mature and highly competitive industry. We compete with hundreds of life and health insurance company groups in the United States as well as other financial intermediaries such as banks and securities firms who market insurance products. Many of these companies are larger, have more substantial capital and technological resources, possess greater brand recognition, and maintain higher ratings. Competitors in international territories include Pan-American Life Insurance, American Fidelity Life Insurance, and Best Meridian Insurance while domestic market competitors include, among others, Allianz Life, American Equity Investment Life, Sammons Financial Group (Midland, NACOLAH), Security Benefit Life, Fidelity and Guaranty Life, Athene USA, Jackson National Life, Equitrust Life Insurance Company, Pacific Life, National Life Group (Life of the Southwest) and Forethought Financial Group. Competitive factors are primarily the breadth and quality of products offered, established positions in niche markets, pricing, relationships with distribution channels, commission structures, the perceived stability of the insurer, quality of underwriting and customer service, scale and cost efficiency. Operating results of life insurers are subject to fluctuations not only from this competitive environment but also due to economic conditions, interest rate levels and changes, performance of investments, and the maintenance of strong insurance ratings from independent rating agencies.

In order to compete successfully, life insurers focus initiatives toward distribution, technology, defined end market targets, speed to the market in terms of product development, and customer relationship management as ways of gaining a competitive edge. The Company's management believes that it competes primarily on the basis of its longstanding reputation for commitment in serving international markets, its financial strength and stability, and its ability to attract and retain distribution based upon product and compensation. With respect to sales to residents of international countries, the Company is of the opinion that the home office and website infrastructure to support languages other than English, and the knowledge needed to effectively underwrite risks outside of the United States is a significant barrier to entry for potential competitors.

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

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

A.M. Best has 16 financial strength ratings assigned to insurance companies which currently range from A++ (Superior) to F (In Liquidation). Standard & Poor’s has twenty-one financial strength ratings assigned to insurance companies ranging from “AAA” (Extremely Strong) to “R” (Regulatory Action). Both rating agencies further qualify their current ratings with outlook designations of “Positive”, “Stable”, and “Negative”.

A.M. Best and Standard & Poor’s ratings are an independent consideration of National Western’s claims paying ability and are not a rating of the company’s investment worthiness. Accordingly, such ratings are not recommendations to buy, sell or hold securities. The rating agencies formally review National Western and its rating on an annual basis with interim analysis performed as necessary. 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, as ratings are subject to revision or withdrawal at any time by the rating agency, there is no assurance that National Western'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.

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Risk Management

Similar to other entities, the Company is exposed to a wide spectrum of financial, operational, and other risks as described in Item 1A "Risk Factors". Effective enterprise risk management is a key concern for identifying, monitoring, measuring, communicating, and managing risks within limits and risk tolerances. The Company's Board of Directors and senior management are knowledgeable of and accountable for key risks. The full Board of Directors of the Company (as well as the Board of Directors of National Western) meets at least every other month and regularly hears reports from the President and Interim Chief Executive Officer, the Chief Financial Officer, the Chief Actuary (National Western), the Chief Investment Officer (National Western), and the Chief Legal Officer. In addition, the Board of Directors of the Company (including the Board of Directors of National Western) has several committees which include the Executive Committeee, the Audit Committee, the Investment Committee, and the Compensation and Stock Option Committee that regularly convene to address various aspects of risk.

Enterprise Risk Management (ERM) Governance Framework

Board of Directors and Sub-Committees of the Board

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Company Senior Management

o

ERM Committees

o	o	o	o	o
Disclosure Committee	Asset/Liability Matching	Product Pricing/ Development	Compliance/Fraud Unit	Underwriting/ Claims
o	o	o	o	o
Corporate Risk Function				
Insurance Risk	Market Risk	Credit Risk	Operational Risk	Strategy Risk
o	o	o	o	o

Lines of Business / Functional Areas

National Western maintains several management groups and committees that meet regularly to monitor, discuss and manage a variety of issues and risks associated with the business. These groups and committees include numerous areas such as regulatory compliance, financial reporting process and controls, fraud unit investigations, product spread management, cyber security, and business strategy. Key members of senior management are involved with these groups and committees providing direction and oversight and serve as a reporting liaison with the Company's Board of Directors and sub-committees. In addition, the Internal Audit department reviews financial and operational risk exposures and reports directly to the Audit Committee of the Company concerning its independent reviews and assessments of management's efforts in these areas.

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

Company's hierarchy to the appropriate person or persons and that all disclosures are made in a timely fashion. This Committee reports directly to the Audit Committee of the Company.

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

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

Underwriters generally follow detailed policies and procedures to assess and quantify the risk of National Western's individual life products based on the age, gender, health, occupation and financial resources of the applicant and the amount of insurance applied for. As National Western maintains reinsurance treaties with several third party reinsurers, the majority of National Western's risk assessment policies have been established in conjunction with reinsurer policies and practices. National Western bases premiums and policy charges for individual life insurance on expected death benefits, surrender benefits, expenses and required reserves. Assumptions regarding mortality, interest rates, policy persistency, expenses, premium payment patterns and investment performance are embedded in the pricing of policies. Deviations of actual experience from pricing assumptions may positively or negatively impact the profitability of National Western's products.

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

Insurance Product Liabilities

At December 31, 2015, the Company's total balance for liabilities pertaining to insurance products was $9.9 billion. These product liabilities are payable over an extended period of time for which National Western's product pricing includes in making certain assumptions. The profitability of insurance products depends on this pricing and differences between the company's expectations when the products are sold and the subsequent actual experience impacts future profitability.

Liabilities for insurance products are determined using standard actuarial tables and past experience. Accordingly, establishing reserves can be an uncertain process in some cases. The Company's financial results depend significantly upon the extent to which actual experience is consistent with the assumptions used in determining reserves and pricing National Western's products. If assumptions are incorrect with respect to future claims, future policyholder premiums and policy charges or the investment income derived from the assets supporting product liabilities, the Company would be required to increase its liabilities which would negatively affect operating results.

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Reinsurance

National Western follows the industry practice of reinsuring (ceding) portions of its insurance risks with a variety of reinsurance companies. All reinsurance is yearly renewable term. The company does not use financial or surplus relief reinsurance. The use of reinsurance allows the company to underwrite policies larger than the risk it is willing to retain on any single life and to continue writing a larger volume of new business. New sales of life insurance products are reinsured above prescribed limits and do not require the reinsurer’s prior approval within certain guidelines. The maximum amount of life insurance the company normally retains is $500,000 on any one life. However, the use of reinsurance does not relieve National Western of its primary liability to pay the full amount of the insurance benefit in the event of the failure of a reinsurer to honor its contractual obligation. Consequently, the company avoids concentrating reinsurance risk with any one reinsurer and only participates in reinsurance treaties with reputable carriers. No reinsurer of business ceded by National Western has failed to pay policy claims (individually or in the aggregate) with respect to our ceded business. The company continuously monitors the financial strength of our reinsurers and has been able to obtain replacement coverages from financially responsible reinsurers when making changes. The company’s primary reinsurers as of December 31, 2015 were as follows.

Reinsurer	A.M. Best Rating	Amount of In Force Ceded (In thousands)
Hannover Life Reassurance Company (Florida)	A+	$1,949,180
SCOR Global Life Americas Reinsurance (Delaware)	A	1,395,381
RGA Reinsurance Company (Missouri)	A+	856,146
Mapfre Re (Spain)	A	664,346
SCOR Global Life S.E. Branch (France)	A	126,832
All others		53,609
		$5,045,494

Regulatory and Other Issues

Regulation. The Company's insurance business is subject to comprehensive state regulation in each of the states it is licensed to conduct business. The laws enforced by the various state insurance departments provide broad administrative powers with respect to licensing to transact business, licensing and appointing agents, approving policy forms, regulating unfair trade and claims practices, establishing solvency standards, fixing minimum interest rates for the accumulation of surrender values, and regulating the type, amounts, and valuations of permitted investments, among other things. National Western is required to file detailed annual statements with each of the state insurance supervisory departments in which it does business. Annually, the company’s board-appointed qualified actuary must submit an opinion to state insurance regulators where the company is licensed to do business on whether the statutory assets held backing the statutory reserves are sufficient to meet contractual obligations and related expenses of the insurer. If an opinion cannot be rendered noting the sufficiency of assets, the company is required to establish additional statutory reserves which draw from available statutory surplus until the time such an opinion can be furnished.

National Western's operations and financial records are subject to examination by these departments typically at regular intervals but may be examined at any time. Statutory financial statements are prepared in accordance with accounting practices prescribed or permitted by the Colorado Division of Insurance, the company's principal insurance regulator. Prescribed statutory accounting practices are largely dictated by the Statutory Accounting Principles adopted by the National Association of Insurance Commissioners ("NAIC"). The company's most recent Colorado statutory financial examination covered the five year period ended December 31, 2012, and resulted in no financial statement adjustments and no material deficiencies were found. The NAIC, as well as state regulators, continually evaluates existing laws and regulations pertaining to the operations of life insurers. To the extent that initiatives result as a part of this process, they may be adopted in the various states in which the company is licensed to do business. It is not possible to predict the ultimate content and timing of new statutes and regulations adopted by state insurance departments and the related impact upon the company's operations although it is conceivable that they may be more restrictive.

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The NAIC has developed a principles-based approach for establishing reserves for life insurance products. This approach is designed to improve reserving for products for which the current formula requirement for reserves may not accurately reflect the risks or costs of the obligations to insurers. The NAIC's Standard Valuation Law must be enacted by a minimum number of states representing a minimum level of premium volume in order for the principles-based approach to become effective. This may be as soon as January 1, 2017 with a three year phase-in period and would be prospective (applying only to new business). The timing and effect of these changes is still uncertain.

The NAIC has also enacted the Own Risk and Solvency Assessment ("ORSA") model act which requires insurers to make a formal assessment of the adequacy of their risk management and current and future solvency positions. National Western's state of domicile, Colorado, has just recently proposed a bill recommending adoption of the ORSA Model Act which when effective would subject the company to filing annual ORSA reports with the Colorado Division of Insurance. Based upon the timing of the current bill proposal, it is expected the company would begin filing ORSA reports in 2017.

Each state has insurance guaranty association laws under which insurers doing business in a state can be assessed contributions, up to prescribed limits, in order to cover contractual benefit obligations of insolvent insurance companies. The state guaranty associations levy assessments on each insurer on the basis of their proportionate share of the premiums written in the lines of business in which the insolvent insurer had been engaged. Some states permit the member insurers to recover the assessments paid through full or partial premium tax offsets.

National Western is also subject to the laws and regulations of states and other jurisdictions concerning the identification, reporting, and escheatment of unclaimed or abandoned funds. Compliance with these requirements is subject to audit and examination by state regulators.

State insurance laws and regulations contain numerous provisions pertaining to the marketplace activities of insurers, including various provisions governing the form and content of disclosures made to consumers, policy illustrations, advertising material, sales practices and handling of policyholder complaints. State regulatory authorities enforce these prerequisites through periodic market conduct examinations.

Given the ongoing legislative developments concerning insurance industry regulation, the NAIC and state regulators continue to revisit existing laws and statutes focusing on matters involving insurance company investments and solvency, market conduct, risk-adjusted capital measurements, enterprise risk management guidelines, interpretations of current laws, and creation of new laws. The Company does not believe the adoption of any of the current NAIC initiatives will have a material adverse impact on its operations; however, the Company cannot predict the form of any future proposals or regulation.

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

The Company is subject to federal and state laws and regulations that require financial institutions and other businesses to protect the security and confidentiality of personal information, including health-related and customer information, and to notify their customers and other individuals of their policies and practices relating to the collection and disclosure of health-related and customer information. Federal or state laws or regulations also provide additional protections regarding the use and disclosure of certain information such as social security numbers; require notice to affected individuals, regulators, and others if there is a breach of the security of certain personal information; require financial institutions to implement effective programs to detect, prevent, and mitigate identity theft; and prescribe the permissible uses of certain financial information, including customer information and consumer report information.

Despite having been in place for several years, many of the key rules of the Dodd-Frank legislation have yet to be formalized, some of which may have an impact on insurers. To date, the Federal Insurance Office (FIO) has been established to accumulate information about the insurance industry. Its current mandate is very broad and covers a wide variety of topics although it is not empowered with any general regulatory authority over insurers.

The USA Patriot Act of 2001 ("Patriot Act") amended the Money Laundering Control Act of 1986 and the Bank Secrecy Act of 1970 to expand anti-money laundering ("AML") and financial transparency laws applicable to financial services companies, including insurance companies. Among other things, the Patriot Act seeks to identify parties involved in terrorism, money laundering or other illegal activities. The Company has adopted AML programs that include policies, procedures and controls to detect and prevent money laundering.

In April 2015, the U.S. Department of Labor (“DOL”) released a proposed regulation accompanied by new class exemptions and proposed amendments to long-standing exemptions from the prohibited transaction provisions under ERISA. The initial comment period for the proposed rules ended on July 21, 2015. After hearings in August 2015, the DOL re-opened the comment period until September 24, 2015. It is expected that the DOL will promulgate final rules in 2016. If enacted, the rules will redefine who would be considered a “fiduciary” for purposes of transactions with qualified plans, plan participants and Individual Retirement Accounts. We cannot predict the exact nature and scope of any new final rules or their impact on the Company's business; however, the new rules may effectively impose limits on interactions with existing and prospective customers in our annuity line of business and increase compliance costs.

Risk-Based Capital Requirements. In order to enhance the regulation of insurer solvency, the NAIC established risk-based capital ("RBC") requirements to help state regulators monitor the financial strength and stability of life insurers by identifying those companies that may be inadequately capitalized. Under the NAIC's requirements, each insurer must maintain its total capital above a calculated threshold or take corrective measures to achieve the threshold. The threshold of adequate capital is based on a formula that takes into account the amount of risk each company faces on its products and investments. The RBC formula takes into consideration four major areas of risk which are: (i) asset risk which primarily focuses on the quality of investments; (ii) insurance risk which encompasses mortality and morbidity risk; (iii) interest rate risk which involves asset-liability matching issues; and (iv) other business risks. For each category, the RBC requirements are determined by applying specified factors to various assets, premiums, reserves, and other items, with the factor being higher for items with greater underlying risk and lower for items with less risk. The standards require life insurers to submit a report to state regulators on an annual basis regarding their risk-based capital.

The RBC requirements provide for four levels of regulatory attention, varying with the ratio of the insurer's ratio of total adjusted capital to its RBC as measured on December 31 of each year. In addition, the RBC requirements provide for a trend test if an insurer's total adjusted capital falls to a certain range of its ratio relative to its RBC as of the end of the year. National Western's statutory capital and surplus at December 31, 2015, was significantly in excess of the threshold RBC requirements for regulatory attention and trend test analysis.

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

Employees. National Western had 261 employees as of December 31, 2015, substantially all of which worked in the company’s home office in Austin, Texas. None of the employees are subject to collective bargaining agreements governing their employment with the company.

Available Information

The Company files periodic and current reports, proxy statements and other information with the Securities and Exchange Commission ("SEC"). These reports, including information in this report filed on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to the above reports, are accessible free of charge through the SEC's website (www.sec.gov) or may be viewed by visiting the SEC's Public Reference Room in Washington, D.C.

The Company's press releases, financial information, and reports filed with the SEC are available online free of charge at the Company's website: www.nationalwesternlife.com. Reports filed with or furnished to the SEC will be available as soon as reasonably practicable after they are filed with or furnished to the SEC. The information located on the Company's website is not part of this or any other report filed with or furnished to the SEC.

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ITEM 1A. RISK FACTORS

Company performance is subject to varying risk factors including general business and financial risk. Any or all of these risks could have a material adverse effect on the business, financial condition or results of the Company or cause the trading price of the Company's Class A common shares (ticker symbol "NWLI") to decline materially. This section provides an overview of possible risk exposures at this point in time that could impact Company performance in the future. Many of these risks are interrelated and could occur under similar business and economic conditions, and in turn prompt the emergence or amplify the effect of others. While these scenarios do not represent expectations of future experience, they are intended to illustrate the potential impacts if any of the following risks were to manifest into actual occurrences.

Difficult conditions globally and in the U.S. economy may materially adversely affect our business and results of operations.

The Company's results from operations can be materially affected by economic conditions both in the U.S. and elsewhere around the world. Even under relatively beneficial market conditions, demand for our insurance and products, as well as our investment returns, are sensitive to fixed income, equity, real estate and other fluctuations and overall economic and political conditions. General factors such as credit availability, willingness of business to invest, consumer spending, financial market conditions and inflation affect the Company's business. Demand for our products and ultimately the profitability of our business may be adversely affected by anemic activity in any or all of these areas. Our current policyholders may opt to defer or stop paying insurance premiums. High interest rates or inflation could induce those holding interest-sensitive life insurance and annuity products of the Company to begin an elevated level of discretionary withdrawals of policy funds. Conversely, low interest rates and inflation could cause persistency of our products to vary from that anticipated and adversely affect profitability. In addition, changing economic conditions may serve to create unfavorable public perception of financial institutions and influence policyholder behavior. Changes as detailed above could negatively affect our net income and have a material effect on our business, results of operations and financial condition. The Company cannot foretell the occurrence of economic trends or the timing of changes in such trends.

Our investment portfolio is subject to several risks which may lessen the value of invested assets and the amounts credited to policyholders.

The Company primarily invests monies received in investment grade, fixed income investment securities in order to meet its obligations to policyholders and provide a return on its deployed capital. Accordingly, our business is exposed to customary risks of debt markets including credit defaults and changes in fair value. Adverse market conditions can affect the liquidity and value of our investments and we are subject to the credit risk that issuers of these securities may default on principal and interest payments, particularly in the event of an ongoing downturn in the economic and/or business climate. A ratings downgrade affecting issuers of particular securities could worsen the credit quality of our investments and could increase the amount of capital we must hold to maintain our risk-based capital levels which are monitored by regulators and rating agencies. At December 31, 2015, approximately 1.6% of the Company's $10.0 billion fixed income securities portfolio was comprised of issuers who were investment grade at the time the Company acquired them but were subsequently downgraded for various reasons. A substantial increase in defaults from these or other issuers could negatively impact the Company's financial position and results of operations.

For the Company's fixed-index products, over the counter derivative instruments (index options) are purchased from a number of highly-rated counterparties to fund the index credit to policyholders. These index options consist primarily of one-year call options. Market conditions could cause these instruments to not perform as intended or expected and result in higher realized losses and unforeseen stresses on liquidity. They may also limit the availability of these hedging instruments or further increase the cost of executing product related hedges which may be difficult to recover in the pricing of our underlying products. Amounts that the Company expects to collect under derivative contracts are subject to counterparty risk. In the event that any of these counterparties fails to meet their contractual obligations under these derivative instruments, the Company would be financially at risk for providing the credits due that the counterparty reneged on. The Company attempts to offset this risk through careful credit evaluation of counterparties, diversification of holdings among numerous institutions, and use of credit support agreements requiring counterparties to provide collateral at specified threshold levels. The failure of counterparties to perform could negatively impact the Company’s financial strength and reduce the Company’s profitability.

The concentration of the Company's portfolio in any particular issuer, asset classes, industries, or geographic areas could have an adverse effect on our investment portfolios and, therefore, the Company's results of operations and financial position. In order to minimize this risk, the Company's investment guidelines contain maximum exposure thresholds to concentrations of risk in order to promote a broadly diversified portfolio. Disruptions in individual market sectors within our investment portfolio could result in significant realized and unrealized losses. During 2015, the energy sector experienced sizable declines in prices increasing the unrealized loss profile of our bond investment portfolio. If energy and other commodity prices remain low for longer lengths of time, we could experience additional losses in our portfolio.

Significant financial and credit market volatility, changes in interest rates and credit spread margins, credit defaults, market illiquidity, declines in equity prices, ratings downgrades of the issuers of debt securities, and declines in general economic conditions, either singularly or in combination, could have a material adverse impact on the Company's results of operations and financial condition through realized losses, impairments, and changes in unrealized loss positions.

The determination of valuation and impairments of fixed income securities include estimations and assumptions that are subjective and prone to differing interpretations and could materially impact our results of operations or financial condition.

The Company makes assumptions regarding the fair value and expected performance of its investments. During periods of market disruption and volatility, it becomes more difficult to evaluate securities, particularly if trading becomes less frequent or market data becomes less observable. Fair value of certain securities may be based upon one or more significant unobservable inputs even in typical market conditions. As a result, valuations may include inputs and assumptions that are less observable or require greater estimation and judgment as well as valuation methods which are more complex. These values may not be ultimately realizable in a market transaction and may change rapidly as market conditions change and assumptions are modified. We also consider a wide range of factors about security issuers in evaluating the cause of a decline in the estimated fair value of a security and in assessing the prospects for recovery. Inherent in this evaluation are assumptions about the operations of the issuer and its future earnings potential. Such evaluations are revised as conditions change and new information becomes available.

The decision on whether to record an other-than-temporary impairment is determined by our assessment of the financial condition and prospects of a particular issuer, projections of future cash flows and recoverability as well as our ability and intent to hold the securities to recovery or maturity. Expectations that the Company's investments in corporate debt securities will continue to perform in accordance with their contractual terms are based on evidence gathered through our normal credit surveillance process. However, historical trends may not be indicative of future impairments and our conclusions concerning the recoverability of any particular security’s market price could ultimately prove to be invalid as facts and circumstances change. Rapidly changing and unprecedented credit market conditions make it possible that issuers of the Company's investments in corporate securities and/or debt obligations will perform worse than current expectations. Consequently, there can be no assurance that we have accurately assessed the level of impairments in our financial statements or that additional impairments may not need to be taken in the future. It is also possible that unanticipated events may lead the Company to dispose of such investments and recognize the effects of any market movements in its financial statements.

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

We are exposed to significant capital market risk related to changes in interest rates. Our investment performance, including yields and realization of gains and losses, may vary depending on economic and market conditions. Substantial and sustained changes, up or down, in market interest rate levels can materially affect the profitability of our products, the market value of our investments, and ultimately the reported amount of stockholders’ equity.

A rise in interest rates will increase the net unrealized loss position of our investment portfolio and may subject the Company to disintermediation risk. Disintermediation risk is the risk that in a change from a period of low interest rates to a period of significantly higher and increasing interest rates policyholders may surrender their contracts or make early withdrawals in order to increase their returns, requiring the Company to liquidate investments in an unrealized loss position (i.e. the market value less than the carrying value of the investments). The Company manages its liabilities and configures its investment portfolio so as to provide and maintain sufficient liquidity to support expected withdrawal demands. If the Company experiences unexpected withdrawal or surrender activity, it could exhaust liquid assets and be forced to liquidate other assets at a loss or on other unfavorable terms. With respect to fixed income security investments the Company maintains in an “Available for Sale” category, rising interest rates will cause declines in the market value of these securities. These declines are reported in our financial statements as an unrealized investment loss and a reduction of stockholders’ equity.

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

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Significant changes in interest rates expose insurance companies to the risk of not realizing the anticipated spread between the interest rates earned on investments and the credited rates paid on in force policies and contracts. A decline in interest rates could expose the Company to reduced profitability due to minimum interest rate guarantees that are required in our products by regulation. When interest rates decline or remain low, as has been the case in recent years, we have to reinvest investment portfolio cash proceeds in lower-yielding instruments, further reducing investment income. As a key component of profitability, a narrowing of investment spreads (“spread compression”) could negatively affect operating results. Although the Company has the ability to adjust the rates credited on products in order to maintain our required investment spread, a significant decline in interest rate levels could affect investment yields to the point where the investment spread is compromised due to minimum interest rate guarantees. In addition, the potential for increased policy surrenders and cash withdrawals, competitor activities, and other factors could further limit the Company’s ability to maintain crediting rates on its products at levels necessary to avoid sacrificing investment spread.

When interest rates rise, the Company may not be able to replenish assets in its investment portfolio as rapidly with higher-yielding investments needed to fund/support the higher interest rates necessary to have its product offerings for sale remain competitive. Conversely, a prolonged period during which interest rates remain at lower levels may cause policies to remain in force for longer periods than anticipated in our pricing exposing the Company to additional spread compression and potentially greater claim costs than expected.

Due to regulatory and information system support considerations, delays may occur between the time the Company analyzes the need to make changes in the rates it credits on its products and other assumptions used for product pricing and the time the Company is able to reflect these changes in it products available for sale. These delays could negatively impact the long-term profitability of product sales during the interim period.

Changes in interest rates may also impact the Company's business in other ways. The Company's expectation for future interest earnings and spreads is an important component in determining the amortization of deferred policy acquisition costs ("DPAC") and deferred sales inducements ("DSI"). Significantly lower interest earnings or spreads may cause the Company to accelerate its amortization of DPAC and DSI thereby reducing net income in a reporting period. Additionally, during periods of declining interest rates, life insurance and annuity products may be relatively more attractive savings alternatives to consumers resulting in increased premium payments on products with flexible premium features, repayment of policy loans, or otherwise a higher persistency of policies remaining in force from year-to-year during a period when the Company's investments carry lower returns.

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

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

The Company distributes its life and annuity products through independent broker-agents and consultants. These product distributors are not captive and may sell products of competitors of the Company. There is substantial competition, particularly in the Company’s domestic market, for independent broker-agents with the demonstrated ability to market and sell insurance products. Competition for these individuals or organizations typically centers on company reputation, products and their features, compensation, home office support services and the insurer's financial position and independent strength ratings. Competitiveness for such individuals and organizations also depends upon the relationships the Company develops with them. An interruption in key relationships could materially affect our ability to market products. Distributors may also elect to reduce or terminate their distribution relationships with the Company at any time. We are further at risk that key distribution partners may change their mode of conducting business that affects how our products are sold. The Company's future sales and financial condition are dependent upon avoiding significant interruptions in attracting and retaining independent broker-agents and consultants.

As technology continues to evolve, such as the use of so called "robo-advisors", comparison of a particular product of any company for a particular customer with competing products for that customer will become more readily available, which could also lead to increased competition as well as affecting agent, consultant and customer behavior.

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

Financial strength ratings are important criteria in establishing the competitive position of insurers. While financial strength ratings are not a recommendation to buy the Company's products, these ratings are important to maintaining public confidence in the Company, its products, and its competitive position. Ratings generally reflect the rating agencies' quantitative and qualitative view of a particular company's financial strength, operating performance, and ability to meet its obligations to policyholders. However, since some of the rating factors often relate to the particular and subjective views of the rating agency, their independent economic modeling, the general economic climate, and other circumstances, these are largely outside of the insurer's control. Accordingly, we cannot predict with any certainty what actions rating agencies may take.

A downgrade in our financial strength rating, or an announced potential downgrade, could potentially affect our competitive position making it more difficult to market our products vis-à-vis competitors with higher financial strength ratings, and/or hurt our relationships with distributors, reinsurers and other business partners. In extreme situations, a significant downgrade action by one or more rating agencies could cause a decrease in the sale of our products, prompt defections within our independent sales force, and induce existing policyholders to cancel their policies and withdraw funds from the Company. Currently, the major rating agencies, including A.M. Best and Standard & Poor's, maintain stable outlooks on the U.S. life insurance industry. Regardless of their current view, these rating agencies could revise their benchmarks regarding levels of capital, earnings, and other metrics that align with particular rating levels and impact their rating assessments of U.S. life insurance companies. These events could have a material adverse effect on our financial position and liquidity.

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

Life insurance is a mature and highly competitive industry. Our ability to compete is based upon a variety of factors including financial strength ratings, competitive products, quality of service, scale, and distribution capacity. There has been considerable consolidation among companies in the insurance and financial sectors resulting in large, well-capitalized entities that offer products comparable to the Company who have greater market share or breadth of distribution, higher financial strength ratings, and offer a broader range of products and services. Frequently, these larger organizations are not domiciled in the United States or are financial services entities attempting to establish a position in the insurance industry. These larger competitors often enjoy better name recognition and economies of scale which produce lower operating costs and the wherewithal to absorb greater risk allowing them to price products more competitively and, in turn, attract independent distributors. Such competition could result in lower sales or higher lapses of existing products. In addition, since the actual cost of products is not precisely known when they are sold, the Company is exposed to competitors who may sell products at prices that do not cover actual costs. Consequently, the Company may encounter additional pricing pressures to lower prices for similar products and be challenged to maintain market share, profit margin targets and profitability criteria. Due to these competitive forces, the Company may not be able to effectively compete without negative affects on our financial position and results of operations.

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

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

The Company is subject to government regulation in each of the states in which it conducts business with such regulation vested in state agencies having broad administrative power dealing with many aspects of the Company's business. Regulators oversee matters relating to sales practices, policy forms, claims practices, types and amounts of investments, reserve adequacy, insurer solvency, minimum amounts of capital and surplus, transactions with related parties, and payments of dividends. At any given time, the Company may be subject to a number of financial, market conduct, or other examinations or audits. These examinations or audits may result in payment of fines and penalties as well as changes in systems or procedures, any of the which could have a material adverse effect on the Company's financial condition or results of operations. Other NAIC or state insurance regulator actions, such as the adoption of principles-based reserving or changes to RBC calculations, may adversely impact our business from time to time.

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Life insurer products generally offer tax advantages to policyholders via the deferral of income tax on policy earnings during the accumulation phase of the product, be it an annuity or a life insurance product, as compared to other savings instruments such as certificates of deposit and taxable bonds. Taxes are payable on income attributable to a distribution under a policy/contract for the year in which the distribution is made as opposed to the current taxation of other savings instruments. In addition, death benefit proceeds maintain a tax-free status. Periodically, Congress has considered legislation that would reduce or eliminate this tax advantage inherent to the life insurance industry and subject the industry’s products to treatment more equivalent with other investments. In the event that the tax status of life insurance products is revised or reduced by Congress all life insurers would be adversely impacted.

Insurance companies that do business in a particular state are subject to assessment up to certain prescribed limits by that state’s insurance guaranty association to provide funds to help pay for policyholder losses or liabilities of insolvent insurance companies. The financial crisis of 2008 and 2009 weakened the financial condition of numerous insurers, including insurers already in the state of receivership, thus increasing the risk of sparking guaranty fund assessments. As the amount and timing of assessments by state insurance guaranty associations is outside of the Company’s control, the liabilities provided for these potential assessments in our financial statements may differ from the amounts ultimately assessed.

In 2010, the Dodd-Frank Act (“Dodd-Frank”) was enacted into law. Dodd-Frank calls for expansive changes in the regulation and oversight of the financial industry intended to provide for greater supervision of financial industry entities, reduction of risk in banking practices and in securities and derivatives trading, enhancement of public company corporate governance practices and executive compensation disclosures, and greater protections to individual consumers and investors. Numerous provisions of Dodd-Frank require adoption of implementing rules and/or regulations. The process of adopting these have been delayed beyond the timeframes imposed by Dodd-Frank. Dodd-Frank established a Federal Insurance Office with the Department of Treasury. The director of this office is required to conduct a study on how to modernize and improve the system of insurance regulation in the United States, accomplished by increased national uniformity through either a federal charter or effective action by the states. Until various final regulations are defined, the full impact of the regulations on the Company will remain unclear. Legislative or regulatory requirements imposed may impact the Company in a variety of ways including placing the Company at a competitive disadvantage relative to its competition or other financial service entities, changing the competitive framework of the financial services sector and/or life insurance industry, making it more expensive for the Company to conduct its business, or requiring the reallocation of Company resources to legal and compliance-related activities. Consequently, the impact of Dodd-Frank on the Company, as well as that on the financial industry and economy cannot be determined until all the rules and regulations called for under the Act have been finalized and implemented.

In April 2015, the Department of Labor ("DOL") released a proposed regulation, accompanied by new class exemptions and proposed amendments to long-standing exemptions from the prohibited transaction provisions under ERISA, and it is expected that the DOL will promulgate final rules in 2016. If enacted, the rules will redefine who would be considered a “fiduciary” for purposes of transactions with plans, plan participants and IRAs. We cannot predict the exact nature and scope of any new final rules or their impact on the Company's business. However, the new rules may effectively impose limits on interactions with existing and prospective customers in our life insurance and annuities businesses. In addition, we may experience increased costs if we need to adapt our technology and operational infrastructure to meet disclosure and compliance requirements under the proposed rules. Our compliance with the proposed rules could lead to a loss of customers and revenues, and otherwise adversely affect our business, results of operations, cash flows and financial condition.

The Company's operations are centralized at its Austin, Texas location and it is licensed to do business in forty-nine states (except New York) and various other U.S. territories and possessions and is regulated by the insurance departments in each of these locations. Although not otherwise licensed, the Company also accepts applications from and issues dollar-denominated policies to residents outside of the United States. From time to time insurance regulators in these non-U.S. locations have sought to exercise regulatory authority over the Company including the imposition of substantial penal fines. Although these non-U.S. regulators have no jurisdiction over the Company and any actions, including fines, would be unenforceable against the Company, the threat of regulatory action could impede the submission of future applications from residents in these locations. The Company's future sales and financial condition are dependent upon avoiding significant interruptions in receiving applications from residents outside of the United States.

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The Brazilian authorities have commenced an investigation into possible violations of Brazilian criminal law in connection with the issuance of the Company's insurance policies to Brazilian residents, and in assistance of such investigation a Commissioner appointed by the U.S. District Court for the Western District of Texas has issued a subpoena upon the Company to provide information relating to such possible violations. No conclusion can be drawn at this time as to its outcome or how such outcome may impact the Company's business, results of operations or financial condition. The Company is cooperating with the relevant governmental authorities in regard to this matter. For the year ended December 31, 2015, the Company generated approximately $40.6 million of life insurance premiums and contract revenues from policies issued to Brazilian residents, which represented approximately 20.4% of total life insurance premiums and contract revenues. In the event that the ultimate outcome of the investigation were to adversely affect the Company's life insurance premiums and contracts revenues from policies issued to Brazilian residents, the loss of such revenues and premiums could have a material adverse effect on the Company's business, results of operations and financial condition. See “Legal Proceedings” in Item 3 of Part I of this report.
Changes in accounting standards issued by standard-setting bodies may adversely affect our financial statements and affect the management of business operations.

The Company’s financial statements are prepared in accordance with generally accepted accounting principles (“GAAP”) as delineated in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification (“FASB ASC”). GAAP is subject to constant review by various policy-setting organizations to address emerging accounting rules and issue interpretative accounting guidance. From time to time, the Company is required to adopt new or revised accounting standards or guidance that has been integrated into the FASB ASC. For example, the FASB has an ongoing project to revise the accounting standards for insurance contracts. While the final resolution of changes to GAAP from this particular project is unclear, future accounting standards required to be adopted could possibly change the current accounting treatment that the Company uses in its consolidated financial statements and such changes could possibly have a material adverse effect on our financial position and results of operations.

In addition, the FASB is in the process of working on several projects with the International Accounting Standards Board (“IASB”) which could produce significant changes as GAAP converges with International Financial Reporting Standards (“IFRS”). These projects include how the Company accounts for its insurance contracts and financial instruments and how its financial statements are prepared and presented. The SEC has proposed at various points in time that filers in the U.S. be required to report financial results in accordance with IFRS as issued by the IASB rather than GAAP. Despite the the uncertainty of the ongoing deliberations involving convergence of GAAP and IFRS, adoption of IFRS would be a complete change to the Company's accounting and reporting. The changes to GAAP and the ultimate conversion to IFRS would invoke new demands on public companies in the areas of governance, internal controls, employee training, and disclosure and will likely affect how business operations are managed. The Company is unable to predict whether, and if so, when this proposal will be adopted and/or implemented.

The Company is also required to comply with statutory accounting principles ("SAP") which are subject to constant review by the NAIC and related task forces and committees. Various proposals either are currently or have been previously pending before the NAIC. The Company cannot predict whether or in what form reforms will be enacted by state legislatures and whether the enacted reforms will positively or negatively affect the Company.

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

Financial services companies are frequently targets of legal proceedings, including class action litigation. In the ordinary course of business, we are involved in various legal actions common to the life insurance industry, some of which may occasionally assert claims for large amounts. Companies in the life insurance and annuity lines of business have encountered litigation pertaining to allegations of improper sales practices in connection with the sale of life insurance, improper product design and disclosures, marketing unsuitable products to customers especially in the senior market, bad faith in the handling of insurance claims, and other similar pleas. Some of these proceedings have been brought on behalf of various alleged classes of complaintants. In addition, life insurance companies are subject to risk of errors and misconduct of the agents selling their products for fraud, non-compliance with policies and recommending products or transactions that are not suitable in a particular situation. Often these legal proceedings have involved plaintiffs seeking large and/or indeterminate amounts and resulted in the award of substantial amounts disproportionate to the actual damages including material amounts of punitive compensatory or exemplary damages. In some states, judges and juries have substantial discretion in awarding punitive and compensatory damages which creates the potential for material adverse judgments or awards. In the event of an unfavorable outcome in one or more matters, the ultimate liability may be in excess of the liabilities established in the Company's accounts.

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Legal liability or adverse publicity emanating from current or future legal actions, whether or not they actually involve the Company, could have an adverse effect on us or cause us reputational harm, which could, in turn, impair our prospective business. Given the inherent unpredictability of litigation, and the potential complexity and scope of such actions, there can be no assurance that such litigation, current or in the future, will not have a material adverse effect on the Company’s results of operations or cash flows in any particular reporting period. In addition, such matters may become more frequent and/or severe in the event that general economic conditions deteriorate.

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

The Company cedes material amounts of insurance to other unaffiliated insurance companies through reinsurance. New sales of life products are reinsured within prescribed limits and do not require the reinsurer's prior approval within certain guidelines. The Company's maximum retention limit on an insured life is $500,000. However, these reinsurance arrangements do not fully discharge the Company’s obligation to pay benefits on the reinsured business. If a reinsurer fails to meet its obligations, the Company would be forced to cover these claims. In addition, if a reinsurer becomes insolvent, it may cause the Company to lose its reserve credits on the ceded business which require the establishment of additional reserves. To mitigate the risks associated with the use of reinsurance, the Company carefully monitors the ratings and financial condition of its reinsurers on a regular basis and attempts to avoid concentration of credit risks by spreading its business among several reinsurers in order to diversify its risk exposure.

The Company's ability to be competitive is affected by the availability of reinsurance. The availability and cost of reinsurance protection are impacted by our operating and financial performance as well as conditions beyond our control. In recent years, the number of life reinsurers has decreased as the reinsurance industry has consolidated. The lower number of life reinsurers has resulted in increased concentration of risk for insurers. If the cost of reinsurance were to increase or become unavailable, the Company could be adversely impacted.

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

The Company’s earnings are significantly influenced by policy claims received and will vary from period to period depending upon the amount of claims incurred. In any given quarter or year, there is very limited predictability of claims experience. The liability established for future policy benefits is based upon a number of different factors. Our mortality experience could be adversely impacted by a catastrophic event such as a natural disaster, terrorist attack or pandemic event. Significant deviations in actual experience from pricing assumptions could have an adverse effect on the profitability of our products. Some of the Company's products permit premium increases or adjustment of other charges or credits during the life of a policy, but the adjustments permitted under the terms of the policies may not be sufficient to maintain profitability or may induce policies to lapse. Many of our products do not permit us to increase premiums or adjust other charges and credits or otherwise limit the adjustments we can make during the life of a policy. There may be instances in which we may be not be able or willing to raise premiums or adjust other charges sufficiently for competitive reasons. Consequently, in the event our future claim experience does not match our past results or pricing assumptions, our operating results could be materially and adversely affected.

We are subject to assumption inaccuracies regarding future mortality, persistency, and interest rates used in determining deferred policy acquisition costs which may require us to accelerate our amortization.

In the course of business, the Company makes certain assumptions regarding mortality, policy persistency, expenses, interest rates, business mix, investment performance and other factors concerning the type of business experience expected in future periods. Deferred policy acquisition costs ("DAC") and deferred sales inducement ("DSI") amounts are calculated using a number of these assumptions. DAC represent costs that vary with and are primarily related to the acquisition of new insurance and annuity contracts while DSI represents first year bonus interest amounts that are credited to policyholder account balances as an inducement to purchase the policy. Both are amortized over the expected lives of the policies. Amortization is dependent upon actual and estimated future gross profits ("EGP") generated by the lines of business that incurred the related expenses and are amortized over the expected lives of the corresponding contracts. The principal assumptions for determining EGP are mortality, persistency, expenses, investment returns (including capital gains and losses on assets supporting contract liabilities, and interest crediting rates to contractholders. DAC and DSI recorded on the consolidated balance sheet are tested to determine if they are recoverable under current assumptions. The estimates and assumptions used to amortize these deferred costs proportional to expected gross profits are also regularly reviewed. Due to the uncertainty associated with establishing these assumptions, the Company cannot, with precision, determine the exact pattern of profit emergence. Updates to these assumptions (commonly referred to as "unlocking") could result in an acceleration of amortization of DAC and DSI. Accordingly, actual results could differ from the related assumptions which could have a material and adverse impact on the Company’s operating results.

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Assumptions and estimates involve judgment, and by their nature are imprecise and subject to changes and revisions over time. The Company's results may be affected, positively or negatively, by actual results differing from assumptions, by changes in estimates, and by changes resulting from implementing more sophisticated administrative systems and procedures that facilitate the calculation of more precise estimates.

Occurrence of natural or man-made disasters and catastrophes could adversely affect our ability to conduct business operations and the financial condition and results of operations.

The occurrence of natural disasters and catastrophes, including earthquakes, hurricanes, floods, tornadoes, fires, explosions, pandemic disease and man-made disasters, including acts of terrorism and military actions, could adversely affect the financial condition or results of operations of the Company. Such disasters and catastrophes could impact the Company directly by damaging our facilities, preventing employees from performing their duties or otherwise disturbing the Company’s ordinary business operations, as well as indirectly by changing the condition and behaviors of consumers, business counterparties and regulators and potentially causing declines or volatility in economic and financial markets. Disasters or a pandemic could disrupt public and private infrastructure, including communications and financial services, which could disrupt the Company's normal business operations. A terrorist attack affecting financial institutions could negatively impact the financial services industry as a whole and our business operations, investment portfolio and our profitability. In addition, such events and conditions could result in a decrease or halt in economic activity in large geographic regions, adversely impacting the marketing of the Company's business within such geographic areas which in turn could have an adverse effect on the Company. There can be no assurance that our business continuity plans and insurance coverages would be effective in mitigating any negative effects on our operations or profitability in the event of a terrorist attack or other disaster.

The effects of natural and man-made disasters and catastrophes on the Company’s business include, but are not limited to: an acceleration of the timing in which benefits are paid under the Company’s insurance policies due to catastrophic loss of life, unexpected changes in persistency rates as policyholders affected by disaster may be unable to meet their contractual obligations, harm to the financial condition of the Company’s reinsurers due to an increase in claims thereby impacting the cost and availability of reinsurance and possibly increasing the probability of default on reinsurance recoveries, and heightened volatility, loss of liquidity and credit impairment in the financial markets resulting in harm to the Company’s financial condition.

Our enterprise risk management practices and procedures may prove to be ineffective exposing us to unidentified or unanticipated risks.

The Company maintains an enterprise-wide risk management framework to mitigate risk and loss to the Company. Under this framework we maintain policies, procedures and controls intended to identify, measure, monitor, report and analyze the risks to which the Company is exposed. There are, however, inherent limitations to risk management strategies because there may exist, or develop in the future, risks that we have not appropriately anticipated or identified. If our risk management framework bears out as to being ineffective, the Company may suffer unexpected losses and could be materially adversely affected.

As our business changes and the markets in which we operate evolve, our risk management framework may not advance at the same pace as those changes. As a result, there is a risk that new products or new business strategies may present risks that are not appropriately identified, monitored or managed. Many of our risk management strategies or techniques are based upon historical customer and market behavior and all such strategies and techniques are based to some degree on management’s subjective judgment. We cannot provide assurance that our risk management framework, including the underlying assumptions or strategies, will be accurate and effective.

Management of operational, legal and regulatory risks requires, among other things, policies, procedures and controls to record properly and verify a large number of transactions and events, and these policies, procedures and controls may not be fully effective. In addition, there can be no assurance that controls and procedures that we employ, which are designed to monitor associates' business decisions and prevent us from taking excessive or inappropriate risks, will be effective.

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

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

The Company relies heavily on its telecommunication and computer systems to conduct business, service customers, and produce financial statements. These systems may fail to operate properly or become disabled as a result of events wholly or in part beyond our control. Further, we are at risk of third party vendors and parties which the Company utilizes for services, or to which we outsource the provision of services, incurring operational or technology failures. While policies, procedures and back-up plans designed to prevent or minimize the effect of incapacity or failure are maintained, the Company's computer systems may be vulnerable to disruptions or breaches which cause operational difficulties, increased costs, or other adverse effects on our business. The Company's computer systems may be inaccessible to its employees, business partners, and customers for an extended period of time. Even if employees of the Company are able to report to work, they may be unable to perform their duties if the Company's data or systems are disabled or destroyed. The failure or incapacity of any of the Company's computer systems could potentially disrupt operations, damage our reputation and adversely impact our profitability. Unanticipated problems with our disaster recovery or business continuity plans and systems could have a material adverse impact on our ability to resume and conduct business.

Despite implementation of a program of security measures, our information technology and other systems could be subject to physical or electronic break-ins, unauthorized tampering or other security breaches. The Company retains confidential information on its systems, including customer information and proprietary business information, and relies on sophisticated commercial technologies and third parties to maintain the security of those systems and information. The increasing volume and sophistication of computer viruses, hackers and other external threats may increase the vulnerability of the Company's systems to data breaches. Even given our efforts to ensure the integrity of our systems, it is possible that we may not be able to anticipate all types of security breaches, especially in light of the every-evolving techniques used by hackers, the inability to recognize invasive attacks until launched, and the capability of cyber attacks of originating from a wide variety of sources. . Anyone who is able to circumvent the Company's security measures could access, view, misappropriate, alter, or delete any information in the systems, including personally identifiable customer information, customer financial information, and proprietary business information. Security breaches or other technological failures may also produce regulatory inquiries, proceedings, litigation costs, and reputational damage. An increasing number of states require customers to be notified of any unauthorized access, use, or disclosure of their information. We may incur reimbursement and other expenses, including litigation settlements and other additional compliance costs.

The Company's business is dependent on the ability to keep up to date with effective, secure and advanced technology systems to reach a large number of people, provide sizable amounts of information, and secure and store vast quantities of data through our technology systems. Some of the Company's information technology systems are older legacy-type systems and require an ongoing commitment of resources to maintain current standards. These legacy systems are written in older programming languages with which fewer and fewer individuals are knowledgeable of and trained in. The Company's success is in large part dependent on maintaining and enhancing the effectiveness of existing legacy systems until converting to newer technologies and failure of these systems for any reason could disrupt our operations, result in the loss of business and adversely impact our profitability.

Interruption in telecommunication, information technology and other operational systems, or a failure to maintain the security, confidentiality or privacy of sensitive data residing on such systems, whether due to actions by us or others, could delay or disrupt our ability to do business and service our customers, harm our reputation, result in a violation of applicable privacy and other laws, subject us to substantial regulatory sanctions and other claims, lead to a loss of customers and revenues or financial loss to our customers and otherwise adversely affect our business.

The Company could be adversely affected by changes to tax law or interpretations of existing tax law which could reduce the demand for certain insurance products.

The Internal Revenue Code (the "IRC") provides that income tax payable on investment earnings of certain life insurance and annuity products is deferred during the accumulation period of the policies/contracts until payments are are made to the policyholder or other beneficiary giving certain of the Company's products a competitive advantage over other non-insurance products. In addition, life insurance death benefits paid under terms of the policy are generally exempt from income tax. If the IRC were amended to reduce or eliminate the tax-deferred status of life insurance and annuity products, all life insurance companies, including the Company, would be adversely affected with respect to the ability to sell these products. Such changes in tax law could make the tax advantages of investing in certain life insurance and annuity products less attractive and adversely affect our financial position and results of operations.

In addition, the Company is subject to federal corporate income taxes but benefits from certain tax provisions, including but not limited to, dividends-received deductions and insurance reserve deductions. Due to a variety of factors including the current Federal budget deficit and ongoing proposals from the U.S. Department of Treasury, from time time to time Congress and various state legislatures entertain revenue-raising proposals contrary to the life insurance industry, either by raising rates or otherwise changing tax rules, and there is a risk that federal tax legislation could be enacted lessening or eliminating some or all of the tax advantages currently benefiting the Company and result in higher taxes.

The level of profitability of the Company's products is significantly dependent upon current tax law and the Company's ability to generate taxable income, which is incorporated into our product design and pricing. Consequently, changes in tax law, could impact product pricing and returns or require the Company to reduce sales of certain products or otherwise implement other courses of action that could be disruptive to our business. The Company cannot predict what other changes to tax laws or interpretations of existing tax law may ultimately be enacted or adopted, or whether such changes will adversely affect the Company.

The Company may be required to establish a valuation allowance against its deferred tax assets which could materially affect the Company's results of operations and financial condition.

Differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases give rise to deferred tax assets. These deferred tax assets represent future tax savings that would otherwise be paid in cash. GAAP requires that such deferred tax assets be analyzed for their future realizability which is dependent upon the generation of sufficient future taxable income with which to offset the deferred tax assets. If it is determined that more likely than not all or a portion of the deferred tax assets cannot be realized, then an offsetting valuation allowance must be established with a corresponding charge to net income.

The Company's current assessment of future taxable income in combination with the consideration of available tax planning opportunities has determined that it is more likely than not that it will generate sufficient taxable income to realize its deferred tax assets. This assessment of the realizability of our deferred tax assets requires significant judgment. If future events deviate from the Company's current assessment and cause a failure to achieve our projections, a valuation allowance may need to be established which could have a material adverse effect on the Company's results of operations and financial condition. The Company's year-end net deferred tax assets reflect the current top marginal corporate income tax rate of 35%. Any future reduction in this rate would cause a writedown of our deferred tax assets.

Competition for employees is intense and the Company may not be able to attract and retain highly skilled people needed to support its business.

The Company’s success and ability to reach goals is dependent upon its ability to attract and retain qualified personnel. The market for qualified personnel is extremely competitive and the Company may not be able to hire or retain key people. The unexpected loss of services of one or more of the company’s key personnel could have a material adverse effect on the Company’s operations due to their skills, unique knowledge of our business, years of industry experience and the potential difficulty of quickly finding qualified replacements. The Company has managed to sustain lower than average employee turnover and retained valued employees with decades of experience in the Company's products, business and systems. However, as these individuals attain retirement age, the Company is exposed to the loss of cumulative knowledge in its operations. The Company's employees, including named executive officers, are not subject to employee contracts. Sales in our lines of business and our results of operations and financial condition could be materially adversely affected if the Company is unsuccessful in attracting and retaining qualified individuals or its recruiting and retention costs increase significantly.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Westcap Corporation, a wholly owned subsidiary of National Western, owns the Company's principal office location in Austin, Texas and two buildings adjacent to it, totaling approximately 93,000 square feet that are leased and utilized by the Company. The Company's affiliate, Regent Care Building, LP, owns a 65,000 square foot building in Reno, Nevada, which is leased and utilized by another of the Company's affiliates, Regent Care Operations, LP, for use in its nursing home operations. The Company's subsidiary, Regent Care San Marcos A-3 LP, owns a 74,000 square foot building in San Marcos, Texas, which is also used in nursing home operations. Lease costs and related operating expenses for facilities of the Company's subsidiaries are currently not significant in relation to the Company's consolidated financial statements. The intercompany lease costs related to The Westcap Corporation and the nursing homes have been eliminated for consolidated reporting purposes.

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ITEM 3. LEGAL PROCEEDINGS

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

National Western resolved a class action lawsuit pending since June 12, 2006, in the U.S. District Court for the Southern District of California. The case is titled In Re National Western Life Insurance Deferred Annuities Litigation. The complaint asserted claims for RICO violations, Financial Elder Abuse, Violation of Cal. Bus. & Prof. Code 17200, et seq, Violation of Cal. Bus. & Prof. Code 17500, et seq, Breach of Fiduciary Duty, Aiding and Abetting Breach of Fiduciary Duty, Fraudulent Concealment, Cal. Civ. Code 1710, et seq, Breach of the Duty of Good Faith and Fair Dealing, and Unjust Enrichment and Imposition of Constructive Trust. On July 12, 2010 the Court certified a nationwide class of policyholders under the RICO allegation and a California class under all of the remaining causes of action except breach of fiduciary duty. The parties entered into a Settlement and Release Agreement in August of 2013 ("Settlement") which was finally approved by the Court on February 11, 2014. On February 12, 2014, the Court issued a redacted final approval order granting the Motion for Final Approval of Class Action Settlement. The Settlement became final and non-appealable on April 12, 2014. The Settlement Agreement and Plaintiffs' Request for Attorneys' Fees and Costs were approved by the Court, and the company paid the Court-approved amount of attorneys' fees and costs in April 2014. The company also made certain payments to surrendered and annuitized policyholders in June 2014. In addition, the company agreed to provide bonuses on annuitization for active policyholders who choose a 10-year or a 20-year certain and life settlement option. The company had held reserves of $6.5 million for the matter at December 31, 2013 which approximated the ultimate settlement amounts described above.

In addition to the class action lawsuit described above, National Western was the named defendant in the case of Sheila Newman vs. National Western Life Insurance Company, which alleged mishandling of policyholder funds by an agent. On February 3, 2010, the 415th Judicial District Court of Parker County in Weatherford, Texas, entered a Final Judgment against the company of approximately $208,000 including actual damages of $113,000 and amounts for attorney's fees, and prejudgment interest on the actual damages. In addition, the Final Judgment included $150 million for exemplary damages. The company vigorously defended this case and appealed the Final Judgment to the Court of Appeals Second District of Texas in Fort Worth. The Court of Appeals on August 11, 2011, reversed the trial court judgment in its entirety and rendered a take nothing verdict in favor of National Western. Plaintiffs (Appellees) filed a motion for a rehearing which the Court ruled on October 13, 2011, that the trial court's judgment was still reversed and judgment was still entered that Newman take nothing, all in favor of National Western. The Plaintiffs (Appellees) filed a Motion for Reconsideration En Banc which the Court of Appeals denied on October 27, 2011. The Plaintiffs (Appellees) then filed a Motion for Rehearing of the Court's amended decision, which the Court of Appeals denied on December 22, 2011. On March 21, 2012, Plaintiffs (Appellees) filed a petition for review with the Texas Supreme Court and the company filed its response on April 20, 2012. The Supreme Court asked the parties for briefs on the issues before deciding on whether to hear the case and both parties submitted their briefs. On February 14, 2013, the Supreme Court denied the Plaintiffs petition for review. On April 3, 2013, Plaintiff filed a Motion for Rehearing. The Supreme Court denied Plaintiff's Motion for Rehearing on June 7, 2013 thus ending the matter.

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 the company was operating as an insurance company in Brazil without due authorization. The company had been informed that SUSEP was attempting to impose a penal fine, 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. The company does not transact business in Brazil and has no officers, employees, property, or assets in Brazil. The company believes that SUSEP has no jurisdiction over the company, that SUSEP's attempts at service of process were invalid, and that any penal fine would be unenforceable. 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, the company has ceased accepting new applications from residents in Brazil.

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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's insurance policies to Brazilian residents, and in assistance of such investigation a Commissioner appointed by the U.S. District Court for the Western District of Texas has issued a subpoena upon the company to provide information relating to such possible violations. No conclusion can be drawn at this time as to 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.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Market Information

The Class A common stock of National Western Life Group, Inc. ("NWLGI" or the "Company") is listed for trading on The NASDAQ - Stock Market® (Nasdaq) under the symbol "NWLI". The quarterly high and low sales prices for the Company's common stock for each quarter during the past two calendar years as reported on Nasdaq, and the cash dividends declared per common share, are shown in the following table.

Class A Common Stock Data (per share)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
2015:				
High	$267.67	258.88	246.96	269.00
Low	234.95	221.55	216.99	215.34
Dividends Declared	—	—	—	0.36
2014:				
High	$255.49	259.99	264.36	280.02
Low	204.00	227.61	229.99	229.32
Dividends Declared	—	—	0.36	—

There is no established public trading market for the NWLGI's Class B common stock.

Equity Security Holders

The number of stockholders of record on March 10, 2016 was as follows:

Class A Common Stock	3,032
Class B Common Stock	2

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Dividends

Class B common stockholders receive dividends at one-half the rate declared on Class A common stock. During 2015, NWLGI paid cash dividends on its Class A and Class B common stock in the amounts of $1,237,020 and $36,000, respectively. During 2014, the Company (National Western Life Insurance Company as the public registrant at that time) also paid cash dividends on its Class A and Class B common stock in the amounts of $1,237,020 and $36,000, respectively. Payment of dividends is within the discretion of the Company’s Board of Directors. Payment of dividends by National Western Life Insurance Company ("National Western") to NWLGI are also within the discretion of National Western's Board of Directors, but are subject to prescribed limitations set by the Colorado Division of Insurance without prior approval. The Company’s general policy is to reinvest earnings internally to finance the development of new business.

Securities Authorized For Issuance Under Equity Compensation Plans

The Company has two equity compensation plans that were approved by security holders. These plans were assumed by NWLGI from National Western pursuant to the terms of the reorganization. Under the two plans, a total of 27,768 shares of the Company’s Class A common stock may be issued upon exercise of the outstanding options at December 31, 2015. The weighted average exercise price of the outstanding options is $243.26 per option. Excluding the outstanding options, 291,000 shares of Class A common stock remain available for future issuance under the plans at December 31, 2015.

Performance Graph

The following graph compares the change in the Company's cumulative total stockholder return on its common stock with the NASDAQ - U.S. Companies Index and the NASDAQ - Insurance Stock Index. The graph assumes that the value of the Company's Class A common stock and each index was $100 at December 31, 2010, and that all dividends were reinvested.

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Issuer Purchases of Equity Securities

Effective March 10, 2006, National Western adopted and implemented a limited stock buy-back program associated with the National Western's 1995 Stock Option and Incentive Plan ("Plan") which provides Option Holders the additional alternative of selling shares acquired through the exercise of options directly back to the company. Option Holders may elect to sell such acquired shares back to the company at any time within ninety (90) days after the exercise of options at the prevailing market price as of the date of notice of election. Effective August 22, 2008, National Western adopted and implemented another limited stock buy-back program substantially similar to the 2006 program for shares issued under the 2008 Incentive Plan. These plans and program were assumed by NWLGI from National Western pursuant to the terms of the reorganization.

The following table sets forth the Company's issuance and repurchase activity of its Class A common shares from option holders for the quarter ended December 31, 2015.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May yet Be Purchased Under the Plans or Programs
October 1, 2015 through October 31, 2015	—	$—	N/A	N/A
November 1, 2015 through November 30, 2015	—	—	N/A	N/A
December 1, 2015 through December 31, 2015	—	$—	N/A	N/A
Total	—	$—	N/A	N/A

Purchased shares are reported in the Company's consolidated financial statements as authorized and unissued.

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ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following five-year financial summary includes comparative amounts derived from the audited consolidated financial statements. (1)

	Years Ended December 31,				
	2015	2014	2013	2012	2011
	(In thousands except per share amounts)				
Earnings Information:					
Revenues:					
Universal life and annuity contract charges	$155,608	150,596	148,388	149,328	132,133
Traditional life premiums	19,699	19,519	19,078	18,616	18,078
Net investment income	379,114	505,430	660,432	460,048	391,034
Other revenues	28,166	21,630	23,716	23,470	25,439
Net realized investment gains (losses)	7,209	11,605	8,653	13,200	6,063
Total revenues	589,796	708,780	860,267	664,662	572,747
Benefits and expenses:					
Life and other policy benefits	67,452	54,295	60,050	51,842	46,494
Amortization of deferred policy acquisition costs	120,333	115,154	108,233	121,922	133,088
Universal life and annuity contract interest	176,901	298,259	454,594	262,339	232,788
Other operating expenses	78,442	83,551	95,693	87,978	77,541
Total benefits and expenses	443,128	551,259	718,570	524,081	489,911
Earnings before Federal income taxes	146,668	157,521	141,697	140,581	82,836
Federal income taxes	48,272	51,933	45,450	48,023	27,209
Net earnings	$98,396	105,588	96,247	92,558	55,627
Basic Earnings Per Share:					
Class A	$27.83	29.87	27.23	26.19	15.74
Class B	$13.91	14.93	13.61	13.09	7.87
Diluted Earnings Per Share:					
Class A	$27.82	29.85	27.19	26.19	15.73
Class B	$13.91	14.93	13.61	13.09	7.87
Balance Sheet Information:					
Total assets	$11,612,576	11,351,892	10,830,416	10,263,858	9,727,999
Total liabilities	$10,000,590	9,795,572	9,382,468	8,872,178	8,451,214

Stockholders’ equity	$1,611,986	1,556,320	1,447,948	1,391,680	1,276,785
Book value per common share	$443.32	428.01	398.36	382.88	351.27

(1) See Note 1 Summary of Significant Accounting Policies to the Consolidated Financial Statement for reorganization effective October 1, 2015.

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

Forward-Looking Statements

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

Management's discussion and analysis of financial condition and results of operations ("MD&A") of National Western Life Group, Inc. (formerly National Western Life Insurance Company and subsidiaries) for the three years ended December 31, 2015 follows. This discussion should be read in conjunction with the Company's consolidated financial statements and related notes beginning on page 85 of this report.

Overview

National Western 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.

Due to the business of accepting funds to pay future obligations in later years and the underlying economics, the relevant factors affecting the Company's overall business and profitability include the following:

- the level of sales and premium revenues collected
- persistency of policies and contracts
- return on investments sufficient to produce an acceptable spread margin over interest crediting rates
- investment credit quality which minimizes the risk of default or impairment
- levels of policy benefits and costs to acquire business
- the level of operating expenses
- effect of interest rate changes on revenues and investments including asset and liability matching
- maintaining adequate levels of capital and surplus
- actual levels of surrenders, withdrawals, claims and interest spreads and changes in assumptions for amortization of deferred policy acquisition expenses and deferred sales inducements

change in the fair value of derivative index options and embedded derivatives pertaining to fixed-index life and annuity products

pricing and availability of adequate reinsurance

The Company monitors these factors continually as key business indicators. The discussion that follows in this Item 7 includes these indicators and presents information useful to an overall understanding of the Company's business performance in 2015, incorporating required disclosures in accordance with the rules and regulations of the SEC.

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Impact of Recent Business Environment

The Company's business is generally aided by an economic environment experiencing growth, whether moderate or vibrant, characterized by metrics which indicate improving employment data and increases in personal income growth. Recent macro environment factors having an impact include equity market volatility, ongoing low interest rates, uneven global demand/growth, suffocating regulatory initiatives, questionable business confidence, a declining energy sector driven by falling oil prices, and U.S. politics that come with an election year.

Beginning with its December meeting, the Federal Reserve began to move interest rates off zero with the expectation that future moves would be in calibrated increments. The rise in rates would be of benefit to industry sales, particularly fixed annuity sales, while having a much slower effect on (increasing) insurer portfolio yields. Subsequent to this move, a high level of uncertainty has emerged regarding the "if" and "when" of future increases. The fear is that the Federal Reserve will not follow through on its desire to gradually raise interest rates this year because of concerns about global economic growth. This fear is evidenced by the ten-year treasury rate having fallen as much as fifty basis points since the December Federal Reserve action and whispers of "negative" interest rates becoming more prevalent.

The life industry's profitability picture looks very different coming out of this recovery with return on equity percentages hovering in the single digits, not unexpected for a spread business having endured many years of low interest rates. The industry has increased its capital base during this period and has not deployed it due to the limited returns available and a desire to hold an appropriate cushion for the volatility inherent in some of its product lines (i.e. annuities). Even if the equity markets subject the industry to some volatility, there remains a sizable insurance coverage gap which provides opportunities to increase sales.

There are estimates that the U.S. life insurance industry holds about 10% of its corporate bond investments in the energy sector. Downgrades of debt securities in this sector will require additional allocations of capital and increase risk-based capital requirements.

Regulatory change will demand the attention of the industry. The Department of Labor ("DOL") fiduciary proposal will be an intensely debated issue and the outcome remains uncertain. As currently drafted, the DOL fiduciary rule may impose onerous or unworkable conditions limiting interactions of insurers and their contracted agents with existing or prospective customers who might otherwise be interested in life insurance and annuity products as solutions for their financial needs.

Industry analysts and observers generally agree that a sudden jump in interest rate levels, while presently inconceivable, would be harmful to life insurers with interest-sensitive products as it could provide an impetus for abnormal product surrenders and withdrawals at the same time fixed debt securities held by insurers declined in market value. Currently, the concern has been the possibility that low interest rates will not go away as fast as expected and pressure on insurers' investment income could remain, potentially for years. It is uncertain what direction and at what pace interest rate movements may occur in the future and what impact, if any, such movements would have on the Company’s business, results of operations, cash flows or financial condition.

Our operating strategy continues to be to maintain capital levels substantially above regulatory and rating agency requirements. Our business model is predicated upon steady growth in invested assets while managing the block of business within profitability objectives. A key premise of our financial management is maintaining a high quality investment portfolio, well matched in terms of duration with policyholder obligations, that continues to outperform the industry with respect to adverse impairment experience. This discipline enables the Company to sustain resources more than adequate to fund future growth and absorb abnormal periods of cash outflows.

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Critical Accounting Policies

Accounting policies discussed below are those considered critical to an understanding of the Company’s financial statements.

Impairment of Investment Securities. The Company’s accounting policy requires that a decline in the value of a security below its amortized cost basis be evaluated to determine if the decline is other-than-temporary. The primary factors considered in evaluating whether a decline in value for fixed income and equity securities is other-than-temporary include: (a) the length of time and the extent to which the fair value has been less than cost, (b) the reasons for the decline in value (credit event, interest rate related, credit spread widening), (c) the overall financial condition as well as the near-term prospects of the issuer, (d) whether the debtor is current on contractually obligated principal and interest payments, and (e) that the Company does not intend to sell the investment prior to recovery. In addition, certain securitized financial assets with contractual cash flows are evaluated periodically by the Company to update the estimated cash flows over the life of the security. If the Company determines that the fair value of the securitized financial asset is less than its carrying amount and there has been a decrease in the present value of the estimated cash flows since the previous purchase or prior impairment, then an other-than-temporary impairment charge is recognized. The Company would recognize impairment of securities due to changing interest rates or market dislocations only if the Company intended to sell the securities prior to recovery. When a security is deemed to be impaired, a charge is recorded equal to the difference between the fair value and amortized cost basis of the security. In compliance with GAAP guidance the estimated credit versus the non-credit components are bifurcated, and the non-credit component is reclassified as unrealized losses in other comprehensive income. Once an impairment charge has been recorded, the fair value of the impaired investment becomes its new cost basis and the Company continues to review the other-than-temporarily impaired security for appropriate valuation on an ongoing basis. However, the new cost basis of an impaired security is not adjusted for subsequent increases in estimated fair value.

Deferred Policy Acquisition Costs (“DPAC”). The Company is required to defer certain policy acquisition costs and amortize them over future periods. These costs include commissions and certain other expenses that vary with and are directly associated with acquiring new business. The deferred costs are recorded as an asset commonly referred to as deferred policy acquisition costs. The DPAC asset balance is subsequently charged to income over the lives of the underlying contracts in relation to the anticipated emergence of revenue or profits. Actual revenue or profits can vary from Company estimates resulting in increases or decreases in the rate of amortization. The Company performs regular evaluations of its universal life and annuity contracts to determine if actual experience or other evidence suggests that earlier estimates should be revised. Assumptions considered significant include surrender and lapse rates, mortality, expense levels, investment performance, and estimated interest spread. Should actual experience dictate that the Company change its assumptions regarding the emergence of future revenues or profits (commonly referred to as “unlocking”), the Company would record a charge or credit to bring its DPAC balance to the level it would have been if using the new assumptions from the inception date of each policy.

DPAC is also subject to periodic recoverability and loss recognition testing. These tests ensure that the present value of future contract-related cash flows will support the capitalized DPAC balance to be amortized in the future. The present value of these cash flows, less the benefit reserve, is compared with the unamortized DPAC balance and if the DPAC balance is greater, the deficiency is charged to expense as a component of amortization and the asset balance is reduced to the recoverable amount. For more information about accounting for DPAC see Note 1, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements.

Deferred Sales Inducements. Costs related to sales inducements offered on sales to new customers, principally on investment type contracts and primarily in the form of additional credits to the customer's account value or enhancements to interest credited for a specified period, which are beyond amounts currently being credited to existing contracts, are deferred and recorded as other assets. All other sales inducements are expensed as incurred and included in interest credited to contract holders' funds. Deferred sales inducements are amortized to income using the same methodology and assumptions as DPAC, and are included in interest credited to contract holders' funds. Deferred sales inducements are periodically reviewed for recoverability. For more information about accounting for DPAC see Note 1, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements.

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

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

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

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

The Company annually reviews its pension benefit plans' assumptions which include the discount rate, the expected long-term rate of return on plan assets, and the compensation increase rate. The assumed discount rate is set based on the rates of return on high quality long-term fixed income investments currently available and expected to be available during the period to maturity of the pension benefits. The assumed long-term rate of return on plan assets is generally set at the rate expected to be earned based on the long-term investment policy of the plans, the various classes of the invested funds, input of the plan's investment advisors and consulting actuary, and the plan's historic rate of return. The compensation rate increase assumption is generally set at a rate consistent with current and expected long-term compensation and salary policy, including inflation. These assumptions involve uncertainties and judgment, and therefore actual performance may not be reflective of the assumptions.

Other postretirement benefit assumptions include future events affecting retirement age, mortality, dependency status, per capita claims costs by age, health care trend rates, and discount rates. Per capita claims cost by age is the current cost of providing postretirement health care benefits for one year at each age from the youngest age to the oldest age at which plan participants are expected to receive benefits under the plan. Health care trend rates involve assumptions about the annual rate(s) of change in the cost of health care benefits currently provided by the plan, due to factors other than changes in the composition of the plan population by age and dependency status. These rates implicitly consider estimates of health care inflation, changes in utilization, technological advances, and changes in health status of the participants.

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Share-Based Payments. Liability awards under a share-based payment arrangement have been measured based on the awards' fair value at the reporting date. The Black-Scholes valuation method is used to estimate the fair value of the options. This fair value calculation of the options includes assumptions relative to the following:

- exercise price
- expected term based on contractual term and perceived future behavior relative to exercise
- current price
- expected volatility
- risk-free interest rates
- expected dividends

These assumptions are continually reviewed by the Company and adjustments may be made based upon current facts and circumstances.

Other significant accounting policies, although not involving the same level of measurement uncertainties as those discussed above, but nonetheless important to an understanding of the financial statements, are described in Note 1, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements.

RESULTS OF OPERATIONS

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

Consolidated Operations

Revenues. The following details Company revenues:

	Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Universal life and annuity contract charges	$155,608	150,596	148,388
Traditional life premiums	19,699	19,519	19,078
Net investment income (excluding derivatives)	440,864	436,814	434,533
Other revenues	28,166	21,630	23,716

Operating revenues	644,337	628,559	625,715
Derivative gain (loss)	(61,750)	68,616	225,899
Net realized investment gains (losses)	7,209	11,605	8,653
Total revenues	$589,796	708,780	860,267

Universal life and annuity contract revenues - Revenues for universal life and annuity contract charges increased slightly in 2015 compared to 2014 primarily due to higher surrender charge revenue from terminated policies as shown below. Revenues for universal life and annuity products consist of policy charges for the cost of insurance, administration charges, and surrender charges assessed against policyholder account balances, less reinsurance premiums as depicted in the following table.

	Years Ended December 31,		
Contract Charges:	2015	2014	2013
	(In thousands)		
Cost of insurance and administrative charges	$133,710	129,085	127,932
Surrender charges	41,348	39,051	37,038
Other charges	(3,821)	(1,776)	(830)
Gross contract revenues	171,237	166,360	164,140
Reinsurance premiums	(15,629)	(15,764)	(15,752)
Net contract charges	$155,608	150,596	148,388

Cost of insurance charges were $105.2 million in 2015 compared to $101.7 million in 2014 and $99.3 million in 2013. Cost of insurance charges typically trend with the size of the universal life insurance block in force and the amount of new business issued during the period. At December 31, 2015, the volume of universal life insurance in force increased to $20.5 billion from $20.1 billion as of the end of 2014. Administrative charges were $28.6 million, $27.4 million, and $28.6 million for the years ended December 31, 2015, 2014 and 2013, respectively, and correlate with new universal life insurance business sales by the number of policies placed, the amount of premiums received and the volume of insurance issued.

Surrender charges assessed against policyholder account balances upon withdrawal were $41.3 million in 2015 compared to $39.1 million in 2014 and $37.0 million in 2013. While the Company earns surrender charge income that is assessed upon policy terminations, the Company’s overall profitability is enhanced when policies remain in force and additional contract revenues are realized and the Company continues to make an interest rate spread equivalent to the difference it earns on its investment and the amounts that it credits to policyholders. Policy lapse rates by line of business in 2015 were generally consistent with those experienced in 2014, the annuity lapse rate decreased while the universal life lapse rate increased, and the overall lapse rate was slightly lower. The higher surrender charge income recognized in 2015 over 2014 reflects a slight change in the duration of policies at the time of surrender with earlier policy surrenders having a higher surrender charge assessed.

The growth in domestic life insurance sales the past several years have been driven principally by the sale of single premium life insurance products. In 2013, the Company began deferring the premium load associated with these products and spreading it over future income periods. The amounts shown above as "Other charges" represent current year deferrals of premium loads in excess of previously capitalized amounts amortized into revenue.

Traditional life premiums - Traditional life premiums increased marginally in 2015 compared to 2014. Traditional life insurance premiums for products such as whole life and term life are recognized as revenues over the premium-paying period. The Company’s life insurance sales focus has been primarily centered around universal life products. Universal life products, especially the Company’s equity-index universal life products, which offer the opportunity for consumers to acquire life insurance protection and receive credited interest linked in part to an outside market index such as the S&P 500 Index®, have been more popular product offerings in the Company's markets. The Company began offering graded death benefit whole life and term products in its domestic markets in the latter part of 2014 which added incrementally to sales and premiums in 2015. The majority of traditional life premiums reside in the Company's international life segment.

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Net investment income (with and without derivatives) - A detail of net investment income is provided below.

	Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Gross investment income:			
Debt and equities	$416,633	410,809	410,790
Mortgage loans	10,274	9,847	9,256
Policy loans	3,938	4,252	4,503
Short-term investments	197	401	252
Other invested assets	10,939	12,591	10,759
Total investment income	441,981	437,900	435,560
Less: investment expenses	1,117	1,086	1,027
Net investment income (excluding derivatives)	440,864	436,814	434,533
Derivative gain (loss)	(61,750)	68,616	225,899
Net investment income	$379,114	505,430	660,432

Debt securities generated approximately 94.1% of total investment income, excluding derivative gains and losses, in 2015, consistent with prior years. The Company’s strategy is to invest substantially all of its cash flows in fixed debt securities consistent with its guidelines for credit quality, duration, and diversification. The Company has experienced incremental cash flow from new business for investing in debt securities which has caused the portfolio to grow from $9.2 billion at December 31, 2013 to $9.6 billion at December 31, 2014 and to $10.0 billion at December 31, 2015. Investment yields on new bond purchases in 2015 remained below the portfolio's weighted average yield of approximately 4.25% at December 31, 2015. The yield on debt security purchases to fund insurance operations decreased to 3.51% in 2015 from 3.68% in 2014. Also impacting bond portfolio returns has been the volume of higher yielding debt securities maturing or being called by borrowers with the proceeds being reinvested into lower yielding securities.

The Company’s new mortgage loan activity has been relatively low in recent years given the low level of rates and the higher level of risk associated with commercial properties in this economic environment. Mortgage loan investment income in 2015 received incremental contributions from loan prepayment fees and profit participation receipts during the year. Policy loan and other invested asset balances outstanding have remained relatively stable declining modestly over the past few years. The higher level of investment income for other invested assets during 2014 reflects real estate profits participation loans held in a subsidiary company which received payments of approximately $3.0 million in that period.

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In order to assess underlying profitability and results from ongoing operations, net investment income performance is analyzed excluding derivative gain (loss), which is a common practice in the insurance industry. Net investment income and average invested assets shown below includes cash and cash equivalents. Net investment income performance is summarized as follows:

	Years Ended December 31,		
	2015	2014	2013
	(In thousands except percentages)		
Excluding derivatives:			
Net investment income	$440,864	436,814	434,533
Average invested assets, at amortized cost	$10,132,747	9,663,880	9,144,120
Annual yield on average invested assets	4.35 %	4.52 %	4.75 %
Including derivatives:			
Net investment income	$379,114	505,430	660,432
Average invested assets, at amortized cost	$10,209,095	9,805,680	9,257,722
Annual yield on average invested assets	3.71 %	5.15 %	7.13 %

The decline in average invested asset yield, excluding derivatives, from 2013 to 2014 and to 2015 is due to the Company obtaining lower yields on newly invested cash inflows. As described above, the Company invests substantially all of its net cash flows in debt securities whose new money yields have remained below the weighted average portfolio yield. The pattern in average invested asset yield, including derivatives, incorporates increases and decreases in the fair value of index options purchased by the Company to support its fixed-index products. Fair values of the purchased call options have decreased over the past few years with net gains recorded in 2014 and 2013 and a net loss incurred in 2015 corresponding to the movement in the S&P 500 Index® during these periods (the primary index the Company's fixed-index products employ). Refer to the derivatives discussion following this section for a more detailed explanation.

Other revenues - Other revenues primarily pertain to the Company’s two nursing home operations in Reno, Nevada and San Marcos, Texas. Revenues associated with these operations were $20.6 million, $21.1 million and $23.3 million in 2015, 2014 and 2013, respectively. The 2015 amount also includes additional revenue recorded associated with the life interest in the Libbie Shearn Moody Trust.

Derivative gain (loss) - Index options are derivative financial instruments used to hedge the equity return component of the Company’s fixed-index products. Derivative gain or loss includes the amounts realized from the sale or expiration of the options. Since the index options do not meet the requirements for hedge accounting under GAAP, they are marked to fair value on each reporting date and the resulting unrealized gain or loss is reflected as a component of net investment income.

Gains and losses from index options are substantially due to changes in equity market conditions. Index options are intended to act as hedges to match the returns on the product’s underlying reference index and the rise or decline in the index relative to the index level at the time of the option purchase which causes option values to likewise rise or decline. As income from index options fluctuates with the underlying index, the contract interest expense to policyholder accounts for the Company’s fixed-index products also fluctuates in a similar manner and direction. During 2013 and 2014, the reference indices increased and the Company recorded each year an overall gain from index options with a corresponding increase in contract interest expense in an amount relative to the gains recorded. In 2015, the reference indices decreased and an overall loss from index options was incurred and contract interest expense similarly declined.

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The table below summarizes the derivative gain (loss) amounts and total contract interest by year.

	Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Derivatives:			
Unrealized gain (loss)	$(88,129)	(67,547)	106,514
Realized gain (loss)	26,379	136,163	119,385
Total gain (loss) included in net investment income	$(61,750)	68,616	225,899
Total contract interest	$176,901	298,259	454,594

The economic impact of option performance in the Company's financial statements is not generally determined solely by the option gain or loss included in net investment income as there is a corresponding amount recorded in the contract interest expense line. Rather, the Company's profitability with respect to these options is dependent upon the purchase cost of the option remaining within the financial budget for acquiring options embedded in the product pricing. Option prices vary with interest rates, volatility, and dividend yields among other things. As option prices vary, the Company manages for the variability by making offsetting adjustments to product caps, participation rates, and management fees. For the periods shown, the Company's option costs have been within the product pricing budgets.

Net realized investment gains (losses) - Realized gains (losses) on investments include proceeds on bond calls and sales as well as impairment write-downs on investments in debt and equity securities and real estate. The net investment gains reported in 2015 consisted of gross gains of $7.6 million, primarily from calls of debt securities, offset by gross losses of $0.4 million, which include other-than-temporary impairment losses described below.

The Company records impairment write-downs when a decline in value is considered to be other-than-temporary and full recovery of the investment is not expected. Impairments due to credit factors are recorded in the Company’s consolidated statement of earnings while non-credit (liquidity) impairment losses are included in other specific statement comprehensive income (loss). Impairment and valuation write-downs reflected in the consolidated statements of earnings are summarized in the following table.

	Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Impairment or valuation write-downs:			
Debt securities	$—	7	242
Equities	252	143	63
Mortgage loans	—	—	—
Real estate	—	—	—
Total	$252	150	305

Debt security impairments in 2014 and 2013 primarily pertain to write-downs on asset-backed securities whose cash flows and fair values did not support the amortized cost basis at which the instruments were recorded in the consolidated financial statements.

Equity impairments (common stocks) represent a mark-to-market write-down on securities in which the market discount to book value was significant and had been maintained for several reporting periods. Equity securities represent 0.1% of invested assets and individual holdings have an average cost basis of approximately $39,000.

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Benefits and Expenses. The following details benefits and expenses.

	Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Life and other policy benefits	$67,452	54,295	60,050
Amortization of deferred policy acquisition costs	120,333	115,154	108,233
Universal life and annuity contract interest	176,901	298,259	454,594
Other operating expenses	78,442	83,551	95,693
Totals	$443,128	551,259	718,570

Life and other policy benefits - Life and other policy benefits include death claims of $38.2 million, $31.7 million and $36.9 million for 2015, 2014 and 2013, respectively. While death claim amounts are subject to variation from period to period, the Company’s mortality experience has generally been consistent with or better than its product pricing assumptions. Mortality exposure is managed through reinsurance treaties under which the Company's retained maximum net amount at risk on any one life is capped at $500,000.

During 2013, annuity policy benefit obligations were increased $4.0 million pertaining to the market value adjustment feature on annuity contract surrenders and partial withdrawals transacted over a number of years. The amount of the market value adjustment for any single reporting period was not material given the length of time over which the transactions occurred. These incremental obligations were paid out during 2014.

Amortization of deferred policy acquisition costs - Life insurance companies are required to defer certain expenses that vary with, and are primarily related to, the cost of acquiring new business. The majority of these acquisition expenses consist of commissions paid to agents, underwriting costs, and certain marketing expenses. Recognition of these deferred policy acquisition costs (“DPAC”) as an expense in the consolidated financial statements occurs over future periods in relation to the expected emergence of profits priced into the products sold. This emergence of profits is based upon assumptions regarding premium payment patterns, mortality, persistency, investment performance, and expense patterns. Companies are required to review universal life and annuity contract assumptions periodically to ascertain whether actual experience has deviated significantly from that assumed. If it is determined that a significant deviation has occurred, the emergence of profits pattern is to be "unlocked" and reset based upon the actual experience. DPAC balances are also adjusted each period to reflect current policy lapse or termination rates, expense levels and credited rates on policies as compared to anticipated experience (“true-up”) with the adjustment reflected in current period amortization expense. In accordance with GAAP guidance, the Company must also write off deferred acquisition costs and unearned revenue liabilities upon internal replacement of certain contracts as well as annuitizations of deferred annuities.

The following table identifies the effects of unlocking and true-up adjustments on DPAC balances recorded through amortization expense for 2015, 2014 and 2013.

	Years Ended December 31,		
Increase (Decrease) in DPAC Balance	2015	2014	2013
	(In thousands)		

Unlocking	$1,810	1,430	—
True-up	2,830	7,181	15,842
Totals	$4,640	8,611	15,842

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In 2015, the Company unlocked the DPAC balance associated with its International Life segment for favorable mortality experience on one of its universal life products. The effect of the prospective unlocking was to increase DPAC balances by $7.1 million (and decrease amortization expense). In addition, the Company unlocked the DPAC balance associated with its annuity segment for future expense assumptions pertaining to product development override costs (trailer commissions) which it is obligated to pay certain contracted National Marketing Organizations. The effect of the prospective unlocking was to decrease DPAC balances by $5.3 million (and increase amortization expense). During 2014, the Company unlocked the DPAC balance associated with its International Life segment for premium load increases implemented on several international universal life products. The effect of the prospective unlocking was to increase DPAC balances by $1.4 million (and decrease amortization expense). No unlocking adjustments were made by the Company in 2013.

True-up adjustments are recorded quarterly and the adjustments in 2015, 2014 and 2013 relate to changes in expense ratios, partial surrender rates, mortality rates, credited interest rates and earned rates for the current year's experience. The true-up adjustments for the life insurance lines of business were positive (decrease to amortization expenses) during these periods, whereas the true-up adjustments for the annuity line of business were negative in these same periods incrementally adding to amortization expense.

	Years Ended December 31,		
True-up Adjustments	2015	2014	2013
	(In thousands)		
Annuities	$(13,140)	$(10,860)	(3,553)
International life	9,450	9,140	11,306
Domestic life	6,520	8,901	8,089
Totals	$2,830	7,181	15,842

Universal life and annuity contract interest - The Company closely monitors credited interest rates on interest sensitive policies, taking into consideration such factors as profitability goals, policyholder benefits, product marketability, and economic market conditions. As long-term interest rates change, the Company's credited interest rates are often adjusted accordingly, taking into consideration the factors described above. The difference between yields earned on investments over policy credited rates is often referred to as the "interest spread".

The Company's approximated average credited rates, excluding and including equity-indexed products, were as follows:

	December 31,			December 31,		
	2015	2014	2013	2015	2014	2013
	(Excluding fixed-index products)			(Including fixed-index products)		
Annuity	2.43 %	2.52 %	2.63 %	1.66 %	2.86 %	4.73 %
Interest sensitive life	3.71 %	3.77 %	3.88 %	3.00 %	5.54 %	8.40 %

Contract interest including fixed-index products also encompasses the performance of the index options associated with the Company's fixed-index products. As previously noted, the market performance of these derivative features resulted in net realized and unrealized gains (losses) in 2015, 2014 and 2013 of $(61.8) million, $68.6 million and $225.9 million, respectively.

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Generally, the impact of the market value change of index options on asset values aligns closely with the movement of the embedded
derivative liability held for the Company's fixed-index products such that the net effect upon pretax earnings is negligible (i.e. net
realized and unrealized gains/(losses) included in net investment income approximate the change in contract interest associated with the corresponding embedded derivative liability change). During the third quarter of 2015, the embedded derivative liability decreased approximately $11.0 million less than the decline in the associated index option asset value resulting in a charge to pretax earnings in a like amount. The embedded derivative liability decreased at a lesser rate as a result of the market value of the index options having declined to a level such that the projected interest credits used in estimating the embedded derivative liability did not support the Company's expected collectability of asset management fees on the products (assumed asset management fees collected reduce the embedded derivative liability). In the fourth quarter of 2015, $6.6 million of the charge taken in the third quarter reversed with an improvement in the market value of the index options. The remaining deviation from the third quarter of the index option asset value with the embedded derivative liability ($4.4 million) is subject to reverse in the future in the event of further improvement in market value returns of the index options and/or decreases in asset management fees charged in lieu of other crediting rate mechanism changes. Refer to Footnote 15 Derivative Investments in the accompanying Notes to Condensed Consolidated Financial Statements for further information.

Similar to deferred policy acquisition costs, the Company defers sales inducements in the form of first year interest bonuses on annuity products that are directly related to the production of new business. These bonus interest charges are deferred and amortized using the same methodology and assumptions used to amortize other capitalized acquisition costs and the amortization is included in contract interest. In addition, deferred sales inducement balances are also reviewed periodically to ascertain whether actual experience has deviated significantly from that assumed (unlock) and are adjusted to reflect current policy lapse or termination rates, expense levels and credited rates on policies compared to anticipated experience (true-up). These adjustments, plus or minus, are included in contract interest expense. In the years ended December 31, 2015, 2014, and 2013 the Company recorded true-up adjustments of its deferred sales inducement balances resulting in additional contract interest expense of $3.9 million, $1.6 million and $0.8 million, respectively.

The Company also unlocked its deferred sales inducement balance in 2015 associated with its annuity segment for future expense assumptions pertaining to product development override costs (renewal trail commission arrangements). The effect of the prospective unlocking was to decrease the deferred sales inducement balance by $1.8 million which increased contract interest expense by the same amount. No unlocking adjustments were made in 2014 and 2013.

Other operating expenses - Other operating expenses consist of general administrative expenses, licenses and fees, commissions not subject to deferral, nursing home expenses and compensation costs. These are summarized in the table that follows.

	Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
General insurance expenses	$21,374	18,420	29,916
Nursing home expenses	19,239	19,541	21,230
Compensation expenses	19,981	28,207	28,202

Commission expenses	11,934	11,090	9,478
Taxes, licenses and fees	5,914	6,293	6,867
Totals	$78,442	83,551	95,693

General insurance expenses include amounts provided for various legal matters and outstanding litigation. As more fully described in Item 3. Legal Proceedings of this report, the Company entered into a settlement agreement pertaining to a class action lawsuit which was approved by the U.S. District Court in February 2014. Included in general insurance expense for 2013 is an accrual of $6.5 million related to this settlement which approximated the ultimate amounts paid out during 2014. With the resolution of this matter and a lack of other significant litigation, the Company's legal expenses, excluding the class action lawsuit accrual, declined approximately $1.6 million from the amount in 2013. In addition, the Company was the recipient of $1.1 million in lawsuit settlement proceeds further decreasing legal expenses. Recurring legal fees increased approximately $0.6 million in 2015 over the level in 2014 due services rendered on various regulatory and operational matters.

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General insurance expenses also include costs associated with the Company's various employee benefit plans. This category of expense totaled $5.8 million, $5.9 million, and $5.1 million in 2015, 2014, and 2013, respectively. In addition to employee benefit plans, through 2013, the Company offered a non-qualified deferred compensation plan for qualifying agents. This program was terminated and unvested Company contributions of approximately $1.7 million were recaptured in 2014 reducing general expenses in that year.

Nursing home expenses include the Company's two facilities in Reno, Nevada and San Marcos, Texas. These two entities have operationally functioned at consistent levels of residents over the past several years. Certain higher acuity resident services were discontinued at the Reno facility in 2014 resulting in lower expenses.

Compensation expenses include share-based compensation costs for the Company's stock option plans related to outstanding vested and nonvested stock options and stock appreciation rights (SARs). These costs move in tandem with the number of stock options and SARs outstanding as well as the market price of the Company's Class A common share as a result of marking the stock options and SARs to fair value under the liability method of accounting. Consequently, the related expense amount varies positive or negative in any given period. For the three years shown, share-based compensation expense totaled $(0.9) million in 2015, $4.4 million in 2014 and $5.7 million in 2013. The expense increases in 2013 and 2014 reflect an increase in the Company's Class A common share price from $223.55 at December 31, 2013 to $269.25 at December 31, 2014, while the expense decrease in 2015 is indicative of a price decline to $251.94 at December 31, 2015. No awards of stock options or SARs were granted in 2015 and 2014.

In addition to share-based compensation costs, other compensation costs decreased to $20.9 million in 2015 from $23.8 million in 2014. Of the decline, $1.0 million of the reduction pertained to lower officer bonus amounts primarily due to international life and annuity sales results below target goals.

Segment Operations

Summary of Segment Earnings

A summary of segment earnings from continuing operations for the years ended December 31, 2015, 2014 and 2013 is provided below. The segment earnings exclude realized gains and losses on investments, net of taxes.

	Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
	(In thousands)				
Segment earnings (loss):					
2015	$568	42,647	29,564	20,931	93,710
2014	2,812	37,092	42,935	15,204	98,043
2013	2,094	35,718	37,725	15,085	90,622

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Domestic Life Insurance Operations

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

	Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Premiums and other revenues:			
Premiums and contract revenues	$30,743	28,801	29,567
Net investment income	27,172	34,695	33,818
Other revenues	56	55	29
Total premiums and other revenues	57,971	63,551	63,414
Benefits and expenses:			
Life and other policy benefits	17,905	11,856	11,660
Amortization of deferred policy acquisition costs	8,647	6,913	6,738
Universal life insurance contract interest	17,799	27,050	26,427
Other operating expenses	12,774	13,547	15,515
Total benefits and expenses	57,125	59,366	60,340
Segment earnings (loss) before Federal income taxes	846	4,185	3,074
Provision (benefit) for Federal income taxes	278	1,373	980
Segment earnings (loss)	$568	2,812	2,094

Revenues from domestic life insurance operations include life insurance premiums on traditional type products and contract revenues from universal life insurance. Revenues from traditional products are simply premiums collected, while revenues from universal life insurance consist of policy charges for the cost of insurance, policy administration fees, and surrender charges assessed during the period. A comparative detail of premiums and contract revenues is provided below.

	Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Universal life insurance revenues	$29,785	28,505	31,192
Traditional life insurance premiums	8,093	6,687	4,386
Reinsurance premiums	(7,135)	(6,391)	(6,011)
Totals	$30,743	28,801	29,567

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The Company's domestic life insurance in force in terms of policy counts has been declining for several years resulting in lower universal life contract revenue charges from the in force block. The pace of new policies issued has lagged the number of policies terminating from death or surrender over the three years shown causing a declining level of insurance in force from which contract revenue is received. In 2015, the Company issued 1,920 new domestic life policies while 3,400 terminated. This was a slightly better ratio than in preceding years. Nonetheless, the number of domestic life insurance policies has declined from 57,740 at December 31, 2013 to 55,750 at December 31, 2014 and to 54,270 at December 31, 2015. Policy lapse rates in 2015 improved to 5.9% from 6.2% and 6.7% in 2014 and 2013, respectively.

Universal life insurance revenues are also generated with the issuance of new business based upon amounts per application and percentages of the face amount (volume) of insurance issued. The number of domestic policies issued during 2015 was 13% higher than in 2014 and the volume of insurance issued was 9% more than that in 2014. As noted in the discussion of Consolidated Operations results, in 2013 the Company began deferring the premium load on its most popular domestic product, single pay life insurance. Amounts deferred are amortized into revenues over future periods corresponding with the duration of the policies

Premiums collected on universal life products are not reflected as revenues in the Company's consolidated statements of earnings in accordance with GAAP. Actual domestic universal life premiums are detailed below.

	Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Universal life insurance:			
First year and single premiums	$126,539	115,928	129,518
Renewal premiums	21,065	20,181	19,849
Totals	$147,604	136,109	149,367

During the past several years the Company has achieved some success in growing its domestic life insurance business with the number of new policies issued trending higher. Sales have been substantially weighted toward single premium policies which do not have much in the way of recurring premium payments. These products target wealth transfer strategies involving the movement of accumulated wealth in alternative investment vehicles, including annuities, into life insurance products. The Company launched a series of recurring premium payment whole life and term policies during 2014 which have added marginally to premiums levels thus far.

Net investment income for this segment of business has been gradually increasing due to the increased new business activity described above (single premium policies) and a higher level of investments needed to support the corresponding growth in policy obligations. The increase in net investment income has been partially muted by lower investment yields from debt security investment purchases during this time frame. Net investment income also includes the gains and losses on index options purchased to back the index crediting mechanism on fixed-index universal life products. A detail of net investment income for domestic life insurance operations is provided below.

	Years Ended December 31,		
	2015	2014	2013
	(In thousands)		

Net investment income (excluding derivatives)	$32,186	30,340	24,253
Derivative gain (loss)	(5,014)	4,355	9,565
Net investment income	$27,172	34,695	33,818

For liability purposes, the embedded option in the Company's policyholder obligations for this feature is bifurcated and separately reserved for. Accordingly, a comparable impact for the derivative component in fixed-index universal life products is reflected in the contract interest expense for each respective period.

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Life and policy benefits for a smaller block of business are subject to variation from period to period. Claim activity during 2015 was elevated compared to historical trends. While the number of incurred claims in 2015 declined 6% from the prior year, the average amount per claim increased from $16,600 to $22,600. The low face amount per claim reflects the older block of domestic life insurance policies sold which were final expense type products (i.e. purchased to cover funeral costs). The increase in the average face amount is due to the small addition of claims from recent policy sales which have higher face amounts of insurance coverage per policy. The Company's overall mortality experience for this segment is in line with pricing assumptions.

As noted previously in the discussion of results from consolidated operations, the Company records true-up adjustments to DPAC balances each period to reflect current policy lapse or termination rates, expense levels and credited rates on policies as compared to anticipated experience with the adjustment reflected in current period amortization expense. To the extent required, the Company may also record unlocking adjustments to DPAC balances. The following table identifies the effects of unlocking and true-up adjustments on domestic life insurance DPAC balances recorded through amortization expense for 2015, 2014 and 2013.

	Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Increase (Decrease) in DPAC Balance			
Unlocking	$—	—	—
True-up	6,520	8,901	8,089
Totals	$6,520	8,901	8,089

The true-up adjustments recorded in each year increased the DPAC balance which conversely reduced amortization expense by a like amount for each year. These true-up adjustments reflect favorable outcomes compared to anticipated experience.

Operating expenses are allocated to lines of business based upon a functional cost analysis of the business activity giving rise to incurred expenses. As the Company's overall operating expense levels declined in 2015 from the prior year, operating expenses for this segment were lower.

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International Life Insurance Operations

The Company's international life operations have been a steady contributor to the Company's overall earnings performance and represents a niche where the Company believes it has a competitive advantage. A stable population of distribution relationships has been developed given the Company's longstanding reputation for supporting its international life products coupled with the instability of competing insurers.

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

	Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Premiums and other revenues:			
Premiums and contract revenues	$122,393	118,838	117,668
Net investment income	29,400	51,539	63,504
Other revenues	14	372	299
Total premiums and other revenue	151,807	170,749	181,471
Benefits and expenses:			
Life and other policy benefits	24,237	24,034	25,706
Amortization of deferred policy acquisition costs	19,975	21,807	18,946
Universal life insurance contract interest	23,423	46,255	58,757
Other operating expenses	20,706	23,449	25,624
Total benefits and expenses	88,341	115,545	129,033
Segment earnings before Federal income taxes	63,466	55,204	52,438
Provision (benefit) for Federal income taxes	20,819	18,112	16,720
Segment earnings	$42,647	37,092	35,718

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

	Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Universal life insurance revenues	$121,281	115,378	112,874
Traditional life insurance premiums	9,605	12,833	14,692
Reinsurance premiums	(8,493)	(9,373)	(9,898)

Totals	$122,393	118,838	117,668

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In general, universal life revenues and operating earnings are anticipated to emerge with the amount of international life insurance in force and a steady growth in new sales. Over the past three years, the volume of insurance in force has moved from $19.6 billion at December 31, 2013 to $20.0 billion at December 31, 2014 and to $19.0 billion at December 31, 2015. Universal life insurance revenues are also generated with the issuance of new business based upon amounts per application and percentages of the face amount (volume) of insurance issued. During 2015, the number of international life policies decreased 18% from the prior year while the volume of insurance issued decreased approximately 27% from the level in 2014. As discussed in Part 1 Item 1. (Business) the Company ceased accepting applications from residents of Brazil and certain other countries during the fourth quarter of 2015.

A third component of international universal life revenues include surrender charges assessed upon surrender of contracts by policyholders. In the midst of the financial crisis during 2008 through 2010, the Company’s international policyholders in particular exhibited concern regarding the developments in U.S. financial markets. This level of termination activity subsequently subsided in 2011 with the termination activity over the following years remaining relatively level. In 2015, termination activity revisited the levels last seen during the 2008 through 2010 period. The following table illustrates the Company’s international life termination experience over the past five years.

Volume In Force Terminations	Amount in $’s (millions)	Annualized Termination Rate	
Year Ended December 31, 2015	$2,659.1	12.3	%
Year Ended December 31, 2014	1,825.5	8.4	%
Year Ended December 31, 2013	1,838.5	8.6	%
Year Ended December 31, 2012	1,828.4	8.7	%
Year Ended December 31, 2011	1,465.1	7.3	%

As described previously, premiums collected on universal life products are not reflected as revenues in the Company's consolidated statements of earnings in accordance with GAAP. Actual international universal life premiums collected are detailed below.

	Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Universal life insurance:			
First year and single premiums	$26,933	29,688	28,328
Renewal premiums	102,737	115,019	118,661
Totals	$129,670	144,707	146,989

The Company’s most popular international products have been its fixed-index universal life products in which the policyholder can elect to have the interest rate credited to their policy account values linked in part to the performance of the S&P 500 Index®. Included in the totals in the above table are collected premiums for fixed-index universal life products of $84.5 million, $94.9 million and $93.4 million for the years ended 2015, 2014 and 2013, respectively. The decline in renewal premiums during 2015 corresponds with the increased termination activity discussed above.

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As noted previously, net investment income and contract interest include period-to-period changes in fair value pertaining to call options purchased to hedge the interest crediting feature on the fixed-index universal life products. With the growth in the fixed-index universal life block of business, the period-to-period changes in fair values of the underlying options have had an increasingly greater impact on net investment income and universal life contract interest. A detail of net investment income for international life insurance operations is provided below.

	Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Net investment income (excluding derivatives)	$37,684	38,903	34,181
Derivative gain (loss)	(8,284)	12,636	29,323
Net investment income	$29,400	51,539	63,504

As noted in the Domestic Life Insurance discussion, for liability purposes, the embedded option in the Company's policyholder obligations for this feature is bifurcated and reserved for separately. Accordingly, the impact for the embedded derivative component in the equity-index universal life product is reflected in the contract interest expense for each respective period.

Life and policy benefits primarily consist of death claims on policies. The Company’s clientele for international products are generally wealthy individuals with access to U.S. dollars and quality medical care. Consequently, the amounts of coverage purchased tend to be larger amounts than those for domestic life insurance. In the year ended December 31, 2015, the average face amount of insurance purchased was approximately $342,500, reflecting a level somewhat lower than that of immediately prior years. While life and policy benefit expense for the international life segment reflects the larger policies purchased, mortality due to natural causes is comparable to that in the United States. The Company's maximum risk exposure per insured life, after reinsurance, is capped at $500,000. The number of claims reported during 2015 was approximately 4% less than the prior year. However, the average net claim (after reinsurance) increased from $142,500 to $168,700. Measured over a period of years, the Company's international life mortality experience has generally been better than product pricing assumptions.

The Company records true-up adjustments to DPAC balances each period to reflect current policy lapse or termination rates, expense levels and credited rates on policies as compared to anticipated experience as well as unlocking adjustments as necessary. The following table identifies the effects of unlocking and true-up adjustments on international life insurance DPAC balances recorded through amortization expense for 2015, 2014 and 2013.

	Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Increase (Decrease) in DPAC Balance			
Unlocking	$7,120	1,430	—
True-up	9,450	9,140	11,306
Totals	$16,570	10,570	11,306

Similar to domestic life results, the true-up adjustments recorded for the periods shown increased the DPAC balance which conversely reduced amortization expense by a like amount for the year. In 2015, the Company unlocked the

DPAC balance for favorable mortality experience on one of its international universal life products. The effect of the prospective unlocking was to increase DPAC balances by $7.1 million (and decrease amortization expense). The unlocking adjustment in 2014 resulted from the Company implementing premium load increases on several international universal life products and unlocking its DPAC for this item. The effect of the prospective unlocking in 2014 was to increase DPAC balances by $1.4 million (and decrease amortization expense).

As indicated in the discussion concerning net investment income, contract interest expense includes fluctuations that are the result of the effect upon the embedded derivative for the performance of underlying equity indices associated with fixed-index universal life products. The amounts realized on purchased call options approximate the amounts the Company credits to policyholders. For more details about the Company’s use of index options to hedge the performance of equity indices refer to the derivative gain (loss) discussion in the Consolidated Operations section of this Item 7.

Annuity Operations

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

	Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Premiums and other revenues:			
Premiums and contract revenues	$22,171	22,476	20,231
Net investment income	300,198	398,163	543,077
Other revenues	50	68	45
Total premiums and other revenues	322,419	420,707	563,353
Benefits and expenses:			
Life and other policy benefits	25,310	18,405	22,684
Amortization of deferred policy acquisition costs	91,711	86,434	82,549
Annuity contract interest	135,679	224,954	369,410
Other operating expenses	25,723	27,015	33,325
Total benefits and expenses	278,423	356,808	507,968
Segment earnings before Federal income taxes	43,996	63,899	55,385
Provision (benefit) for Federal income taxes	14,432	20,964	17,660
Segment earnings	$29,564	42,935	37,725

Premiums and contract charges primarily consist of surrender charge income recognized on terminated policies. The amount of surrender charge income recognized is determined by the volume of surrendered contracts as well as the duration of each contract at the time of surrender given the pattern of declining surrender charge rates over time that is common to most annuity contracts. The Company's lapse rate for annuity contracts during 2015 was 6.2%, a slight decrease from a rate of 6.6% in 2014 and 6.5% in 2013.

Deposits collected on annuity contracts are not reflected as revenues in the Company's consolidated statements of earnings in accordance with GAAP. Actual annuity deposits collected are detailed below.

	Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Fixed-index annuities	$723,282	748,022	717,630
Other deferred annuities	40,581	66,997	78,579
Immediate annuities	11,146	18,254	17,671
Totals	$775,009	833,273	813,880

Fixed-index products are more attractive for consumers when interest rate levels remain low and equity markets produce positive returns. Since the Company does not offer variable products or mutual funds, fixed-index products provide an important alternative to the Company's existing fixed interest rate annuity products. Fixed-index annuity deposits as a percentage of total annuity deposits were 93%, 90% and 88%for the years ended December 31, 2015, 2014 and 2013, respectively. The increasing percentage of fixed-index products to total annuity deposits reflects the low interest rate environment and the ongoing bull market in equities.

As a selling inducement, some of the deferred products, as well as the fixed-index annuity products, include a first year interest bonus ranging from 1% to 7% depending upon the product, in addition to the base first year interest rate. Other products include a premium bonus ranging from 2% to 10% which is credited to the account balance when premiums are applied. These bonus rates are deferred in conjunction with other capitalized policy acquisition costs. The amount deferred to be amortized over future periods amounted to approximately $17.7 million, $18.4 million and $26.2 million for the years ended December 31, 2015, 2014 and 2013, respectively. Amortization of deferred sales inducements is included as a component of annuity contract interest as described later in this discussion of annuity operations.

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

	Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Net investment income (excluding derivatives)	$348,650	346,538	356,067
Derivative gain (loss)	(48,452)	51,625	187,010
Net investment income	$300,198	398,163	543,077

As previously described, derivatives are call options purchased to hedge the equity return component of the Company's fixed-index annuity products with any gains or losses from the sale or expiration of the options, as well as period-to-period changes in fair values, reflected in net investment income. Since the embedded derivative option in the policies is bifurcated when determining the contract reserve liability, the impact of the market value change of index options on assets values generally aligns closely with the movement of the embedded derivative liability such that the net effect upon pretax earnings is negligible (i.e. net realized and unrealized gains/(losses) included in net investment income approximate the change in contract interest associated with the corresponding embedded derivative liability change). See further discussion below regarding contract interest activity.

Life and policy benefits primarily consists of death claim benefits paid on annuity policies. In 2013, this amount also includes a $4.0 million liability increase pertaining to the market value adjustment on surrenders and partial withdrawals on certain annuity policy that were transacted over a period of years. This liability was paid during the course of 2014.

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Consistent with the domestic and international life segments, the Company records true-up adjustments to DPAC balances each period to reflect current policy lapse or termination rates, expense levels and credited rates on policies as compared to anticipated experience as well as unlocking adjustments as necessary. The following table identifies the effects of unlocking and true-up adjustments on annuity DPAC balances recorded through amortization expense for 2015, 2014 and 2013.

	Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Increase (Decrease) in DPAC Balance			
Unlocking	$(5,310)	—	—
True-up	(13,140)	(10,860)	(3,553)
Totals	$(18,450)	(10,860)	(3,553)

The Company unlocked the DPAC balance associated with its annuity segment in 2015 for future expense assumptions pertaining to product development override costs (trailer commissions) which it is obligated to pay certain contracted National Marketing Organizations. The effect of the prospective unlocking was to decrease DPAC balances by $5.3 million (and increase amortization expense). No unlocking adjustments were recorded in 2014 and 2013.

As the true-up adjustments in each period decreased DPAC balances a corresponding increase in DPAC amortization expense was recorded. The true-up adjustments in 2015, 2014 and 2013 relate to policy lapse or termination rates, renewal trail commissions, expense levels, investment yields and interest credited rates compared to anticipated experience.

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

	Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Fixed-indexed annuities	$34,167	127,672	259,981
All other annuities	90,699	89,391	110,342
Gross contract interest	124,866	217,063	370,323
Bonus interest deferred and capitalized	(17,704)	(18,355)	(26,159)
Bonus interest amortization	28,517	26,246	25,246
Total contract interest	$135,679	224,954	369,410

The fluctuation in reported contract interest amounts for fixed-indexed annuities is driven by sales levels, the level of the business in force and the positive or negative performance of equity markets on option values on projected interest credits. As noted above in the net investment income discussion, the amounts shown for contract interest for fixed-index annuities generally align with the derivative gains/(losses) included in net investment income. In the third quarter of 2015, the embedded derivative liability decreased approximately $11.0 million less than the decline in the associated index option asset value resulting in a charge to pretax earnings in a like amount. The embedded derivative liability decreased at a lesser rate as a result of the market value index option returns having declined to a level such that the projected interest credits used in estimating the embedded derivative liability did not support the Company's expected collectability of asset management fees on fixed-index products (assumed asset management fees collected reduce the embedded derivative liability). At December 31, 2015, the market value index option returns improved resulting in the Company recovering in the fourth quarter approximately $6.6 million of the third quarter pretax earnings charge. The remaining difference ($4.4 million) of the deviation of the index option asset value with the embedded derivative liability is subject to reverse in the future in the event of further increases in market value index option returns and/or decreases in asset management fees charged in lieu of other crediting rate mechanism changes.

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True-up adjustments for the deferred sales inducement balance are done each period similar to that done with respect to DPAC balances. For the years ended December 31, 2015, 2014, and 2013 deferred sales inducement balances on the consolidated balance sheet were reduced by $3.9 million, $1.6 million and $0.8 million, respectively, for true-up adjustments. These adjustments are included in the above table as an addition to bonus interest amortization. The Company also unlocked its deferred sales inducement balance in 2015 for future expense assumptions pertaining to product development override costs as previously discussed in the Consolidated Operations section of this report. The effect of the prospective unlocking was to decrease the deferred sales inducement balance by $1.8 million which increased contract interest expense by the same amount. No unlocking adjustments were made in 2014 and 2013.

The majority of litigation and legal matters the Company is involved with emanate from annuity products. Accordingly, the $6.5 million addition to the liability for legal matters during 2013 discussed in the Consolidated Operations section of this report was allocated to the Annuity Operations segment and is included in other operating expenses in that period.

Other Operations

The Company's primary business encompasses its domestic and international life insurance operations and its annuity operations. However, the Company also has small real estate, nursing home, and other investment operations through its wholly-owned subsidiaries. Nursing home operations generated $1.3 million, $1.6 million and $2.1 million of operating earnings in 2015, 2014, and 2013, respectively. The remaining earnings in Other Operations of $19.6 million, $13.6 million, and $13.0 million for the years ended December 31, 2015, 2014, 2013, respectively, represent investment income from real estate, municipal bonds, and common and preferred equities held in subsidiary company portfolios principally for tax-advantage purposes. Included in these amounts are semi-annual distributions from a life interest in the Libby Shearn Moody Trust which is an asset held in NWLSM, Inc. Pretax distributions from this trust were $7.0 million, $6.0 million, and $5.4 million in 2015, 2014, and 2013, respectively. In addition to pretax distributions, the 2015 amount also includes additional revenue recorded associated with revaluing the actuarial life interest in the Libbie Shearn Moody Trust.

INVESTMENTS

General

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

The Company's overall conservative investment philosophy is reflected in the allocation of its investments, which is detailed below as of December 31, 2015 and 2014. The Company emphasizes investment grade debt securities, with smaller holdings in mortgage loans and policy loans, and purchases index call options to support its fixed-index policyholder contract obligations.

	December 31, 2015		December 31, 2014	
	Carrying Value	%	Carrying Value	%
	(In thousands)		(In thousands)	

Debt securities	$10,035,189	97.4	$9,552,920	96.2
Mortgage loans	108,311	1.1	149,503	1.5
Policy loans	61,957	0.6	63,645	0.6
Derivatives, index options	38,409	0.4	114,287	1.2
Real estate	16,333	0.2	16,741	0.2
Equity securities	18,361	0.2	17,303	0.2
Other	10,454	0.1	12,033	0.1
Totals	$10,289,014	100.0	$9,926,432	100.0

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The Company’s investment portfolio increased 4% to $10.3 billion at December 31, 2015 compared to $9.9 billion at December 31, 2014 due to positive cash flows from operating and financing activities. The primary driver of the increase was investable funds generated from single premium life insurance and annuity sales. Annuity production was again managed within a targeted range given the low interest rate environment and approximately $775.0 million in annuity deposits were collected in 2015. Partially offsetting the increase in the portfolio balance from investable cash flows was a reduction in the unrealized gain position of the Company’s securities available for sale portfolio, which is reported at fair market value. Unrealized gains decreased from $138.6 million at December 31, 2014 to $32.2 million at December 31, 2015 due to the increase in interest rates during 2015 (which serves to decrease market values).

Derivatives, index options, are call options purchased to hedge the interest crediting mechanism associated with the Company's fixed-index universal life and annuity policies. These options are reported on the consolidated balance sheet at fair value in accordance with GAAP. The unrealized loss position of options held at December 31, 2015 of $(47.8) million was $88.1 million lower than the unrealized gain position at December 31, 2014 of $40.3 million due to market indice levels at the time of option purchases and a lower equity index level at the end of 2015.

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 December 31, the Company's debt securities portfolio consisted of the following for 2015 and 2014:

	December 31, 2015		December 31, 2014	
	Carrying Value (In thousands)	%	Carrying Value (In thousands)	%
Corporate	$6,814,793	68.0	$6,208,241	65.1
Residential mortgage-backed	1,542,587	15.4	1,693,372	17.7
Public utilities	1,178,622	11.7	1,158,063	12.1
State and political subdivisions	436,493	4.3	432,739	4.5
U.S. agencies	15,019	0.1	10,061	0.1
Asset-backed securities	35,393	0.4	38,199	0.4
Foreign governments	10,355	0.1	10,325	0.1
U.S. Treasury	1,927	—	1,920	—
Totals	$10,035,189	100.0	$9,552,920	100.0

Substantially all of the Company’s investable cash flows are directed toward the purchase of long-term 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 provide an appropriate strategy for managing cash flows. With the advent of the Federal Reserve's low interest rate environment, the percentage of mortgage-backed securities in the Company's investment portfolio has declined over the past few years reflecting fewer new purchases of these instruments as well as increased prepayment activity. This percentage has been over 35% of the portfolio in previous years. The Company holds minimal levels of U.S. Treasury securities due to their low yields and deposits most of these holdings with various state insurance departments in order to meet security deposit on hand requirements in these states.

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Debt securities purchased to fund insurance company operations are summarized below.

	Year Ended December 31			
	2015		2014	
	(Dollars in thousands)			
Cost of acquisitions	$1,309,930		$1,166,112	
Average S&P quality	A-		A-	
Effective annual yield	3.51	%	3.68	%
Spread to treasuries	1.36	%	1.12	%
Effective duration				