VENTAS REALTY LIMITED PARTNERSHIP
Form 424B5
September 14, 2016

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Registration Statement Nos. 333-202586 and 333-202586-01

The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion
Preliminary Prospectus Supplement dated September 14, 2016

PRELIMINARY PROSPECTUS SUPPLEMENT
(To prospectus dated March 6, 2015)

$

Ventas Realty, Limited Partnership

% Senior Notes due

Fully and unconditionally guaranteed by Ventas, Inc.

Ventas Realty, Limited Partnership, a wholly owned subsidiary of Ventas, Inc., which we refer to as the issuer, is offering $ million aggregate principal amount of its % senior notes due . We refer to the notes offered hereby as the notes.

The notes will bear interest at a rate of % per annum. Interest on the notes will be payable semi-annually in arrears on and of each year, commencing on , 2017. Interest on the notes will accrue from September , 2016. The notes will mature on , . The notes will be unconditionally guaranteed on a senior unsecured basis by Ventas, Inc.

The issuer may redeem the notes, in whole, at any time, or from time to time in part, prior to their stated maturity. The redemption price for notes that are redeemed before , will be equal to (i) 100% of their principal amount, together with accrued and unpaid interest thereon, if any, to (but excluding) the date of redemption, plus (ii) a make-whole premium. The redemption price for notes that are redeemed on or after , will be equal to 100% of their principal amount, together with accrued and unpaid interest thereon, if any, to (but excluding) the date of redemption, and will not include a make-whole premium.

The notes and the related guarantee will be part of the issuer's and Ventas, Inc.'s respective general unsecured obligations, ranking equal in right of payment with all of each such entity's existing and future senior unsecured indebtedness and ranking senior in right of payment to all of each such entity's existing and future subordinated indebtedness. However, the notes and the guarantee will be effectively subordinated to all of

each such entity's secured borrowings to the extent of the assets securing those obligations and structurally subordinated to the indebtedness and other obligations of Ventas, Inc.'s subsidiaries (other than the issuer).

Investing in the notes involves risks. See "Risk Factors" beginning on page S-5 of this prospectus supplement.

	Per Note	Total
Public offering price[1]	%	$
Underwriting discount	%	$
Proceeds, before expenses, to the issuer[1]	%	$

(1) Plus accrued interest, if any, from September , 2016 if initial settlement occurs after that date.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

We do not intend to apply for listing of the notes on any securities exchange or any automated dealer system.

The underwriters expect to deliver the notes to purchasers on or about September , 2016 only in book-entry form through the facilities of The Depository Trust Company.

Joint Book-Running Managers

Citigroup Barclays Credit Agricole CIB Credit Suisse

The date of this prospectus supplement is September , 2016.

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This document is in two parts. The first part is the prospectus supplement, which describes the specific terms of this offering and also adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference. The second part is the accompanying prospectus, which gives more general information, some of which may not apply to this offering. To the extent there is a conflict between the information contained in this prospectus supplement, on the one hand, and the information contained in the accompanying prospectus, on the other hand, the information in this prospectus supplement shall control.

You should read this document together with additional information described under the heading "Where You Can Find More Information and Incorporation by Reference." You should rely only on the information contained or incorporated by reference in this document or any related free writing prospectus we file with the Securities and Exchange Commission (the "SEC"). Neither we nor the underwriters have authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should assume that the

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information in this prospectus supplement and the accompanying prospectus, as well as the information we have previously filed with the SEC and incorporated by reference in this document, is accurate only as of its date or the date which is specified in those documents.

Unless the context otherwise requires, the following terms used in this prospectus supplement will have the meanings below:

- the terms "we," "us," "our" or similar terms and "Ventas" refer to Ventas, Inc., a Delaware corporation, together with its subsidiaries;
- the terms "Ventas Realty" and "issuer" refer to Ventas Realty, Limited Partnership, a Delaware limited partnership;
- the term "Ventas Capital" refers to Ventas Capital Corporation, a Delaware corporation;
- the term "Ardent" refers to Ardent Health Partners, LLC, a Delaware limited liability company, together with its subsidiaries;
- the term "Atria" refers to Atria Senior Living, Inc., a Delaware corporation;
- the term "Brookdale Senior Living" refers to Brookdale Senior Living Inc., a Delaware corporation, together with its subsidiaries;
- the term "Kindred" refers to Kindred Healthcare, Inc., a Delaware corporation, together with its subsidiaries;
- the term "Lillibridge" refers to Lillibridge Healthcare Services, Inc., an Illinois corporation; and
- the term "Sunrise" refers to Sunrise Senior Living, LLC, a Delaware limited liability company, together with its subsidiaries.

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PROSPECTUS SUPPLEMENT SUMMARY

This summary contains basic information about us, the notes and this offering. Because this is a summary, it does not contain all of the information you should consider before investing in the notes. You should carefully read this summary together with the more detailed information and financial statements and notes thereto contained elsewhere or incorporated by reference in this prospectus supplement and the accompanying prospectus. To fully understand this offering, you should read all of these documents.

Ventas

We are an S&P 500 company that is a real estate investment trust ("REIT"), with a highly diversified portfolio of seniors housing and healthcare properties located throughout the United States, Canada and the United Kingdom. As of June 30, 2016, we owned approximately 1,300 properties (including properties classified as held for sale), consisting of seniors housing communities, medical office buildings ("MOBs"), skilled nursing facilities, specialty hospitals and general acute care hospitals, and we had five properties under development, including two properties that are owned by an unconsolidated real estate entity. Our company was originally founded in 1983 and is currently headquartered in Chicago, Illinois.

We primarily invest in and own seniors housing and healthcare properties through acquisitions and lease our properties to unaffiliated tenants or operate them through independent third-party managers. As of June 30, 2016, we leased a total of 575 properties (excluding MOBs and 34 properties owned through investments in unconsolidated entities, and including 25 properties classified as held for sale) to various healthcare operating companies under "triple-net" or "absolute-net" leases that obligate the tenants to pay all property-related expenses, including maintenance, utilities, repairs, taxes, insurance and capital expenditures, and we engaged independent operators, such as Atria and Sunrise, to manage 304 of our seniors housing communities for us pursuant to long-term management agreements. Our three largest tenants, Brookdale Senior Living, Kindred and Ardent leased from us 140 properties (excluding six properties owned through investments in unconsolidated entities and one property managed by Brookdale Senior Living pursuant to a long-term management agreement), 68 properties (excluding one MOB) and ten properties, respectively, as of June 30, 2016.

Through our Lillibridge subsidiary and our ownership interest in PMB Real Estate Services LLC, we also provide MOB management, leasing, marketing, facility development and advisory services to highly rated hospitals and health systems throughout the United States. In addition, from time to time, we make secured and unsecured loans and other investments relating to seniors housing and healthcare operators or properties.

We aim to enhance shareholder value by delivering consistent, superior total returns through a strategy of: (1) generating reliable and growing cash flows; (2) maintaining a balanced, diversified portfolio of high-quality assets; and (3) preserving our financial strength, flexibility and liquidity.

Our principal executive offices are located at 353 North Clark Street, Suite 3300, Chicago, Illinois, 60654, and our telephone number is (877) 483-6827. We maintain a website on the Internet at www.ventasreit.com. Information on our website is not incorporated by reference herein and our web address is included in this prospectus supplement as an inactive textual reference only.

Ventas Realty

Ventas Realty, the issuer of the notes, is a wholly owned operating partnership of Ventas, Inc. that was formed under the laws of the State of Delaware.

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Recent Developments

On September 1, 2016, we announced that we completed our previously agreed acquisition of substantially all of the university affiliated life science and medical real estate assets of Wexford Science & Technology, LLC ("Wexford") from affiliates of Blackstone Real Estate Partners VIII, L.P. (together with its affiliates, "Blackstone") for $1.5 billion in cash. The acquisition adds a related business to our diverse portfolio, with the acquired portfolio containing 23 operating properties comprising 4.1 million square feet. The operating properties are 97% leased, including by leading universities, academic medical centers and research institutions. The real estate portfolio includes two development assets to be delivered by the end of 2017 and nine future development sites principally contiguous to existing assets. The total consideration of $1.5 billion in cash for the transaction includes $1.4 billion paid at closing for the 23 operating properties, $88 million for the two development assets and $50 million for the nine future development sites. Under the terms of an asset management agreement that we entered into with Wexford in connection with the acquisition, the properties that we acquired continue to be managed by Wexford, which remains a separate management company owned and operated by the existing Wexford management team. Under the terms of a pipeline property agreement that we entered into with Wexford in connection with the acquisition, we have exclusive rights to fund and own future projects developed by Wexford.

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The Offering

The following summary contains basic information about the notes and is not intended to be complete. It does not contain all information that may be important to you. For a more detailed description of the notes, see "Description of Notes" in this prospectus supplement and "Description of Debt Securities" in the accompanying prospectus.

Issuer	Ventas Realty.
Securities	$ million aggregate principal amount of % senior notes due .
Maturity	The notes will mature on , .
Guarantee	The notes will be unconditionally guaranteed on a senior unsecured basis by Ventas, Inc. See "Description of Notes Brief Description of the Notes and the Guarantee The Guarantee."
Interest	The notes will bear interest at a rate of % per annum.
Interest Payment Dates	Interest on the notes will be payable semi-annually in arrears on and of each year, commencing on , 2017. Interest on the notes will accrue from September , 2016.
Ranking	The notes and the related guarantee will be part of the issuer's and Ventas, Inc.'s respective general unsecured obligations, ranking equal in right of payment with all of each such entity's existing and future senior unsecured indebtedness and ranking senior in right of payment to all of each such entity's existing and future subordinated indebtedness. However, the notes and the guarantee will be effectively subordinated to all of each such entity's secured borrowings to the extent of the assets securing those obligations and structurally subordinated to all indebtedness and other obligations of Ventas, Inc.'s subsidiaries (other than the issuer). As of June 30, 2016, Ventas, Inc. and its subsidiaries had outstanding secured debt of $1.8 billion and Ventas, Inc.'s subsidiaries (other than the issuer and Ventas Capital) had $1.0 billion of outstanding unsecured indebtedness. See "Risk Factors Risks Arising From Our Capital Structure We may become more leveraged" and "Risk Factors Risks Relating to the Notes Because the notes will be unsecured and will be structurally subordinated to the obligations of Ventas, Inc.'s subsidiaries (other than the issuer), you may not be fully repaid if we become insolvent."
	Unlike certain other series of senior notes issued by Ventas Realty (of which $3.9 billion aggregate principal amount was outstanding as of June 30, 2016), the notes will not be co-issued with Ventas Realty's wholly owned subsidiary, Ventas Capital, which has no operations, assets or revenues. See "Description of Notes Certain Covenants Restrictions on Activities of Ventas Capital."

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Optional Redemption	The issuer may redeem the notes, in whole, at any time, or from time to time in part, prior to their stated maturity. The redemption price for notes that are redeemed before , will be equal to (i) 100% of their principal amount, together with accrued and unpaid interest thereon, if any, to (but excluding) the date of redemption, plus (ii) a make-whole premium. The redemption price for notes that are redeemed on or after , will be equal to 100% of their principal amount, together with accrued and unpaid interest thereon, if any, to (but excluding) the date of redemption, and will not include a make-whole premium. See "Description of Notes Optional Redemption."
Certain Covenants	The indenture governing the notes contains covenants that limit our ability to, among other things: incur debt; incur secured debt; and merge, consolidate or transfer all or substantially all of our assets. We are also required to maintain total unencumbered assets of at least 150% of our unsecured debt. These covenants are subject to important exceptions and qualifications, which exceptions and qualifications are described under "Description of Notes Certain Covenants."
No Public Market	The notes are a new series of securities for which there is currently no established trading market. The underwriters have advised us that they presently intend to make a market in the notes. However, you should be aware that they are not obligated to make a market and may discontinue their market- making activities at any time without notice. As a result, a liquid market for the notes may not be available if you try to sell your notes. We do not intend to apply for a listing of the notes on any securities exchange or any automated dealer quotation system.
Use of Proceeds	We expect the net proceeds from this offering to be approximately $ million, after deducting the underwriting discount and estimated expenses of this offering payable by us. We intend to use the net proceeds from this offering for working capital and other general corporate purposes, which may include the repayment of indebtedness. See "Use of Proceeds" in this prospectus supplement.
Risk Factors	See "Risk Factors" and other information included or incorporated by reference in this prospectus supplement and the accompanying prospectus for a discussion of factors you should carefully consider before deciding to invest in the notes.

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RISK FACTORS

Our business, operations and financial condition are subject to various risks. Before deciding to invest in the notes, you should carefully consider the following factors as well as the risk factors and other information contained in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein and therein, including our most recent Annual Report on Form 10-K and our subsequently filed Quarterly Reports on Form 10-Q, that are incorporated or deemed to be incorporated by reference herein.

Risks Arising From Our Capital Structure

We may become more leveraged.

As of June 30, 2016, we had approximately $10.8 billion of outstanding indebtedness (excluding unamortized fair value adjustment, unamortized deferred financing costs and unamortized discounts). The instruments governing our existing indebtedness permit us to incur substantial additional debt, including secured debt, and we may satisfy our capital and liquidity needs through additional borrowings. A high level of indebtedness would require us to dedicate a substantial portion of our cash flow from operations to the payment of debt service, thereby reducing the funds available to implement our business strategy and make distributions to stockholders. A high level of indebtedness could also have the following consequences:

- Potential limits on our ability to adjust rapidly to changing market conditions and vulnerability in the event of a downturn in general economic conditions or in the real estate or healthcare industries;
- Potential impairment of our ability to obtain additional financing for our business strategy; and
- Potential downgrade in the rating of our debt securities by one or more rating agencies, which could have the effect of, among other things, limiting our access to capital and increasing our cost of borrowing.

In addition, from time to time, we mortgage certain of our properties to secure payment of indebtedness. If we are unable to meet our mortgage payments, then the encumbered properties could be foreclosed upon or transferred to the mortgagee with a consequent loss of income and asset value.

Limitations on our ability to access capital could have an adverse effect on our ability to meet our debt payments, make distributions to our stockholders or make future investments necessary to implement our business strategy.

We cannot provide any assurance that we will be able to raise the necessary capital to meet our debt service obligations, make distributions to our stockholders or make future investments necessary to implement our business strategy, and the failure to do so could have a material adverse effect on our business, financial condition, results of operations and liquidity, on our ability to service our indebtedness and other obligations and on our ability to make distributions to our stockholders, as required for us to continue to qualify as a REIT (a "Material Adverse Effect"). In recent years, the global capital and credit markets experienced a period of extraordinary turmoil and upheaval, characterized by the bankruptcy, failure or sale of various financial institutions and an unprecedented level of intervention from the U.S. federal government. The disruption in the credit markets, the repricing of credit risk and the deterioration of the financial and real estate markets created difficult conditions for REITs and other companies to access capital or other sources of funds. Although access to capital and other sources of funding has improved, we cannot provide any assurance that conditions will not deteriorate or that our access to capital and other sources of funding will not become constrained, which could adversely affect our results of operations and financial condition. In addition, the federal government's failure to increase the amount of debt that it is statutorily permitted to incur

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as needed to meet its future financial commitments or a downgrade in the debt rating on U.S. government securities could lead to a weakened U.S. dollar, rising interest rates and constrained access to capital, which could materially adversely affect the U.S. and global economies, increase our costs of borrowing and have a Material Adverse Effect.

To address constraints on our access to capital, we could, among other things, (i) obtain commitments from the banks in our lending group or from new banks to fund increased amounts under the terms of our unsecured revolving credit facility or our unsecured term loans, (ii) access the public capital markets, (iii) obtain secured loans from government-sponsored entities, pension funds or similar sources, (iv) decrease or eliminate our distributions to our stockholders or pay taxable stock dividends, (v) delay, reduce or cease our acquisition and investment activity, or (vi) dispose of assets. As with other public companies, our access to debt and equity capital depends, in part, on the trading prices of our senior notes and common stock, which, in turn, depend upon market conditions that change from time to time, such as the market's perception of our financial condition, our growth potential and our current and future earnings and cash distributions. Our failure to meet the market's expectation with regard to future earnings and cash distributions or a significant downgrade in the ratings assigned to our long-term debt could impact our ability to access capital or increase our borrowing costs. If we cannot access capital at an acceptable cost or at all, we may be required to liquidate one or more investments in properties at times that may not permit us to realize the maximum return on those investments, which could also result in adverse tax consequences to us. Restrictions on our uses of, and our right to transfer, properties under certain healthcare regulations, ground leases, mortgages and other agreements to which our properties may be subject could adversely impact our ability to timely liquidate those investments and impair their value.

If the financial institutions that are parties to our unsecured revolving credit facility become capital constrained, tighten their lending standards or become insolvent or if they experience excessive volumes of borrowing requests from other borrowers within a short period of time, they may be unable or unwilling to honor their funding commitments to us, which would adversely affect our ability to draw on our unsecured revolving credit facility and, over time, could negatively impact our ability to consummate acquisitions, repay indebtedness as it matures, fund capital expenditures or make distributions to our stockholders. Adverse conditions in the credit markets could also adversely affect the availability and terms of future borrowings, renewals or refinancings.

Covenants in the instruments governing our existing indebtedness limit our operational flexibility, and a covenant breach could materially adversely affect our operations.

The terms of the instruments governing our existing indebtedness require us to comply with certain customary financial and other covenants, such as maintaining debt service coverage, leverage ratios and minimum net worth requirements. Our continued ability to incur additional debt and to conduct business in general is subject to our compliance with these covenants, which limit our operational flexibility. Breaches of these covenants could result in defaults under the applicable debt instruments and could trigger defaults under any of our other indebtedness that is cross-defaulted against such instruments, even if we satisfy our payment obligations. Financial and other covenants that limit our operational flexibility, as well as defaults resulting from our breach of any of these covenants, could have a Material Adverse Effect.

Risks Relating to the Notes

Because the notes will be unsecured and will be structurally subordinated to the obligations of Ventas, Inc.'s subsidiaries (other than the issuer), you may not be fully repaid if we become insolvent.

Neither the notes nor the guarantee will be secured by any of our assets, and therefore the notes and the guarantee will be effectively subordinated to any secured indebtedness that we may incur to the

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extent of the assets securing such indebtedness. The indenture governing the notes permits us to incur debt that is secured by a certain percentage of our assets. As of June 30, 2016, we had outstanding secured debt of $1.8 billion. If we were to become insolvent, the holders of any secured debt would receive payments from the assets pledged as security before you would receive payments on the notes.

Moreover, none of Ventas, Inc.'s subsidiaries (other than the issuer) will be directly obligated on the notes, and therefore the notes and the guarantee will also be structurally subordinated to the unsecured indebtedness and other obligations of those subsidiaries (other than the issuer). As of June 30, 2016, subsidiaries of Ventas, Inc. (other than the issuer and Ventas Capital) had $1.0 billion of outstanding unsecured indebtedness and assets of $21.9 billion, or 99% of our total assets. All obligations of Ventas, Inc.'s subsidiaries (other than the issuer), including indebtedness to trade creditors, would have to be paid in full before you would have any claims against the assets of those subsidiaries.

Federal and state statutes allow courts, under specific circumstances, to void guarantees and require noteholders to return payments received from the issuer or Ventas, Inc.

Ventas, Inc.'s guarantee of the notes may be subject to review under U.S. federal bankruptcy law or relevant state fraudulent conveyance laws if a bankruptcy lawsuit is commenced by or on behalf of Ventas, Inc.'s unpaid creditors. Under these laws, if in such a lawsuit a court were to find that, at the time Ventas, Inc. incurred debt (including debt represented by the guarantee), Ventas, Inc.:

- incurred this debt with the intent of hindering, delaying or defrauding its current or future creditors; or
- received less than reasonably equivalent value or fair consideration for incurring this debt and Ventas, Inc.:
  - was insolvent or was rendered insolvent by reason of the related financing transactions;
  - was engaged, or about to engage, in a business or transaction for which its remaining assets constituted unreasonably small capital to carry on its business; or
  - intended to incur, or believed that it would incur, debts beyond its ability to pay these debts as they mature, as all of the foregoing terms are defined in or interpreted under the relevant fraudulent transfer or conveyance statutes;

then the court could void the guarantee or subordinate the amounts owing under the guarantee to Ventas, Inc.'s presently existing or future debt, including trade payables, or take other actions detrimental to the holders of the notes.

The guarantee will contain a provision intended to limit Ventas, Inc.'s liability to the maximum amount that it could incur without causing the incurrence of obligations under the guarantee to be a fraudulent transfer or conveyance. This provision may not be effective to protect the guarantee from being voided under fraudulent transfer law.

The guarantee provided by Ventas, Inc. is subject to certain defenses that may limit your right to receive payment on the notes.

Although the guarantee provides the holders of the notes with a direct claim against Ventas, Inc.'s assets, enforcement of the guarantee against Ventas, Inc. would be subject to certain "suretyship" defenses available to guarantors generally. Enforcement could also be subject to other defenses available to Ventas, Inc. in certain circumstances. To the extent that the guarantee is not enforceable, you would not be able to assert a claim successfully against Ventas, Inc.

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An active trading market for the notes may not be established or maintained, so you may be unable to sell the notes.

The notes offered hereby are a new series of securities for which there is currently no established trading market. Consequently, the notes may be relatively illiquid, and you may be unable to sell your notes, or if you are able to sell your notes, there can be no assurance as to the price at which you will be able to sell them. Future trading prices of the notes will depend on many factors, including, among other things, prevailing interest rates, economic conditions, our financial condition and the market for similar securities. We do not intend to apply for listing of the notes on any securities exchange or for the inclusion of the notes in any automated quotation system.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements regarding our or our tenants', operators', borrowers' or managers' expected future financial condition, results of operations, cash flows, funds from operations, dividends and dividend plans, financing opportunities and plans, capital markets transactions, business strategy, budgets, projected costs, operating metrics, capital expenditures, competitive positions, acquisitions, investment opportunities, dispositions, merger integration, growth opportunities, expected lease income, continued qualification as a REIT, plans and objectives of management for future operations, and statements that include words such as "anticipate," "if," "believe," "plan," "estimate," "expect," "intend," "may," "could," "should," "will," and other similar expressions are forward-looking statements. These forward-looking statements are inherently uncertain, and actual results may differ from our expectations. All forward-looking statements, expressed or implied, included in this prospectus supplement are expressly qualified in their entirety by this cautionary note. We do not undertake a duty to update these forward-looking statements, which speak only as of the date on which they are made.

Our actual future results and trends may differ materially from expectations depending on a variety of factors discussed in our filings with the SEC. These factors include without limitation:

- The ability and willingness of our tenants, operators, borrowers, managers and other third parties to satisfy their obligations under their respective contractual arrangements with us, including, in some cases, their obligations to indemnify, defend and hold us harmless from and against various claims, litigation and liabilities;

- The ability of our tenants, operators, borrowers and managers to maintain the financial strength and liquidity necessary to satisfy their respective obligations and liabilities to third parties, including without limitation obligations under their existing credit facilities and other indebtedness;

- Our success in implementing our business strategy and our ability to identify, underwrite, finance, consummate and integrate diversifying acquisitions and investments;

- Macroeconomic conditions such as a disruption of or lack of access to the capital markets, changes in the debt rating on U.S. government securities, default or delay in payment by the United States of its obligations, and changes in the federal or state budgets resulting in the reduction or nonpayment of Medicare or Medicaid reimbursement rates;

- The nature and extent of future competition, including new construction in the markets in which our seniors housing communities and MOBs are located;

- The extent of future or pending healthcare reform and regulation, including cost containment measures and changes in reimbursement policies, procedures and rates;

- Increases in our borrowing costs as a result of changes in interest rates and other factors;

- The ability of our tenants, operators and managers, as applicable, to comply with laws, rules and regulations in the operation of our properties, to deliver high-quality services, to attract and retain qualified personnel and to attract residents and patients;

- Changes in general economic conditions or economic conditions in the markets in which we may, from time to time, compete, and the effect of those changes on our revenues, earnings and funding sources;

Our ability to pay down, refinance, restructure or extend our indebtedness as it becomes due;

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Our ability and willingness to maintain our qualification as a REIT in light of economic, market, legal, tax and other considerations;

Final determination of our taxable net income for the year ended December 31, 2015 and for the year ending December 31, 2016;

The ability and willingness of our tenants to renew their leases with us upon expiration of the leases, our ability to reposition our properties on the same or better terms in the event of nonrenewal or in the event we exercise our right to replace an existing tenant, and obligations, including indemnification obligations, we may incur in connection with the replacement of an existing tenant;

Risks associated with our senior living operating portfolio, such as factors that can cause volatility in our operating income and earnings generated by those properties, including without limitation national and regional economic conditions, development of new competing properties, costs of food, materials, energy, labor and services, employee benefit costs, insurance costs and professional and general liability claims, and the timely delivery of accurate property-level financial results for those properties;

Changes in exchange rates for any foreign currency in which we may, from time to time, conduct business;

Year-over-year changes in the Consumer Price Index or the UK Retail Price Index and the effect of those changes on the rent escalators contained in our leases and on our earnings;

Our ability and the ability of our tenants, operators, borrowers and managers to obtain and maintain adequate property, liability and other insurance from reputable, financially stable providers;

The impact of increased operating costs and uninsured professional liability claims on our liquidity, financial condition and results of operations or that of our tenants, operators, borrowers and managers and our ability and the ability of our tenants, operators, borrowers and managers to accurately estimate the magnitude of those claims;

Risks associated with our MOB portfolio and operations, including our ability to successfully design, develop and manage MOBs and to retain key personnel;

The ability of the hospitals on or near whose campuses our MOBs are located and their affiliated health systems to remain competitive and financially viable and to attract physicians and physician groups;

Risks associated with our investments in joint ventures and unconsolidated entities, including our lack of sole decision-making authority and our reliance on our joint venture partners' financial condition;

The impact of market or issuer events on the liquidity or value of our investments in marketable securities;

Consolidation in the seniors housing and healthcare industries resulting in a change of control of, or a competitor's investment in, one or more of our tenants, operators, borrowers or managers or significant changes in the senior management of our tenants, operators, borrowers or managers;

The impact of litigation or any financial, accounting, legal or regulatory issues that may affect us or our tenants, operators, borrowers or managers; and

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Changes in accounting principles, or their application or interpretation, and our ability to make estimates and the assumptions underlying the estimates, which could have an effect on our earnings.

Many of these factors are beyond our control and the control of our management.

We describe some of these risks and uncertainties in greater detail above under "Risk Factors." These risks could cause actual results of our industry, or our actual results for the year 2016 and beyond, to differ materially from those expressed in any forward-looking statement we make. Our future financial performance is dependent upon factors discussed elsewhere in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein. For a discussion of factors that could cause actual results to differ, see "Risk Factors" and the risk factors and other information contained in our filings with the SEC that are incorporated or deemed to be incorporated by reference in this prospectus supplement and the accompanying prospectus. These filings are described under "Where You Can Find More Information and Incorporation by Reference."

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USE OF PROCEEDS

We expect the net proceeds from this offering to be approximately $ million, after deducting the underwriting discount and estimated expenses of this offering payable by us.

We intend to use the net proceeds from this offering for working capital and other general corporate purposes, which may include the repayment of indebtedness.

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RATIO OF EARNINGS TO FIXED CHARGES

The following table shows our ratio of earnings to fixed charges for each of the periods indicated.

	For the Six Months Ended	For the Year Ended December 31,				
	June 30, 2016	2015	2014	2013	2012	2011
Ratio of earnings to fixed charges[1]	2.17x	2.01x	2.22x	2.48x	1.92x	3.54x

(1) For this ratio, earnings consist of income before loss/income from unconsolidated entities, income taxes, discontinued operations and noncontrolling interest plus fixed charges (excluding capitalized interest) and distributions from unconsolidated entities. Fixed charges consist of interest expensed and capitalized, plus the portion of rent expense under operating leases deemed by us to be representative of the interest factor.

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DESCRIPTION OF NOTES

You can find the definitions of certain terms used in this description under " Certain Definitions." In this description, the term "Issuer" refers to Ventas Realty.

The   % senior notes due   offered by this prospectus supplement (the "notes") will be issued under an indenture dated as of July 16, 2015 (the "Base Indenture"), among the Issuer, U.S. Bank National Association, as trustee (the "Trustee"), and certain other entities named therein, as supplemented by the Third Supplemental Indenture to be dated as of September   , 2016 (the "Third Supplemental Indenture"), among the Issuer, the Trustee and Ventas, Inc.

In this prospectus supplement, we refer to the Base Indenture, as supplemented by the Third Supplemental Indenture, as the "Indenture." The terms of the notes include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939, as amended.

The following description is a summary of the material provisions of the Indenture. It does not restate the Indenture in its entirety. We urge you to read the Indenture because it, and not this description, defines your rights as holders of the notes. A copy of the Indenture is available as set forth below under " Additional Information." Certain defined terms used in this description but not defined below under " Certain Definitions" have the meanings assigned to them in the Indenture.

The registered holder of a note will be treated as its owner for all purposes. Only registered holders will have rights under the Indenture.

Brief Description of the Notes and the Guarantee

The Notes

The notes will be:

- general unsecured obligations of the Issuer;
- equal in right of payment with all other existing and future unsecured senior Debt of the Issuer;
- senior in right of payment to any future subordinated Debt of the Issuer; and
- unconditionally guaranteed by Ventas, Inc.

However, the notes will be effectively subordinated to all of the Issuer's and Ventas, Inc.'s secured borrowings to the extent of the assets pledged to secure those borrowings and structurally subordinated to all indebtedness and other obligations of Ventas, Inc.'s Subsidiaries (other than the Issuer). As of June 30, 2016, we had outstanding secured debt of $1.8 billion, and Ventas, Inc.'s Subsidiaries (other than the Issuer and Ventas Capital) had $1.0 billion of outstanding unsecured indebtedness. See "Risk Factors Risks Arising From Our Capital Structure We may become more leveraged" and "Risk Factors Risks Relating to the Notes Because the notes will be unsecured and will be structurally subordinated to the obligations of Ventas, Inc.'s subsidiaries (other than the issuer), you may not be fully repaid if we become insolvent."

Unlike certain other series of senior notes issued by Ventas Realty (of which $3.9 billion aggregate principal amount was outstanding as of June 30, 2016), the notes will not be co-issued with the Issuer's wholly owned subsidiary, Ventas Capital, which has no operations, assets or revenues. See " Certain Covenants Restrictions on Activities of Ventas Capital" below.

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The Guarantee

The notes will be guaranteed by Ventas, Inc. The guarantee of the notes will be:

- a general unsecured obligation of Ventas, Inc.;
- equal in right of payment with all other existing and future unsecured senior Debt of Ventas, Inc.; and
- senior in right of payment to any future subordinated Debt of Ventas, Inc.

See "Risk Factors Risks Relating to the Notes The guarantee provided by Ventas, Inc. is subject to certain defenses that may limit your right to receive payment on the notes" and "Risk Factors Risks Relating to the Notes Federal and state statutes allow courts, under specific circumstances, to void guarantees and require noteholders to return payments received from the issuer or Ventas, Inc."

Principal, Interest and Maturity

The Third Supplemental Indenture provides that the Issuer will initially issue the notes in the principal amount of $ million. The Base Indenture does not limit the amount of notes that the Issuer may issue and in the future the Issuer may, without the consent of the holders, increase the principal amount of the notes on the same terms and conditions as the notes being offered hereby, except that any such additional notes may have different issuance prices, issuance dates and initial Interest Payment Dates and may not be fungible with the notes offered hereby for U.S. tax purposes. Any offering of additional notes is subject to the covenants of the Indenture described below, including the covenant described under " Certain Covenants Limitations on Incurrence of Debt." The notes and any additional notes subsequently issued under the Indenture may be treated as a single class for all purposes under the Indenture, including, without limitation, waivers, amendments, redemptions and offers to purchase. The Issuer will issue notes in denominations of $1,000 and integral multiples of $1,000 in excess thereof.

The notes are a series of senior debt securities that the Issuer may issue under the Base Indenture. Under certain circumstances, all outstanding senior debt securities issued under the Base Indenture vote as a single class. See " Modification of the Indenture."

The notes will mature on , . The notes will bear interest at the rate per annum set forth on the cover page of this prospectus supplement from September , 2016, or from the immediately preceding Interest Payment Date to which interest has been paid. Interest on the notes will be payable semi-annually in arrears on and of each year, commencing on , 2017, to the persons in whose names the notes are registered at the close of business on and , as the case may be, immediately prior to the applicable Interest Payment Date. If any Interest Payment Date is not a Business Day, then payment of the interest payable on such Interest Payment Date will be made on the next succeeding Business Day. Accrued interest will also be payable on the date of maturity or any earlier date of redemption of the notes. Interest on the notes will be computed on the basis of a 360-day year of twelve 30-day months.

Optional Redemption

The Issuer may redeem the notes, in whole or from time to time in part, prior to their stated maturity. The redemption price for notes that are redeemed before , will be equal to the sum of:

(i) 100% of their principal amount;

(ii) accrued and unpaid interest thereon, if any, to (but excluding) the date of redemption; and

(iii) the Make-Whole Amount, if any.

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The redemption price for notes that are redeemed on or after , will be equal to the sum of 100% of their principal amount, plus accrued and unpaid interest thereon, if any, to (but excluding) the date of redemption, and will not include the Make-Whole Amount.

After notice of optional redemption has been given as provided in the Indenture, if funds for the redemption of any notes called for redemption have been made available on the redemption date, such notes called for redemption will cease to bear interest on the date fixed for the redemption specified in the redemption notice, and the only right of the holders of such notes will be to receive payment of the redemption price.

Notice of any optional redemption of any notes will be given to holders at their addresses, as shown in the notes register, not more than 60 nor less than 30 days prior to the date fixed for redemption. The notice of redemption will specify, among other items, the redemption price and the principal amount of the notes held by the holder to be redeemed.

The Issuer will notify the Trustee at least 45 days prior to the redemption date (or such shorter period as is satisfactory to the Trustee) of the aggregate principal amount of the notes to be redeemed and the redemption date. If less than all the notes are to be redeemed, the Trustee shall select, pro rata or by lot or by any other method that the Trustee considers fair and appropriate under the circumstances, the notes to be redeemed. Notes may be redeemed in part in the minimum authorized denomination for the notes or in any integral multiple thereof.

Certain Covenants

Limitations on Incurrence of Debt

Ventas, Inc. shall not, and shall not permit any of its Subsidiaries to, Incur any Debt if, immediately after giving effect to the Incurrence of such additional Debt and any other Debt Incurred since the end of the Latest Completed Quarter and the application of the net proceeds therefrom, the aggregate principal amount of all outstanding Debt would exceed 60% of the sum of (without duplication) (i) Total Assets as of the end of the Latest Completed Quarter and (ii) the purchase price of any Real Estate Assets or mortgages receivable acquired, and the amount of any securities offering proceeds received (to the extent such proceeds were not used to acquire Real Estate Assets or mortgages receivable or to reduce Debt), since the end of the Latest Completed Quarter.

Ventas, Inc. shall not, and shall not permit any of its Subsidiaries to, Incur any Secured Debt if, immediately after giving effect to the Incurrence of such additional Secured Debt and any other Secured Debt Incurred since the end of the Latest Completed Quarter and the application of the net proceeds therefrom, the aggregate principal amount of all outstanding Secured Debt would exceed 50% of the sum of (without duplication) (i) Total Assets as of the end of the Latest Completed Quarter and (ii) the purchase price of any Real Estate Assets or mortgages receivable acquired, and the amount of any securities offering proceeds received (to the extent such proceeds were not used to acquire Real Estate Assets or mortgages receivable or to reduce Debt), since the end of the Latest Completed Quarter.

Ventas, Inc. shall not, and shall not permit any of its Subsidiaries to, Incur any Debt if, immediately after giving effect to the Incurrence of such additional Debt and any other Debt Incurred since the end of the Latest Completed Quarter and the application of the net proceeds therefrom, the ratio of Consolidated EBITDA to Interest Expense for the four (4) consecutive fiscal quarters ending with the Latest Completed Quarter would be less than 1.50 to 1.00 on a pro forma basis and calculated on the assumption (without duplication) that:

(1) the additional Debt and any other Debt Incurred by Ventas, Inc. or any of its Subsidiaries since the first day of such four-quarter period to the date of determination, which was outstanding at the date of determination, had been Incurred at the beginning of that period

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and continued to be outstanding throughout that period, and the application of the net proceeds of such Debt, including to refinance other Debt, had occurred at the beginning of such period, except that in determining the amount of Debt so Incurred, the amount of Debt under any revolving credit facility shall be computed based upon the average daily balance of such Debt during such period;

(2) the repayment or retirement of any other Debt repaid or retired by Ventas, Inc. or any of its Subsidiaries since the first day of such four-quarter period to the date of determination had occurred at the beginning of that period, except that in determining the amount of Debt so repaid or retired, the amount of Debt under any revolving credit facility shall be computed based upon the average daily balance of such Debt during such period; and

(3) in the case of any acquisition or disposition of any asset or group of assets (including, without limitation, by merger, or stock or asset purchase or sale) or the placement of any assets in service or removal of any assets from service by Ventas, Inc. or any of its Subsidiaries since the first day of such four-quarter period to the date of determination, the acquisition, disposition, placement in service or removal from service and any related repayment or refinancing of Debt had occurred as of the first day of such period, with the appropriate adjustments to Consolidated EBITDA and Interest Expense with respect to the acquisition, disposition, placement in service or removal from service being included in that pro forma calculation.

Maintenance of Unencumbered Assets

Ventas, Inc. and its Subsidiaries shall maintain at all times Unencumbered Assets of not less than 150% of the aggregate principal amount of all outstanding Unsecured Debt.

Restrictions on Activities of Ventas Capital

Each of Ventas, Inc. and the Issuer has covenanted not to permit Ventas Capital to hold any material assets, become liable for any material obligations or engage in any significant business activities, except that Ventas Capital may be a co-obligor with respect to Debt if the Issuer is a primary obligor of such Debt and the net proceeds of such Debt are received by the Issuer or one or more of its Subsidiaries other than Ventas Capital.

Existence

Except as permitted as described below under " Merger, Consolidation or Sale," Ventas, Inc. and the Issuer shall do all things necessary to preserve and keep their existence, rights and franchises, except that neither Ventas, Inc. nor the Issuer shall be required to preserve any such right or franchise if Ventas, Inc. or the Issuer, as applicable, shall determine reasonably and in good faith that the preservation thereof is no longer desirable in the conduct of its business.

Provision of Financial Information

Whether or not required by the SEC, so long as any notes are outstanding, Ventas, Inc. shall file with the Trustee, within 15 days after it files the same with the SEC (or if not subject to the periodic reporting requirements of the Exchange Act, within 15 days after it would have been required to file the same with the SEC had it been so subject):

(1) all quarterly and annual financial information that is required to be contained in filings with the SEC on Forms 10-Q and 10-K, including a "Management's Discussion and Analysis of Financial Condition and Results of Operations" and, with respect to the annual information

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only, a report on the annual financial statements by Ventas, Inc.'s certified independent accountants; and

(2) all current reports that are required to be filed with the SEC on Form 8-K.

For so long as any notes remain outstanding, if at any time Ventas, Inc. is not required to file with the SEC the reports referenced above, it shall furnish to the Holders and to securities analysts and prospective investors, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

The availability of the foregoing materials on the SEC's website or on Ventas, Inc.'s website shall be deemed to satisfy the foregoing delivery obligations.

Merger, Consolidation or Sale

Ventas, Inc. may not, directly or indirectly: (1) consolidate or merge with or into another Person (whether or not Ventas, Inc. is the surviving corporation); or (2) sell, assign, transfer, convey, lease (other than to an unaffiliated operator in the ordinary course of business) or otherwise dispose of all or substantially all of the properties or assets of Ventas, Inc. and its Subsidiaries taken as a whole, in one or more related transactions, to another Person, unless:

(i) either: (a) Ventas, Inc. is the surviving corporation; or (b) the Person formed by or surviving any such consolidation or merger (if other than Ventas, Inc.) or to which such sale, assignment, transfer, conveyance or other disposition has been made is a corporation organized or existing under the laws of the United States, any state of the United States or the District of Columbia;

(ii) the Person formed by or surviving any such consolidation or merger (if other than Ventas, Inc.) or the Person to which such sale, assignment, transfer, conveyance or other disposition has been made assumes all of Ventas, Inc.'s obligations under the notes and the Indenture pursuant to agreements reasonably satisfactory to the Trustee; and

(iii) immediately after such transaction, on a pro forma basis giving effect to such transaction or series of transactions (and treating any obligation of Ventas, Inc. or any Subsidiary incurred in connection with or as a result of such transaction or series of transactions as having been incurred at the time of such transaction), no Default or Event of Default exists under the Indenture.

This "Merger, Consolidation or Sale" covenant will not prohibit Ventas, Inc. from consolidating or merging with or into the Issuer or selling and/or transferring all or substantially all of its assets to the Issuer.

Upon any consolidation or merger, or any sale, assignment, transfer, conveyance, lease or other disposition of all or substantially all of the properties or assets of Ventas, Inc. in accordance with the foregoing provisions, the successor Person formed by such consolidation or into which Ventas, Inc. is merged or to which such sale, assignment, transfer, conveyance, lease or other disposition is made, shall succeed to, and be substituted for, and may exercise every right and power of, Ventas, Inc. under the Indenture with the same effect as if such successor initially had been named as Ventas, Inc. therein. When a successor assumes all the obligations of its predecessor under the Indenture and the notes following a consolidation or merger, or any sale, assignment, transfer, conveyance, lease or other disposition of all or substantially all of the assets of the predecessor in accordance with the foregoing provisions, the predecessor shall be released from those obligations.

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Assumption of Issuer's Obligations

Ventas, Inc., or a Subsidiary thereof that is organized and existing under the laws of the United States, any state of the United States or the District of Columbia, may directly assume, pursuant to a supplemental indenture executed and delivered to the Trustee in a form reasonably satisfactory to the Trustee, the due and punctual payment of the principal of and interest on the notes and the performance of every covenant of the Indenture on the part of the Issuer to be performed or observed. Upon any such assumption, Ventas, Inc. or such Subsidiary shall succeed to, and be substituted for and may exercise every right and power of, the Issuer under the Indenture with the same effect as if

Ventas, Inc. or such Subsidiary had been named as the Issuer under the Indenture and the Issuer will be released from liability as obligor on the notes.

Events of Default, Notice and Waiver

The Indenture provides that the term "Event of Default" with respect to the notes means any of the following:

(1) Ventas, Inc. or the Issuer does not pay the principal or any premium on the notes when due and payable;

(2) Ventas, Inc. or the Issuer does not pay interest on the notes within 30 days after the applicable due date;

(3) Ventas, Inc. or its Subsidiaries remain in breach of any other term of the Indenture for 90 days after they receive a notice of Default stating that they are in breach. Either the Trustee or the holders of more than 25% in principal amount of the then outstanding notes may send the notice;

(4) except as permitted by the Indenture and the notes, the Securities Guarantee by Ventas, Inc. shall cease to be in full force and effect or Ventas, Inc. shall deny or disaffirm its obligations with respect thereto;

(5) the Issuer, Ventas, Inc. or any of its Significant Subsidiaries default under any of their indebtedness (including a default with respect to securities of any series issued under the Base Indenture other than the notes) in an aggregate principal amount exceeding $50.0 million after the expiration of any applicable grace period, which default results in the acceleration of the maturity of such indebtedness. Such default is not an Event of Default if the other indebtedness is discharged, or the acceleration is rescinded or annulled, within a period of 30 days after the Issuer, Ventas, Inc. or any such Significant Subsidiary, as the case may be, receives notice specifying the default and requiring that they discharge the other indebtedness or cause the acceleration to be rescinded or annulled. Either the Trustee or the holders of more than 25% in principal amount of the then outstanding notes may send the notice; or

(6) the Issuer, Ventas, Inc. or any of its Significant Subsidiaries or any group of Subsidiaries that, taken as a whole, would constitute a Significant Subsidiary files for bankruptcy or certain other events in bankruptcy, insolvency or reorganization occur.

Remedies if an Event of Default Occurs

If an Event of Default with respect to the notes has occurred and has not been cured, either the Trustee or the holders of at least 25% in principal amount of the then outstanding notes may declare the entire principal amount of the notes to be due and immediately payable by written notice to the Issuer, Ventas, Inc. and the Trustee, except that the sole remedy for an Event of Default relating to a failure to comply with the covenant described under " Provision of Financial Information" shall consist exclusively of the right to receive additional interest on the notes in accordance with the terms

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set forth in the Indenture. If an Event of Default occurs because of certain events in bankruptcy, insolvency or reorganization, the principal amount of all the notes will be automatically accelerated, without any action by the Trustee or any holder. At any time after the Trustee or the holders have accelerated the notes, but before a judgment or decree for payment of the money due has been obtained, the holders of at least a majority in principal amount of the then outstanding notes may, under certain circumstances, rescind and annul such acceleration.

The Trustee will be required to give notice to the holders of the notes within 90 days after a Default under the Indenture unless the Default has been cured or waived. The Trustee may withhold notice to the holders of the notes of any Default, except a Default in the payment of the principal of or interest on the notes, if specified responsible officers of the Trustee in good faith determine that withholding the notice is in the interest of the holders.

Except in cases of Default, where the Trustee has some special duties, the Trustee is not required to take any action under the Indenture at the request of any holders of notes unless such holders offer the Trustee reasonable protection from expenses and liability. We refer to this as an "indemnity." If reasonable indemnity is provided, the holders of a majority in principal amount of the then outstanding notes may direct the time, method and place of conducting any lawsuit or other formal legal action seeking any remedy available to the Trustee. These majority holders may also direct the Trustee in performing any other action under the Indenture, subject to certain limitations.

Before a holder bypasses the Trustee and brings its own lawsuit or other formal legal action or takes other steps to enforce its rights or protect its interests relating to the notes, the following must occur:

(1) the holder must give the Trustee written notice that an Event of Default with respect to the notes has occurred and remains uncured;

(2) the holders of at least a majority in principal amount of all outstanding notes must make a written request that the Trustee take action because of the Default, and must offer reasonable indemnity to the Trustee against the cost and other liabilities of taking that action;

(3) the Trustee must have not taken action for 60 days after receipt of the notice and offer of indemnity; and

(4) the holders of at least a majority in principal amount of all outstanding notes must not have given the Trustee a direction inconsistent with such request within such 60-day period.

However, a holder is entitled at any time to bring a lawsuit for the payment of money due on any note after its due date.

Within 120 days after the end of each fiscal year, Ventas, Inc. will furnish to the Trustee a written statement by certain of Ventas, Inc.'s officers certifying that to their knowledge, Ventas, Inc. is in compliance with the Indenture and the notes, or else specifying any Default.

Modification of the Indenture

Except as provided in the next two succeeding paragraphs, the Base Indenture, as amended from time to time by supplemental indentures, and/or one or more series of debt securities (including the notes) issued under the Base Indenture may be amended or supplemented with the written consent of the holders of at least a majority in principal amount of the then outstanding debt securities issued under the Base Indenture affected by such amendment or supplement voting as a single class (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, the notes), and any existing Default, Event of Default (other than a Default or Event of Default with respect to the payment of the principal or premium, if any, of or interest on the debt securities, except a payment default resulting from an acceleration that has been rescinded) or

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compliance with any provision of the Base Indenture, as amended from time to time by supplemental indentures, or one or more series of debt securities (including the notes) may be waived with the consent of the holders of a majority in principal amount of the then outstanding debt securities issued under the Base Indenture affected thereby voting as a single class (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, the notes).

Without the consent of each holder affected, an amendment or waiver may not (with respect to any notes held by a non-consenting holder):

(1) reduce the principal amount of notes whose holders must consent to an amendment, supplement or waiver;

(2) reduce the principal of or change the fixed maturity of any note or alter the provisions with respect to the redemption of the notes;

(3) reduce the rate of or change the time for payment of interest on any note;

(4) waive a Default or Event of Default with respect to the payment of principal of, or interest or premium on, the notes (except a rescission of acceleration of the notes by the holders of at least a majority in aggregate principal amount of the then outstanding notes and a waiver of the payment Default that resulted from such acceleration);

(5) make any note payable in a currency other than that stated in the notes;

(6) make any change in the provisions of the Indenture relating to waivers of past Defaults or the rights of holders of the notes to receive payments of principal of, or interest or premium on, the notes;

(7) waive a redemption payment with respect to any note;

(8) release Ventas, Inc. from any of its obligations under the guarantee or the Indenture, except in accordance with the terms of the Indenture; or

(9) make any change in the amendment and waiver provisions set forth in clauses (1) through (8).

Any such consent need only approve the substance, rather than the particular form, of the proposed amendment.

Notwithstanding the preceding, without the consent of any holder of notes, the Indenture or the notes issued thereunder may be amended or supplemented to, among other things:

(1) cure any ambiguity, defect or inconsistency;

(2) provide for uncertificated notes in addition to or in place of certificated notes;

(3) provide for the assumption of the Issuer's obligations to holders of the notes in the case of a merger or consolidation or sale of all or substantially all of the Issuer's assets;

(4) add additional guarantees with respect to the notes;

(5)

secure the notes;

(6) make any other change that would provide any additional rights or benefits to the holders of notes or that does not adversely affect the legal rights under the Indenture of any such holder; or

(7) comply with requirements of the SEC in order to effect or maintain the qualification of the Indenture under the Trust Indenture Act.

Notes are not considered outstanding, and therefore the holders thereof are not eligible to vote, if the Issuer has deposited or set aside in trust for the holders money for their payment or redemption or

if the Issuer or any of its affiliates own them. The holders of notes are also not eligible to vote if they have been fully defeased as described below under " Discharge, Defeasance and Covenant Defeasance Full Defeasance."

Sinking Fund

The notes are not entitled to any sinking fund payments.

The Trustee; Registrar and Paying Agent

U.S. Bank National Association is the Trustee under the Indenture. The Issuer has initially designated the Trustee as the registrar and paying agent for the notes. Payments of interest and principal will be made, and the notes will be transferable, at the office of the paying agent, or at such other place or places as may be designated pursuant to the Indenture. For notes that are issued in book-entry form represented by a global security, payments will be made to a nominee of the depository. The Trustee is also the trustee under each of the indentures relating to the Issuer's existing senior notes.

Discharge, Defeasance and Covenant Defeasance

Discharge

The Issuer may discharge all of its obligations to the holders of the notes (other than the obligation to register transfers and exchanges) that either have become due and payable or will become due and payable within one year, or are scheduled for redemption within one year, by irrevocably depositing with the Trustee, in trust, cash in U.S. dollars, non-callable U.S. government agency notes or bonds or a combination thereof, in such amounts as will be sufficient to make all prepayments on the notes, including any premium, and interest payable thereon.

Full Defeasance

The Issuer can, under certain circumstances, effect a full defeasance of the notes. This means the Issuer can legally release itself and Ventas, Inc. from any payment or other obligations on the notes (other than the obligation to register transfers and exchanges) if, among other things, the Issuer puts in place the arrangements described below to repay the holders of the notes and delivers certain certificates and legal opinions to the Trustee:

(1) the Issuer must irrevocably deposit in trust for the benefit of all direct holders of the notes money or U.S. government or U.S. government agency notes or bonds (or, in certain circumstances, depositary receipts representing these notes or bonds), or any combination thereof, that will generate enough cash to make interest, principal, premium and any other payments on the notes on their due date;

(2) the current federal income tax law must be changed or an Internal Revenue Service ("IRS") ruling must be issued permitting the above deposit without causing holders of the notes to recognize gain or loss for federal income tax purposes or to be taxed on the notes any differently than if the Issuer did not make the deposit and repaid the notes in the manner in which the notes would have been payable if the deposit had not been made. Under current federal income tax law, the deposit and the Issuer's legal release from the notes would be treated as though the Issuer took back the notes and gave each holder of the notes such holder's share of the cash and notes or bonds deposited in trust. In that event, each holder of the notes could recognize gain or loss on the notes such holder gives back to the Issuer; and

(3) the Issuer must deliver to the Trustee a legal opinion confirming the tax law change or IRS ruling described above.

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If the Issuer did accomplish full defeasance with respect to the notes, the holders of notes would have to rely solely on the trust deposit for repayment on the notes. The holders of the notes could not look to the Issuer or Ventas, Inc. for repayment in the unlikely event of any shortfall. Conversely, the trust deposit would most likely be protected from claims of the Issuer's lenders and other creditors if the Issuer ever became bankrupt or insolvent.

Covenant Defeasance

Under current federal income tax law, the Issuer can make the same type of deposit described above and be released from some of the restrictive covenants in the Indenture and the notes. This is called "covenant defeasance." In that event, the holders of the defeased notes would lose the protection of those restrictive covenants but would gain the protection of having money and securities set aside in trust to repay the notes.

If the Issuer accomplishes covenant defeasance, the following provisions of the Indenture and the notes would no longer apply:

(1) any covenants applicable to the notes and described in this prospectus supplement; and

(2) certain Events of Default relating to breach of covenants and acceleration of the maturity of other debt set forth in this prospectus supplement.

If the Issuer accomplishes covenant defeasance with respect to the notes, the holders of notes can still look to the Issuer for repayment of the notes if a shortfall in the trust deposit occurred. If one of the remaining Events of Default occurs for example, the Issuer's bankruptcy and the notes become immediately due and payable, there may be a shortfall. Depending on the event causing the Default, the holders of the notes may not be able to obtain payment of the shortfall.

The Issuer may exercise its full defeasance option notwithstanding any prior exercise of its covenant defeasance option.

Additional Information

Anyone who receives this prospectus supplement may obtain a copy of the Indenture without charge by writing to Ventas, Inc., 353 North Clark Street, Suite 3300, Chicago, Illinois 60654, Attention: Corporate Secretary.

Book-Entry System and Form of Notes

The notes will be issued in the form of one or more fully registered global notes without coupons that will be deposited with The Depository Trust Company, New York, New York, which we refer to in this prospectus supplement as DTC, and registered in the name of its nominee, Cede & Co. This means that the Issuer will not issue certificates to each owner of the notes. The global notes will be issued to DTC, which will keep a computerized record of its participants (for example, your broker) whose clients have purchased the notes. The participant will then keep a record of its clients who purchased the notes. Unless a global note is exchanged in whole or in part for a certificated note, it may not be transferred, except that DTC, its nominees, and their successors may transfer a global note as a whole to one another.

DTC has provided the following information to us. DTC, the world's largest securities depositary, is a:

- limited-purpose trust company organized under the New York Banking Law;
- "banking organization" within the meaning of the New York Banking Law;
- member of the U.S. Federal Reserve System;

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"clearing corporation" within the meaning of the New York Uniform Commercial Code; and

"clearing agency" registered under the provisions of Section 17A of the Exchange Act.

DTC holds and provides asset servicing for U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that its direct participants deposit with DTC. DTC also facilitates the post-trade settlement among direct participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between direct participants' accounts. This eliminates the need for physical movement of securities certificates. Direct participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by users of its regulated subsidiaries. Access to DTC's book-entry system is also available to indirect participants such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly. DTC has Standard & Poor's highest rating: AAA. The rules applicable to DTC and its direct and indirect participants are on file with the SEC.

Principal and interest payments on global notes registered in the name of DTC's nominee will be made in immediately available funds to DTC's nominee as the registered owner of the global notes. We and the Trustee will treat DTC's nominee as the owner of the global notes for all other purposes as well. Accordingly, we, the Trustee and any paying agent will have no direct responsibility or liability to pay amounts due on the global notes to owners of beneficial interests in the global notes. DTC's practice is to credit direct participants' accounts upon receipt of any payment of principal or interest on the payment date in accordance with their respective holdings of beneficial interests in the global notes as shown on DTC's records. Payments by direct and indirect participants to owners of beneficial interests in the global notes will be governed by standing instructions and customary practices. These payments will be the responsibility of the direct and indirect participants and not of DTC, the Trustee or us, subject to any statutory or regulatory requirements as may be in effect from time to time.

The notes, which are represented by one or more global notes, will be exchangeable for certificated notes with the same terms in authorized denominations only if:

DTC notifies the Issuer that it is unwilling or unable to continue as depositary;

DTC ceases to be a registered clearing agency and a successor depositary is not appointed by the Issuer within 120 days; or

the Issuer determines not to require all of the notes to be represented by one or more global notes and notifies the Trustee of that decision.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that we believe to be reliable, but we take no responsibility for the accuracy thereof.

Same-Day Settlement and Payment

The underwriters will make settlement for the notes in immediately available funds. The Issuer will make all payments of principal and interest in respect of the notes in immediately available funds. The notes will trade in DTC's Same-Day Funds Settlement System until maturity (or earlier redemption in whole) or until the notes are issued in certificated form, and secondary market trading activity in the notes will therefore be required by DTC to settle in immediately available funds. We expect that secondary trading in the certificated securities, if any, will also be settled in immediately available

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funds. No assurance can be given as to the effect, if any, of settlement in immediately available funds on trading activity in the notes.

Governing Law

The Indenture and the notes will be governed by, and construed in accordance with, the laws of the State of New York without giving effect to applicable principles of conflicts of law to the extent that the application of the law of another jurisdiction would be required thereby.

Certain Definitions

"*Affiliate*" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, "control," as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise. For purposes of this definition, the terms "controlling," "controlled by" and "under common control with" have correlative meanings.

"*Business Day*" means any day other than a Saturday or Sunday or a day on which banking institutions in The City of New York are required or authorized to close.

"*Code*" means the Internal Revenue Code of 1986, as amended.

"*Consolidated EBITDA*" means, for any period of time, the net income (loss) of Ventas, Inc. and its Subsidiaries, determined on a consolidated basis in accordance with GAAP for such period, before deductions for (without duplication):

(1) Interest Expense;

(2) taxes;

(3) depreciation, amortization, and all other non-cash items, as determined reasonably and in good faith by Ventas, Inc., deducted in arriving at net income (loss);

(4) extraordinary items;

(5) non-recurring items or other unusual items, as determined reasonably and in good faith by Ventas, Inc. (including, without limitation, all prepayment penalties and all costs or fees incurred in connection with any debt financing or amendment thereto, acquisition, disposition, recapitalization or similar transaction (regardless of whether such transaction is completed));

(6) noncontrolling interests;

(7) income or expense attributable to transactions involving derivative instruments that do not qualify for hedge accounting in accordance with GAAP; and

(8) gains or losses on dispositions of depreciable real estate investments, property valuation losses and impairment charges.

For purposes of calculating Consolidated EBITDA, all amounts shall be as determined reasonably and in good faith by Ventas, Inc., and in accordance with GAAP except to the extent that GAAP is not applicable with respect to the determination of all non-cash and non-recurring items.

"*Consolidated Financial Statements*" means, with respect to any Person, collectively, the consolidated financial statements and notes to those financial statements, of that Person and its subsidiaries prepared in accordance with GAAP.

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"*Contingent Liabilities of Ventas, Inc. and Subsidiaries*" means, as of any date, those liabilities of Ventas, Inc. and its Subsidiaries consisting of (without duplication) indebtedness for borrowed money, as determined in accordance with GAAP, that are or would be stated and quantified as contingent liabilities in the notes to the Consolidated Financial Statements of Ventas, Inc. as of the date of determination.

"*Debt*" means, as of any date (without duplication), (1) all indebtedness and liabilities for borrowed money, secured or unsecured, of Ventas, Inc. and its Subsidiaries, including mortgages and other notes payable (including the notes to the extent outstanding from time to time), but excluding any indebtedness, including mortgages and other notes payable, which is secured by cash, cash equivalents or marketable securities or defeased (it being understood that cash collateral shall be deemed to include cash deposited with a trustee with respect to third party indebtedness) and (2) all Contingent Liabilities of Ventas, Inc. and Subsidiaries, *excluding* in each of clauses (1) and (2) Intercompany Debt and all liabilities associated with customary exceptions to non-recourse indebtedness, such as for fraud, misapplication of funds, environmental indemnities, voluntary bankruptcy, collusive involuntary bankruptcy and other similar exceptions.

It is understood that Debt shall not include any redeemable equity interest in Ventas, Inc.

"*Default*" means, with respect to the Indenture and the notes, any event that is, or with the passage of time or giving of notice would be, an Event of Default.

"*GAAP*" means generally accepted accounting principles in the United States, consistently applied, as in effect from time to time.

"*Guarantor*" means Ventas, Inc. and its successors and assigns; *provided*, *however*, that any Person constituting a Guarantor as described above shall cease to constitute a Guarantor when its Guarantee of the notes is released in accordance with the terms of the Indenture.

"*Incur*" means, with respect to any Debt or other obligation of any Person, to create, assume, guarantee or otherwise become liable in respect of such Debt or other obligation, and "Incurrence" and "Incurred" have the meanings correlative to the foregoing.

"*Intercompany Debt*" means, as of any date, Debt to which the only parties are Ventas, Inc. and any of its Subsidiaries as of such date; *provided*, *however*, that with respect to any such Debt of which the Issuer or the Guarantor is the borrower, such Debt is subordinate in right of payment to the notes.

"*Interest Expense*" means, for any period of time, the aggregate amount of interest recorded in accordance with GAAP for such period by Ventas, Inc. and its Subsidiaries, but *excluding* (i) interest reserves funded from the proceeds of any loan, (ii) prepayment penalties, (iii) amortization of deferred financing costs, and (iv) non-cash swap ineffectiveness charges, in all cases as reflected in the applicable Consolidated Financial Statements.

"*Interest Payment Date*" has the meaning set forth in the Indenture and the notes.

"*Issue Date*" means the date on which the notes are originally issued under the Indenture.

"*Latest Completed Quarter*" means, as of any date, the then most recently ended fiscal quarter of Ventas, Inc. for which Consolidated Financial Statements of Ventas, Inc. have been completed, it being understood that at any time when Ventas, Inc. is subject to the informational requirements of the Exchange Act, and in accordance therewith files annual and quarterly reports with the SEC, the term "*Latest Completed Quarter*" shall be deemed to refer to the fiscal quarter covered by Ventas, Inc.'s most recently filed Quarterly Report on Form 10-Q, or, in the case of the last fiscal quarter of the year, Ventas, Inc.'s Annual Report on Form 10-K.

"*Lien*" means (without duplication) any lien, mortgage, trust deed, deed of trust, deed to secure debt, pledge, security interest, assignment for collateral purposes, deposit arrangement, or other

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security agreement, excluding any right of setoff but including, without limitation, any conditional sale or other title retention agreement, any financing lease having substantially the same economic effect as any of the foregoing, and any other like agreement granting or conveying a security interest; *provided* that, for purposes hereof, "Lien" shall not include any mortgage that has been defeased by Ventas, Inc. or any of its Subsidiaries in accordance with the provisions thereof through the deposit of cash, cash equivalents or marketable securities (it being understood that cash collateral shall be deemed to include cash deposited with a trustee with respect to third party indebtedness).

"*Make-Whole Amount*" means, in connection with any optional redemption of the notes, the excess, if any, of:

(1) the aggregate present value as of the date of such redemption of each dollar of principal of the notes being redeemed or paid and the amount of interest (exclusive of interest accrued to the date of redemption or accelerated payment) that would have been payable in respect of each such dollar if such redemption or accelerated payment had been made on , determined by discounting, on a semi-annual basis, such principal and interest at the Reinvestment Rate (determined on the third Business Day preceding the date a notice of redemption is given or declaration of acceleration is made) from the respective dates on which such principal and interest would have been payable if such redemption or payment had been made on , over

(2) the aggregate principal amount of the notes being redeemed or paid.

"*Obligations*" means any principal, interest, penalties, fees, indemnifications, reimbursements, damages and other liabilities payable under the documentation governing any Debt.

"*Person*" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, limited liability company or government or other entity.

"*Property EBITDA*" means for any property owned by Ventas, Inc. or any of its Subsidiaries as of the date of determination, for any period of time (without duplication), the net income (loss) derived from such property for such period, before deductions for:

(1) Interest Expense;

(2) taxes;

(3) depreciation, amortization, and all other non-cash items, as determined reasonably and in good faith by Ventas, Inc., deducted in arriving at net income (loss);

(4) general and administrative expenses that are not allocated by management to a property segment, as reflected in Ventas, Inc.'s Consolidated Financial Statements available for the four (4) consecutive fiscal quarters ending with the Latest Completed Quarter;

(5) extraordinary items;

(6) non-recurring items or other unusual items, as determined reasonably and in good faith by Ventas, Inc. (including, without limitation, all prepayment penalties and all costs or fees incurred in connection with any debt financing or amendment thereto, acquisition, disposition, recapitalization or similar transaction (regardless of whether such transaction is completed));

(7) noncontrolling interests;

(8)

income or expense attributable to transactions involving derivative instruments that do not qualify for hedge accounting in accordance with GAAP; and

(9) property valuation losses and impairment charges;

in each case attributable to such property.

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For purposes of calculating Property EBITDA, all amounts shall be determined reasonably and in good faith by Ventas, Inc., and in accordance with GAAP except to the extent that GAAP is not applicable with respect to the determination of all non-cash and non-recurring items.

Property EBITDA shall be adjusted (without duplication) to give pro forma effect:

(i) in the case of any assets having been placed-in-service or removed from service since the first day of the period to the date of determination, to include or exclude, as the case may be, any Property EBITDA earned or eliminated as a result of the placement of such assets in service or removal of such assets from service as if the placement of such assets in service or removal of such assets from service occurred as of the first day of the period; and

(ii) in the case of any acquisition or disposition of any asset or group of assets since the first day of the period to the date of determination, including, without limitation, by merger, or stock or asset purchase or sale, to include or exclude, as the case may be, any Property EBITDA earned or eliminated as a result of the acquisition or disposition of those assets as if the acquisition or disposition occurred as of the first day of the period.

"*Real Estate Assets*" means, as of any date, the real estate assets of such Person and its Subsidiaries on such date, on a consolidated basis determined in accordance with GAAP.

"*Reinvestment Rate*" means % plus the arithmetic mean of the yields under the respective heading Week Ending published in the most recent Statistical Release under Treasury Constant Maturities for the maturity (rounded to the nearest month) corresponding to the remaining life to maturity of the principal of the notes being redeemed or paid as of such redemption or payment date (which maturity shall be deemed to be ,). If no maturity exactly corresponds to such deemed maturity, yields for the two published maturities most closely corresponding to such maturity shall be calculated pursuant to the immediately preceding sentence and the Reinvestment Rate in respect of the notes shall be interpolated or extrapolated from such yields on a straight-line basis, rounding in each of such relevant periods to the nearest month. For the purpose of calculating the Reinvestment Rate in respect of the notes, the most recent Statistical Release published prior to the date of determination of the Make-Whole Amount shall be used.

"*Secured Debt*" means, as of any date, that portion of the aggregate principal amount of all outstanding Debt of Ventas, Inc. and its Subsidiaries as of that date that is secured by a Lien on properties or other assets of Ventas, Inc. or any of its Subsidiaries.

"*Securities Act*" means the Securities Act of 1933, as amended.

"*Significant Subsidiary*" means each Subsidiary that is a "significant subsidiary," if any, of Ventas, Inc., as such term is defined in Regulation S-X under the Securities Act.

"*Stabilized Development Asset*" means, as of any date, a new construction or development Real Estate Asset at such date that, following the first four (4) consecutive fiscal quarters occurring after substantial completion of construction or development, either (i) an additional six (6) consecutive fiscal quarters have occurred or (ii) such Real Estate Asset is at least 90% leased, whichever shall first occur.

"*Statistical Release*" means that statistical release designated H.15(519) or any successor publication that is published weekly by the Federal Reserve System and that establishes annual yields on actively traded United States government securities adjusted to constant maturities, or, if such statistical release is not published at the time of any determination under the Indenture, then such other reasonably comparable index the Issuer designates.

"*Subsidiary*" means, with respect to any Person, a corporation, partnership association, joint venture, trust, limited liability company or other business entity which is required to be consolidated with such Person in accordance with GAAP.

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"*Total Assets*" means, as of any date, in each case as determined reasonably and in good faith by Ventas, Inc., the sum of (without duplication):

(1) with respect to Real Estate Assets that were owned by Ventas, Inc. and its Subsidiaries as of April 17, 2002 and that continue to be owned as of the date of determination, the annualized rental revenues specified for such Real Estate Assets on Schedule 1 attached to the Third Supplemental Indenture, divided by 0.0900, plus any annualized incremental rental revenue generated by such Real Estate Assets as a result of, arising out of or in connection with annual rent escalations or rent reset rights of Ventas, Inc. and its Subsidiaries with respect to such Real Estate Assets (whether by agreement or exercise of such right or otherwise), divided by 0.0900; for the purpose of this clause (1), "*annualized incremental rental revenue*" in respect of a Real Estate Asset shall mean the increase in daily rental revenue generated by such Real Estate Asset as a result of, arising out of or in connection with such annual rent escalations or rent reset rights over the daily rental revenue generated by such Real Estate Asset immediately prior to the effective date of such increase, annualized by multiplying such daily increase by 365;

(2) with respect to all other Real Estate Assets owned by Ventas, Inc. and its Subsidiaries as of the date of determination (except as set forth in clause (3) below), the cost (original cost plus capital improvements before depreciation and amortization) thereof, determined in accordance with GAAP;

(3) with respect to Stabilized Development Assets owned by Ventas, Inc. and its Subsidiaries as of the date of determination, the aggregate sum of all Property EBITDA for such Stabilized Development Assets for the four (4) consecutive fiscal quarters ending with the Latest Completed Quarter divided by (i) 0.0900, in the case of a government reimbursed property and (ii) 0.0700 in all other cases; *provided*, *however*, that if the value of a particular Stabilized Development Asset calculated pursuant to this clause (3) is less than the cost (original cost plus capital improvements before depreciation and amortization) of such Real Estate Asset, as determined in accordance with GAAP, such cost shall be used in lieu thereof with respect to such Real Estate Asset;

(4) the proceeds of the Debt, or the assets to be acquired in exchange for such proceeds, as the case may be, incurred since the end of the Latest Completed Quarter;

(5) mortgages and other notes receivable of Ventas, Inc. and its Subsidiaries, determined in accordance with GAAP;

(6) cash, cash equivalents and marketable securities of Ventas, Inc. and its Subsidiaries but *excluding* all cash, cash equivalents and marketable securities securing, or applied to defease or discharge, in each case as of that date, any indebtedness, including mortgages and other notes payable (including cash deposited with a trustee with respect to third party indebtedness), all determined in accordance with GAAP; and

(7) all other assets of Ventas, Inc. and its Subsidiaries (excluding goodwill), determined in accordance with GAAP.

"*Unencumbered Assets*" means, as of any date, in each case as determined reasonably and in good faith by Ventas, Inc., the sum of (without duplication):

(1) with respect to Real Estate Assets that were owned by Ventas, Inc. and its Subsidiaries as of April 17, 2002 and that continue to be owned as of the date of determination, but excluding any such Real Estate Assets that are serving as collateral for Secured Debt, the annualized rental revenues specified for such Real Estate Assets on Schedule 1 attached to the Third Supplemental Indenture, divided by 0.0900, plus any annualized incremental rental revenue

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generated by such Real Estate Assets as a result of, arising out of or in connection with annual rent escalations or rent reset rights of Ventas, Inc. and its Subsidiaries with respect to such Real Estate Assets (whether by agreement or exercise of such right or otherwise), divided by 0.0900; for the purpose of this clause (1), "*annualized incremental rental revenue*" in respect of a Real Estate Asset shall mean the increase in daily rental revenue generated by such Real Estate Asset as a result of, arising out of or in connection with such annual rent escalations or rent reset rights over the daily rental revenue generated by such Real Estate Asset immediately prior to the effective date of such increase, annualized by multiplying such daily increase by 365;

(2) with respect to all other Real Estate Assets owned by Ventas, Inc. and its Subsidiaries as of the date of determination (except as set forth in clause (3) below), but excluding any such Real Estate Assets that are serving as collateral for Secured Debt, the cost (original cost plus capital improvements before depreciation and amortization) thereof, determined in accordance with GAAP;

(3) with respect to Stabilized Development Assets owned by Ventas, Inc. and its Subsidiaries as of the date of determination, excluding any such Stabilized Development Assets that are serving as collateral for Secured Debt, the aggregate sum of all Property EBITDA for such Stabilized Development Assets for the four (4) consecutive fiscal quarters ending with the Latest Completed Quarter divided by (i) 0.0900, in the case of a government reimbursed property and (ii) 0.0700 in all other cases; *provided*, *however*, that if the value of a particular Stabilized Development Asset calculated pursuant to this clause (3) is less than the cost (original cost plus capital improvements before depreciation and amortization) of such Real Estate Asset, as determined in accordance with GAAP, such cost shall be used in lieu thereof with respect to such Real Estate Asset;

(4) the proceeds of the Debt, or the assets to be acquired in exchange for such proceeds, as the case may be, incurred since the end of the Latest Completed Quarter;

(5) mortgages and other notes receivable of Ventas, Inc. and its Subsidiaries, except any mortgages or other notes receivable that are serving as collateral for Secured Debt, determined in accordance with GAAP;

(6) cash, cash equivalents and marketable securities of Ventas, Inc. and its Subsidiaries but *excluding* all cash, cash equivalents and marketable securities securing, or applied to defease or discharge, in each case as of that date, any indebtedness, including mortgages and other notes payable (including cash deposited with a trustee with respect to third party indebtedness), all determined in accordance with GAAP; and

(7) all other assets of Ventas, Inc. and its Subsidiaries (excluding goodwill), other than assets pledged to secure Debt, determined in accordance with GAAP; *provided*, *however*, that Unencumbered Assets shall not include net real estate investments in unconsolidated joint ventures of Ventas, Inc. and its Subsidiaries.

For the avoidance of doubt, cash held by a "qualified intermediary" in connection with proposed like-kind exchanges pursuant to Section 1031 of the Code, which may be classified as "restricted" for GAAP purposes shall nonetheless be included in clause (6) above, so long as Ventas, Inc. or any of its Subsidiaries has the right to (i) direct the qualified intermediary to return such cash to Ventas, Inc. or such Subsidiary if and when Ventas, Inc. or such Subsidiary fails to identify or acquire the proposed like-kind property or at the end of the 180-day replacement period or (ii) direct the qualified intermediary to use such cash to acquire like-kind property.

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"*Unsecured Debt*" means, as of any date, that portion of the aggregate principal amount of all outstanding Debt of Ventas, Inc. and its Subsidiaries as of that date that is neither Secured Debt nor Contingent Liabilities of Ventas, Inc. and its Subsidiaries.

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CERTAIN UNITED STATES FEDERAL INCOME TAX CONSEQUENCES

Introduction

The following is a general discussion of certain U.S. federal income tax consequences relating to the purchase, ownership and disposition of the notes. This discussion is based upon the Code, Treasury Regulations, IRS rulings, and judicial decisions now in effect, all of which are subject to change or different interpretation (possibly with retroactive effect).

This discussion does not address all aspects of U.S. federal income taxation that may be important to holders of the notes and does not address the tax consequences arising under other federal tax laws (such as estate and gift tax laws or the Medicare tax on investment income) or the laws of any foreign, state or local jurisdiction. This discussion is for general information only, and does not purport to address all U.S. federal income tax consequences that may be important to particular purchasers in light of their personal circumstances, or to certain types of purchasers (such as financial institutions, insurance companies, REITs, regulated investment companies, controlled foreign corporations, passive foreign investment companies, tax-exempt entities, partnerships or other pass-through entities (or investors in such entities), dealers in securities or currencies, U.S. expatriates, persons who hold the notes in connection with a straddle, hedge, conversion transaction or any similar or hybrid financial instrument, U.S. Holders (as defined below) whose functional currency is not the U.S. dollar, U.S. Holders that hold their notes through a non-U.S. broker or other non-U.S. intermediary, or persons liable for the alternative minimum tax) that may be subject to special rules. In addition, this discussion is limited to persons purchasing the notes for cash pursuant to this prospectus supplement at the offering price on the cover page of this prospectus supplement. Finally, this discussion assumes that each holder holds the notes as a capital asset within the meaning of Section 1221 of the Code (that is, for investment purposes).

There can be no assurance that the IRS will not take a different position concerning the tax consequences of the purchase, ownership or disposition of the notes or that any such position would not be sustained.

The term "U.S. Holder" means any beneficial owner of the notes who is, for U.S. federal income tax purposes, an individual who is a citizen or resident of the United States, a corporation organized in the United States or any state thereof or the District of Columbia, an estate, the income of which is includible in income for U.S. federal income tax purposes regardless of its source or a trust if (i) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (ii) such trust has elected under applicable Treasury Regulations to retain its pre-August 20, 1996 classification as a U.S. person. A "Non-U.S. Holder" means any beneficial owner of the notes who is, for U.S. federal income tax purposes, an individual, corporation, estate or trust and who is not a U.S. Holder. Neither the term "U.S. Holder" nor the term "Non-U.S. Holder" includes a partnership for U.S. federal income tax purposes. If any entity treated as a partnership for U.S. federal income tax purposes holds the notes, the tax treatment of a partner in the partnership will generally depend upon the status and activities of the partnership and the partner. Prospective holders that are entities treated as partnerships for U.S. federal income tax purposes should consult their own tax advisors regarding the U.S. federal income tax consequences to them and their partners of holding the notes.

Persons considering the purchase of notes should consult their own advisors concerning the application of U.S. federal income, estate and gift and Medicare tax and other laws, as well as the laws of any state, local or foreign taxing jurisdiction that may be relevant to their particular situations.

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Tax Consequences Applicable to U.S. Holders

Stated interest. Payments of stated interest on a note generally will be taxable to a U.S. Holder as ordinary income at the time such payments are accrued or are received, in accordance with the U.S. Holder's regular method of tax accounting.

Sale or other disposition of the notes. In general, a U.S. Holder of the notes will recognize gain or loss upon the sale, retirement, redemption or other disposition of the notes measured by the difference, if any, between the amount of cash and the fair market value of any property received (except to the extent attributable to accrued and unpaid stated interest, which will be taxable as interest income to the extent not previously so taxed) and the U.S. Holder's adjusted tax basis in the notes. A U.S. Holder's adjusted tax basis in the notes generally will equal the cost of the notes to the holder. Any gain or loss on the disposition of the notes will be capital gain or loss and will be long-term capital gain or loss if the notes have been held for more than one year at the time of such disposition. For non-corporate holders, certain preferential tax rates may apply to long-term capital gain. A U.S. Holder's ability to deduct capital losses against ordinary income is limited.

Tax Consequences Applicable to Non-U.S. Holders

Subject to the discussion below of backup withholding and FATCA (as defined below), a Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on payments of interest on a note if such payments are not effectively connected with the conduct of a U.S. trade or business, unless such Non-U.S. Holder (i) owns (actually or constructively) 10% or more of the total combined voting power of all classes of Ventas, Inc.'s voting stock within the meaning of the Code and applicable Treasury Regulations, (ii) is a controlled foreign corporation that is related to Ventas, Inc., or (iii) is a bank as to which the interest represents interest received on an extension of credit made pursuant to a loan agreement entered into in the ordinary course of its trade or business, in which case such interest will be subject to a 30% withholding tax (unless reduced or eliminated by an applicable income tax treaty). To qualify for the exemption from the withholding tax (or to claim the elimination or reduction of the withholding tax under a treaty), the last U.S. payor in the chain of payment prior to payment to a Non-U.S. Holder, which we refer to in this prospectus supplement as the Withholding Agent, must have received, before payment, a statement that:

- is signed by the Non-U.S. Holder under penalties of perjury;
- certifies that the Non-U.S. Holder is not a U.S. person; and
- provides the name and address of the Non-U.S. Holder.

Certain additional information may be required to claim the elimination or reduction in withholding tax under a treaty.

The statement may be made on an IRS Form W-8BEN or IRS Form W-8BEN-E or a substantially similar form, and the Non-U.S. Holder must inform the Withholding Agent of any change in the information on the statement within 30 days of such change. If a note is held through a securities clearing organization or certain other financial institutions, the beneficial owner of the note must provide the above statement to such organization or institution.

Subject to the discussion below of backup withholding and FATCA, a Non-U.S. Holder generally will not be subject to U.S. federal withholding tax on any amount which constitutes gain upon a sale, retirement, redemption or other disposition of the notes. Such gain generally will also not be subject to U.S. federal income tax unless (i) the gain is effectively connected with the conduct of a trade or business in the United States by the Non-U.S. Holder (and, if required by an applicable income tax treaty, is attributable to a United States permanent establishment), in which case the Non-U.S. Holder will be taxed as discussed below or (ii) the Non-U.S. Holder is an individual who is present in the

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United States for 183 days or more in the taxable year of the sale and certain other conditions are met, in which case the Non-U.S. Holder will be subject to a flat 30% U.S. federal income tax on any gain recognized (except as otherwise provided by an applicable income tax treaty), which may be offset by certain U.S. source losses.

If interest received by a Non-U.S. Holder with respect to the notes, or gain from a sale, retirement, redemption or other disposition of the notes, is effectively connected with the conduct by the Non-U.S. Holder of a trade or business within the United States (and, if required by an applicable income tax treaty, are attributable to a United States permanent establishment), such Non-U.S. Holder will generally be subject to the rules described above for a U.S. Holder (subject to any modification provided under an applicable income tax treaty). Such Non-U.S. Holder may also be subject to the "branch profits tax" (equal to 30% of its effectively connected earnings and profits for the taxable year, subject to certain adjustments, unless it qualifies for a lower rate under an applicable income tax treaty) if such Non-U.S. Holder is a corporation. If interest received with respect to the notes is effectively connected income (whether or not a treaty applies), the 30% withholding tax described above will not apply (assuming an appropriate certification on IRS Form W-8ECI is provided).

Information Reporting and Backup Withholding

Information returns may be filed with the IRS and backup withholding (at a rate of 28%) may be collected in connection with payments of interest on a note and payments of the proceeds of a sale or other disposition (including a retirement or redemption) of a note by a holder. A U.S. Holder will not be subject to backup withholding if such U.S. Holder provides its taxpayer identification number to us or our paying agent and complies with certain certification procedures or otherwise establishes an exemption from backup withholding. Certain holders, including corporations, are generally not subject to backup withholding.

A Non-U.S. Holder may be subject to United States backup withholding tax on the foregoing payments unless such Non-U.S. Holder complies with certification procedures to establish that such Non-U.S. Holder is not a U.S. person, generally on an IRS Form W-8BEN, W-8BEN-E or W-8ECI (or suitable substitute form).

Backup withholding tax is not an additional tax. Rather, the U.S. federal income tax liability of persons subject to backup withholding tax will be offset by the amount of tax withheld. If backup withholding tax results in an overpayment of U.S. federal income taxes, a refund or credit may be obtained from the IRS, provided the required information is timely furnished thereto.

Foreign Account Tax Compliance Act

Pursuant to the Foreign Account Tax Compliance Act (commonly known as FATCA), a 30% U.S. federal withholding tax will currently be imposed on payments of U.S. source interest (and will be imposed on gross proceeds from the sale or redemption of the notes paid after December 31, 2018) to (i) foreign financial institutions including non-U.S. investment vehicles, unless they agree to collect and disclose to the IRS information regarding their direct or indirect U.S. owners and (ii) certain other foreign entities, unless they certify certain information regarding their direct and indirect U.S. owners. To avoid such withholding,

- foreign financial institutions will need to (i) enter into agreements with the IRS that state they will provide the IRS information, including the names, addresses and taxpayer identification numbers of direct and indirect U.S. account holders, comply with due diligence procedures with respect to the identification of U.S. accounts, report to the IRS certain information with respect to U.S. accounts maintained, agree to withhold tax on certain payments made to noncompliant foreign financial institutions or to account holders who fail to provide the required information, and determine certain other information as to the account holders, or (ii) in the event that an

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applicable intergovernmental agreement and implementing legislation are adopted, provide non-U.S. taxing authorities with similar account holder information or otherwise comply with the terms of the intergovernmental agreement and implementing legislation; and

foreign entities other than foreign financial institutions will need to either provide the name, address, and taxpayer identification number of each substantial U.S. owner or certifications of no substantial U.S. ownership unless certain exceptions apply or agree to provide certain information to the IRS.

UNDERWRITING

Subject to the terms and conditions contained in the underwriting agreement among Ventas Realty and Ventas, Inc. (together, the "Ventas Entities") and Citigroup Global Markets Inc., Barclays Capital Inc., Credit Agricole Securities (USA) Inc. and Credit Suisse Securities (USA) LLC, as representatives of the several other underwriters listed below, as underwriters, the issuer has agreed to sell to the underwriters, and the underwriters have severally agreed to purchase from the issuer, the respective principal amount of the notes shown opposite their names below:

Underwriters	Principal Amount of Notes
Citigroup Global Markets Inc.	$
Barclays Capital Inc.	
Credit Agricole Securities (USA) Inc.	
Credit Suisse Securities (USA) LLC	
Total	$

The underwriting agreement provides that the underwriters' obligations to purchase the notes are subject to certain conditions precedent and that the underwriters are committed to take and pay for all of the notes, if any are taken.

Each of the Ventas Entities has agreed to indemnify the several underwriters and their respective controlling persons against specified liabilities in connection with this offering, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make in respect of those liabilities.

The notes will be a new issue of securities with no established trading market. The underwriters have advised us that they presently intend to make a market in the notes. However, you should be aware that they are not obligated to make a market and may discontinue their market-making activities at any time without notice. As a result, a liquid market for the notes may not be available if you try to sell your notes. We do not intend to apply for a listing of the notes on any securities exchange or any automated dealer quotation system.

Underwriting Discount

The following table shows the underwriting discount to be paid to the underwriters by the issuer in connection with this offering. This underwriting discount is the difference between the public offering price and the amount the underwriters pay to the issuer to purchase the notes.

Per note (expressed as a percentage of the principal amount)	%
Total	$

We have been advised by the underwriters that they initially propose to offer and sell the notes directly to the public at the public offering price set forth on the cover page of this prospectus supplement. After the offering, the underwriters may change the offering price and other selling terms at any time without notice. The offering of the notes by the underwriters is subject to receipt and acceptance and subject to the underwriters' right to reject any order in whole or in part.

The underwriters may offer the notes to selected dealers at the public offering price minus a concession of up to % of the principal amount. The underwriters may allow, and those selected dealers may reallow, a concession of up to % of the principal amount to certain other dealers. After the initial offering, the underwriters may change the public offering price and any other selling terms. The underwriters may offer and sell notes through certain of their affiliates.

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The expenses of the offering, exclusive of the underwriting discount, are estimated at approximately $ and are payable by us.

Price Stabilization and Short Positions

In connection with this offering, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the notes. Specifically, the underwriters may over-allot this offering, creating a syndicate short position. The underwriters may bid for and purchase the notes in the open market to stabilize the price of the notes and may impose "penalty bids" under contractual arrangements whereby they may reclaim from dealers participating in this offering for the account of the underwriters, the selling concession with respect to the notes that are distributed in this offering but subsequently purchased for the account of the underwriters in the open market. These activities may stabilize or maintain the market price of the notes above independent market levels. The underwriters are not required to engage in these activities and may discontinue them at any time.

Extended Settlement

We expect that delivery of the notes will be made to investors on or about September , 2016, which will be the fifth business day following the date of this prospectus supplement (such settlement being referred to as "T+5"). Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally are required to settle in three business days unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the notes on the date of pricing of the notes or the next succeeding business day will be required, by virtue of the fact that the notes initially will settle in T+5, to specify an alternative settlement cycle at the time of any such trade to prevent failed settlement and should consult their own advisors.

Other Relationships

The underwriters and their respective affiliates are full-service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. Certain of the underwriters and their respective affiliates have engaged in, and may in the future engage in, investment banking, commercial banking and other commercial dealings in the ordinary course of business with us and our affiliates, for which they have received and may continue to receive customary fees and commissions. Certain affiliates of the underwriters are lenders or agents under our unsecured revolving credit facility. Certain affiliates of the underwriters also are lenders or agents under one or more of our unsecured term loans.

In addition, in the ordinary course of their business activities, the underwriters and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. If any of the underwriters or their affiliates have a lending relationship with us, certain of those underwriters or their affiliates routinely hedge, and certain other of those underwriters may hedge their credit exposure to us consistent with their customary risk management policies. Typically, these underwriters and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, including potentially the notes offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the notes offered hereby. The underwriters and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

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Notice to Prospective Investors

European Economic Area

Neither this prospectus supplement nor the accompanying prospectus is a prospectus for the purposes of the Prospectus Directive. In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State") and with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State, no offer of notes to the public in that Relevant Member State may be made by any underwriter other than:

(a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant underwriter or underwriters nominated by the issuer for any such offer; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of notes shall require the issuer or any underwriter to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of notes to the public" in relation to any notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe for the notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

No invitation or inducement to engage in investment activity (within the meaning of Section 21 of the of the Financial Services and Markets Act 2000 ("FSMA")) received by the underwriters in connection with the issue or sale of the notes may be communicated or caused to be communicated except in circumstances in which Section 21(1) of the FSMA does not apply to the issuer or the guarantor. All applicable provisions of the FSMA must be complied with respect to anything done or to be done by the underwriters in relation to any notes in, from or otherwise involving the United Kingdom.

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LEGAL MATTERS

T. Richard Riney, our Executive Vice President, Chief Administrative Officer and General Counsel, and Sidley Austin LLP, New York, New York, will pass upon certain legal matters for us in connection with the notes offered by this prospectus supplement and the accompanying prospectus. Goodwin Procter LLP, New York, New York, will pass upon certain legal matters for the underwriters. Mr. Riney owns shares of our common stock and options to purchase shares of our common stock.

EXPERTS

Ventas

Our consolidated financial statements and schedules as of December 31, 2015 and 2014 and for each of the years in the three-year period ended December 31, 2015 and management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2015 have been incorporated by reference herein in reliance upon the reports of KPMG LLP, independent registered public accounting firm, incorporated by reference elsewhere herein, and upon the authority of said firm as experts in accounting and auditing.

AHS

The consolidated financial statements of AHS Medical Holdings LLC at December 31, 2014 and 2013 and for the years then ended, have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon and incorporated herein by reference. Such consolidated financial statements are incorporated herein by reference in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION AND INCORPORATION BY REFERENCE

We are subject to the informational reporting requirements of the Exchange Act and, in accordance therewith, file reports, proxy statements, information statements and other information with the SEC. Reports, proxy statements, information statements and other information that we file with the SEC pursuant to the requirements of the Exchange Act may be read and copied at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. Information about the operation of the public reference room may be obtained by calling the SEC at (800) SEC-0330. The SEC maintains a website that contains reports, proxy statements, information statements and other information regarding us. The SEC's website address is www.sec.gov. We are a publicly held corporation and our common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "VTR." Reports, proxy statements, information statements and other information may also be inspected at the offices of the NYSE, 20 Broad Street, New York, New York 10005. Information about us is also available on our website at www.ventasreit.com. Information on our website is not incorporated by reference herein and our web address is included in this prospectus supplement and the accompanying prospectus as an inactive textual reference only.

Statements contained or deemed to be incorporated by reference in this prospectus supplement as to the contents of any contract or other document are not necessarily complete, and in each instance we refer you to the copy of the contract or document filed as an exhibit to a document incorporated or deemed to be incorporated by reference in this prospectus supplement and the accompanying prospectus, each such statement being qualified in all respects by such reference.

We are incorporating by reference in this prospectus supplement the information we file with the SEC. This means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this prospectus supplement, and information that we file later with the SEC will automatically update and supersede

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this information. We are incorporating by reference the documents listed below and any future filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this prospectus supplement until all of the notes offered by this prospectus supplement and the accompanying prospectus are sold:

- our Annual Report on Form 10-K for the year ended December 31, 2015;
- our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2016 and June 30, 2016;
- our Current Reports on Form 8-K or Form 8-K/A filed on September 1, 2015, January 15, 2016, February 12, 2016 (however, we do not incorporate by reference any information under Item 2.02, Results of Operations and Financial Condition), May 11, 2016, May 25, 2016, June 2, 2016, June 7, 2016 and July 11, 2016; and
- our Proxy Statement for our 2016 Annual Meeting of Stockholders, filed with the SEC on March 30, 2016.

You may request a copy of these filings at no cost, by writing or telephoning us at the following address:

Ventas, Inc.
Attention: Corporate Secretary
353 North Clark Street, Suite 3300
Chicago, Illinois 60654
(877) 483-6827

No separate financial statements of the issuer have been included herein. It is not expected that the issuer will file reports, proxy statements or other information under the Exchange Act with the SEC.

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PROSPECTUS

Ventas, Inc.

Common Stock, Preferred Stock, Depositary Shares, Warrants and Debt Securities

Ventas Realty, Limited Partnership

Debt Securities

Guarantees of Debt Securities of Ventas, Inc. by Ventas Realty, Limited Partnership

Guarantees of Debt Securities of Ventas Realty, Limited Partnership by Ventas, Inc.

Ventas, Inc. may offer and sell, from time to time, in one or more offerings: common stock; preferred stock; depositary shares; warrants; and debt securities. These securities may be offered and sold separately, together or as units with other securities described in this prospectus. The debt securities of Ventas, Inc. may be fully and unconditionally guaranteed by Ventas Realty, Limited Partnership, as described in this prospectus or a prospectus supplement. These debt securities and any such guarantees may be senior or subordinated.

Ventas Realty, Limited Partnership may offer and sell, from time to time, in one or more offerings, debt securities. These debt securities may be offered and sold separately, together or as units with other securities described in this prospectus. The debt securities of Ventas Realty, Limited Partnership may be fully and unconditionally guaranteed by Ventas, Inc., as described in this prospectus or a prospectus supplement. These debt securities and any such guarantees may be senior or subordinated.

The securities described in this prospectus may be issued in one or more series or issuances. We will provide the specific terms of these securities and their offering prices in supplements to this prospectus. You should carefully read this prospectus and the applicable prospectus supplement before you decide to invest in any of these securities.

See "Risk Factors" on page 5 for a discussion of matters that you should consider before investing in these securities.

Our common stock is listed on the New York Stock Exchange under the symbol "VTR." The closing price of our common stock on the New York Stock Exchange was $72.90 per share on March 5, 2015. None of the other securities offered by this prospectus are currently listed on a national securities exchange.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is March 6, 2015

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission (the "SEC") using a "shelf" registration process. Under this shelf process, we may sell any combination of the securities described in this prospectus from time to time in one or more offerings.

This prospectus provides you only with a general description of the securities we may offer. Each time we sell securities, we will provide one or more prospectus supplements containing specific information about the terms of that offering (each, a "prospectus supplement"). Any prospectus supplement may also add to, update or change information contained in this prospectus. You should read both this prospectus and any prospectus supplement together with additional information described under the heading "Where You Can Find More Information and Incorporation by Reference."

You should rely only on the information included or incorporated by reference in this prospectus or any prospectus supplement. We have not authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We will not make an offer of these securities in any jurisdiction where it is unlawful. You should assume that the information in this prospectus or any prospectus supplement, as well as the information that we file with the SEC and incorporated by reference in this prospectus, is accurate only as of the date of the documents containing the information.

Unless otherwise indicated or except where the context otherwise requires:

- references in this prospectus to "we," "us," "our" and other similar terms and "Ventas" mean Ventas, Inc., together with its consolidated subsidiaries; and

- references in this prospectus to "Ventas Realty" mean Ventas Realty, Limited Partnership.

CAUTIONARY NOTE CONCERNING FORWARD-LOOKING STATEMENTS

This prospectus and the documents incorporated by reference herein include "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements regarding our or our tenants', operators', borrowers' or managers' expected future financial condition, results of operations, cash flows, funds from operations, dividends and dividend plans, financing opportunities and plans, capital markets transactions, business strategy, budgets, projected costs, operating metrics, capital expenditures, competitive positions, acquisitions, investment opportunities, dispositions, merger integration, growth opportunities, expected lease income, continued qualification as a real estate investment trust ("REIT"), plans and objectives of management for future operations, and statements that include words such as "anticipate," "if," "believe," "plan," "estimate," "expect," "intend," "may," "could," "should," "will," and other similar expressions are forward-looking statements. These forward-looking statements are inherently uncertain, and actual results may differ from our expectations. We do not undertake a duty to update these forward-looking statements, which speak only as of the date on which they are made.

Our actual future results and trends may differ materially from expectations depending on a variety of factors discussed in our filings with the SEC. These factors include without limitation:

- The ability and willingness of our tenants, operators, borrowers, managers and other third parties to satisfy their obligations under their respective contractual arrangements with us, including, in some cases, their obligations to indemnify, defend and hold us harmless from and against various claims, litigation and liabilities;

- The ability of our tenants, operators, borrowers and managers to maintain the financial strength and liquidity necessary to satisfy their respective obligations and liabilities to third parties,

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including without limitation obligations under their existing credit facilities and other indebtedness;

Our success in implementing our business strategy and our ability to identify, underwrite, finance, consummate and integrate diversifying acquisitions and investments, including investments in different asset types and outside the United States;

Macroeconomic conditions such as a disruption of or lack of access to the capital markets, changes in the debt rating on U.S. government securities, default or delay in payment by the United States of its obligations, and changes in the federal or state budgets resulting in the reduction or nonpayment of Medicare or Medicaid reimbursement rates;

The nature and extent of future competition, including new construction in the markets in which our seniors housing communities and medical office buildings ("MOBs") are located;

The extent of future or pending healthcare reform and regulation, including cost containment measures and changes in reimbursement policies, procedures and rates;

Increases in our borrowing costs as a result of changes in interest rates and other factors;

The ability of our operators and managers, as applicable, to comply with laws, rules and regulations in the operation of our properties, to deliver high-quality services, to attract and retain qualified personnel and to attract residents and patients;

Changes in general economic conditions or economic conditions in the markets in which we may, from time to time, compete, and the effect of those changes on our revenues, earnings and capital sources;

Our ability to pay down, refinance, restructure or extend our indebtedness as it becomes due;

Our ability and willingness to maintain our qualification as a REIT in light of economic, market, legal, tax and other considerations;

Final determination of our taxable net income for the year ended December 31, 2014 and for the year ending December 31, 2015;

The ability and willingness of our tenants to renew their leases with us upon expiration of the leases, our ability to reposition our properties on the same or better terms in the event of nonrenewal or in the event we exercise our right to replace an existing tenant, and obligations, including indemnification obligations, we may incur in connection with the replacement of an existing tenant;

Risks associated with our senior living operating portfolio, such as factors that can cause volatility in our operating income and earnings generated by those properties, including without limitation national and regional economic conditions, costs of food, materials, energy, labor and services, employee benefit costs, insurance costs and professional and general liability claims, and the timely delivery of accurate property-level financial results for those properties;

Changes in exchange rates for any foreign currency in which we may, from time to time, conduct business;

Year-over-year changes in the Consumer Price Index or the UK Retail Price Index and the effect of those changes on the rent escalators contained in our leases and on our earnings;

Our ability and the ability of our tenants, operators, borrowers and managers to obtain and maintain adequate property, liability and other insurance from reputable, financially stable providers;

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- The impact of increased operating costs and uninsured professional liability claims on our liquidity, financial condition and results of operations or that of our tenants, operators, borrowers and managers and our ability and the ability of our tenants, operators, borrowers and managers to accurately estimate the magnitude of those claims;

- Risks associated with our MOB portfolio and operations, including our ability to successfully design, develop and manage MOBs, to accurately estimate our costs in fixed fee-for-service projects and to retain key personnel;

- The ability of the hospitals on or near whose campuses our MOBs are located and their affiliated health systems to remain competitive and financially viable and to attract physicians and physician groups;

- Our ability to build, maintain and expand our relationships with existing and prospective hospital and health system clients;

- Risks associated with our investments in joint ventures and unconsolidated entities, including our lack of sole decision-making authority and our reliance on our joint venture partners' financial condition;

- The impact of market or issuer events on the liquidity or value of our investments in marketable securities;

- Merger and acquisition activity in the healthcare and seniors housing industries resulting in a change of control of, or a competitor's investment in, one or more of our tenants, operators, borrowers or managers or significant changes in the senior management of our tenants, operators, borrowers or managers;

- The impact of litigation or any financial, accounting, legal or regulatory issues that may affect us or our tenants, operators, borrowers or managers; and

- Changes in accounting principles, or their application or interpretation, and our ability to make estimates and the assumptions underlying the estimates, which could have an effect on our earnings.

We describe some of these risks and uncertainties in greater detail below under "Risk Factors" and in the risk factors that are incorporated or deemed to be incorporated by reference in this prospectus. Many of these factors are beyond our control and the control of our management.

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ABOUT THE REGISTRANTS

The following highlights information about the registrants and our business included elsewhere or incorporated by reference in this prospectus. It is not complete and does not contain all of the information that you should consider before investing in any of our securities. You should carefully read this prospectus together with the more detailed information incorporated by reference in this prospectus.

Ventas

Ventas, an S&P 500 company, is a REIT with a highly diversified portfolio of seniors housing and healthcare properties located throughout the United States, Canada and the United Kingdom. As of December 31, 2014, we owned more than 1,500 properties (including properties classified as held for sale), consisting of seniors housing communities, MOBs, skilled nursing and other facilities, and hospitals, and we had one new property under development. Our company was originally founded in 1983 and is currently headquartered in Chicago, Illinois.

We primarily invest in seniors housing and healthcare properties through acquisitions and lease our properties to unaffiliated tenants or operate them through independent third-party managers. As of December 31, 2014, we leased a total of 922 properties (excluding MOBs and properties classified as held for sale) to various healthcare operating companies under "triple-net" or "absolute-net" leases that obligate the tenants to pay all property-related expenses, including maintenance, utilities, repairs, taxes, insurance and capital expenditures, and we engaged independent operators, such as Atria and Sunrise, to manage 270 seniors housing communities for us pursuant to long-term management agreements.

Through our Lillibridge Healthcare Services, Inc. subsidiary and our ownership interest in PMB Real Estate Services LLC, we also provide MOB management, leasing, marketing, facility development and advisory services to highly rated hospitals and health systems throughout the United States. In addition, from time to time, we make secured and unsecured loans and other investments relating to seniors housing and healthcare operators or properties.

We aim to enhance shareholder value by delivering consistent, superior total returns through a strategy of: (1) generating reliable and growing cash flows; (2) maintaining a balanced, diversified portfolio of high-quality assets; and (3) preserving our financial strength, flexibility and liquidity.

Our principal executive offices are located at 353 North Clark Street, Suite 3300, Chicago, Illinois 60654, and our telephone number is (877) 483-6827. We maintain a website on the Internet at www.ventasreit.com. Information on our website is not incorporated by reference herein and our web address is included in this prospectus as an inactive textual reference only.

Ventas Realty

Ventas Realty is a wholly owned direct subsidiary of Ventas, Inc. and a limited partnership organized under the laws of the State of Delaware.

RISK FACTORS

Our business, operations and financial condition are subject to various risks. Before you invest in our securities, you should carefully read and consider:

- the risks described in Ventas, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2014, which is incorporated by reference in this prospectus; and

- any risks that are described in other filings we make with the SEC or in the prospectus supplements relating to specific offerings of securities.

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USE OF PROCEEDS

Unless otherwise described in a prospectus supplement, we intend to use the net proceeds from the sale of any securities under this prospectus for general corporate purposes, including to fund future acquisitions and investments and to repay indebtedness outstanding under our unsecured revolving credit facility, term loans or other debt. Until we apply the proceeds from a sale of securities to their intended purposes, we may invest those proceeds in short-term investments, including repurchase agreements, some or all of which may not have an investment grade rating.

RATIO OF EARNINGS TO FIXED CHARGES

The following table shows our ratios of (1) earnings to fixed charges and (2) earnings to combined fixed charges and preferred stock dividends for each of the periods indicated. We do not currently have any preferred stock outstanding.

	Year Ended December 31,				
	2014	**2013**	**2012**	**2011**	**2010**
Ratio of earnings to fixed charges(1)	2.20x	2.45x	2.00x	2.48x	2.31x
Ratio of earnings to combined fixed charges and preferred stock dividends(2)	2.20x	2.45x	2.00x	2.48x	2.31x

(1) For this ratio, earnings consist of income before loss/income from unconsolidated entities, income taxes, discontinued operations, real estate dispositions and noncontrolling interest, plus fixed charges (excluding capitalized interest) and distributions from unconsolidated entities. Fixed charges consist of interest expensed and capitalized.

(2) For this ratio, earnings consist of income before loss/income from unconsolidated entities, income taxes, discontinued operations, real estate dispositions and noncontrolling interest, plus fixed charges and preferred stock dividends (excluding capitalized interest) and distributions from unconsolidated entities. Fixed charges and preferred stock dividends consist of interest expensed and capitalized, plus preferred stock dividends.

DESCRIPTION OF VENTAS, INC. COMMON STOCK

This section describes the general terms and provisions of Ventas, Inc. common stock. The prospectus supplement relating to any offering of common stock, or other securities convertible into or exchangeable or exercisable for common stock, will describe more specific terms of the offering of common stock or other securities, including the number of shares offered, the initial offering price, and market price and dividend information.

The summary set forth below does not purport to be complete and is subject to and qualified in its entirety by reference to Ventas, Inc.'s Amended and Restated Certificate of Incorporation, as amended (the "Certificate of Incorporation"), and Ventas, Inc.'s Fourth Amended and Restated Bylaws, as amended (the "Bylaws"), each of which is filed or incorporated by reference as an exhibit to the registration statement of which this prospectus is a part and incorporated by reference herein. You should read the Certificate of Incorporation and Bylaws for additional information before you purchase any shares of Ventas, Inc. common stock.

General

The Certificate of Incorporation authorizes Ventas, Inc. to issue up to 600,000,000 shares of its common stock, par value $0.25 per share. As of February 27, 2015, 330,849,170 shares of Ventas, Inc. common stock were issued and outstanding.

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All shares of common stock offered hereby, when issued, will be duly authorized, fully paid and nonassessable. Subject to the preferential rights of any other shares of capital stock and to certain provisions of the Certificate of Incorporation, holders of shares of Ventas, Inc. common stock are entitled to receive distributions if, as and when authorized and declared by Ventas, Inc.'s Board of Directors out of assets legally available therefor and to share ratably in our assets legally available for distribution to stockholders in the event of our liquidation, dissolution or winding-up after payment of, or adequate provision for, all of our known debts and liabilities. We currently expect to continue to make quarterly distributions, and from time to time we may make additional distributions.

Holders of shares of Ventas, Inc. common stock are entitled to one vote per share on all matters on which the holders of common stock are entitled to vote. Holders of shares of Ventas, Inc. common stock have no conversion, sinking fund, redemption or preemptive rights. Subject to certain provisions of the Certificate of Incorporation, shares of Ventas, Inc. common stock have equal distribution, liquidation and other rights.

Certain Anti-Takeover Provisions

In order to preserve its ability to maintain its REIT status, Ventas, Inc.'s Certificate of Incorporation provides that if a person acquires beneficial ownership of more than 9%, in number or value, of the outstanding shares of Ventas, Inc. common stock, the shares that are beneficially owned in excess of such 9% limit are considered to be "excess shares." Excess shares are automatically deemed transferred to a trust for the benefit of a charitable institution or other qualifying organization selected by Ventas, Inc.'s Board of Directors. The trust is entitled to all dividends with respect to the excess shares and the trustee may exercise all voting power over the excess shares. Ventas, Inc. has the right to buy the excess shares for a purchase price equal to the lesser of (1) the price per share in the transaction that created the excess shares, or (2) the market price on the date Ventas, Inc. buys the shares, and Ventas, Inc. may defer payment of the purchase price for up to five years. If Ventas, Inc. does not purchase the excess shares, the trustee of the trust is required to transfer the excess shares at the direction of Ventas, Inc.'s Board of Directors. The owner of the excess shares is entitled to receive the lesser of the proceeds from the sale of the excess shares or the original purchase price for such excess shares, and any additional amounts are payable to the beneficiary of the trust. Ventas, Inc.'s Board of Directors may grant waivers from the excess share limitations.

DESCRIPTION OF VENTAS, INC. PREFERRED STOCK

This section describes the general terms and provisions of Ventas, Inc. preferred stock. The prospectus supplement relating to any offering of preferred stock, or other securities convertible into or exchangeable or exercisable for preferred stock, will describe more specific terms of the preferred stock being offered, including the designation of the series, the number of shares offered, the initial offering price and any voting, dividend and liquidation preference rights, and any general terms described in this section that will not apply to those shares of preferred stock.

The summary set forth below does not purport to be complete and is subject to and qualified in its entirety by reference to the Certificate of Incorporation and the certificate of designation relating to the applicable series of preferred stock that we will file with the SEC, each of which is or will be filed or incorporated by reference as an exhibit to the registration statement of which this prospectus is a part and incorporated by reference herein. You should read the Certificate of Incorporation and such certificate of designation for additional information before you buy any shares of Ventas, Inc. preferred stock.

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General

The Certificate of Incorporation authorizes Ventas, Inc. to issue up to 10,000,000 shares of preferred stock, par value $1.00 per share. As of February 27, 2015, no shares of Ventas, Inc. preferred stock were issued or outstanding.

Ventas, Inc.'s Board of Directors has authority, without the approval of stockholders, to issue preferred stock in one or more series having the powers, preferences and other rights as it may determine from time to time. Any shares of Ventas, Inc. preferred stock that Ventas, Inc. offers and sells under this prospectus will have the rights described in this section unless the applicable prospectus supplement provides otherwise. You should read the prospectus supplement relating to the particular series of preferred stock being offered for the specific terms of the series, including some or all of the following:

- the description of the shares of preferred stock;
- the number of shares of preferred stock offered;
- the voting rights, if any, of the holders of the shares of preferred stock;
- the offering price of the shares of preferred stock;
- the distribution rate on the shares of preferred stock, when distributions will be paid, or the method of determining the distribution rate if it is based on a formula or not otherwise fixed;
- the date from which distributions on the shares of preferred stock shall accumulate;
- the provision, if any, for auctioning or remarketing of the shares of preferred stock;
- the provision, if any, for redemption of, or a sinking fund with respect to, the shares of preferred stock;
- the liquidation preference per share of preferred stock;
- any listing of the shares of preferred stock on a securities exchange;
- whether the shares of preferred stock will be convertible or exchangeable and, if so, the security into which they are convertible or exchangeable and the terms and conditions of conversion or exchange, including the conversion price or exchange rate or the manner of determining it;
- whether interests in the shares of preferred stock will be represented by depositary shares as more fully described below under "Description of Ventas, Inc. Depositary Shares;"
- the federal income tax consequences of owning the shares of preferred stock;

- the relative ranking and preferences of the shares of preferred stock as to distribution and liquidation rights;

- any limitations on issuance of any shares of preferred stock ranking senior to or on a parity with the series of preferred stock being offered as to distribution and liquidation rights;

- any limitations on direct or beneficial ownership and restrictions on transfer of the shares of preferred stock, in each case as may be appropriate to preserve our status as a REIT; and

- any other terms of the preferred stock.

As described under "Description of Ventas, Inc. Depositary Shares," Ventas, Inc. may, at its option, elect to offer depositary shares evidenced by depositary receipts. If Ventas, Inc. elects to so offer, each depositary receipt will represent a fractional interest in a share of the particular series of preferred stock issued and deposited with a depositary. The applicable prospectus supplement will specify that fractional interest.

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Ranking

Unless Ventas, Inc.'s Board of Directors otherwise determines and we so specify in the applicable prospectus supplement, we expect that any shares of Ventas, Inc. preferred stock will, with respect to distribution rights and rights upon liquidation or dissolution, rank senior to all shares of Ventas, Inc. common stock.

Dividends

Holders of shares of Ventas, Inc. preferred stock of each series will be entitled to receive dividends at the rates and on the dates shown in the applicable prospectus supplement if, as and when authorized and declared by Ventas, Inc.'s Board of Directors out of assets legally available therefor. Ventas, Inc. will pay each dividend to holders of record as they appear on its share transfer books on the record dates fixed by its Board of Directors. In the case of shares of preferred stock represented by depositary receipts, the records of the depositary referred to under "Description of Ventas, Inc. Depositary Shares" will determine the persons to whom dividends are payable.

Dividends on any series of Ventas, Inc. preferred stock may be cumulative or noncumulative, as provided in the applicable prospectus supplement. We refer to each particular series, for ease of reference, as the applicable series. Cumulative dividends will be cumulative from and after the date shown in the applicable prospectus supplement. If Ventas, Inc.'s Board of Directors fails to authorize a dividend on any applicable series that is noncumulative, the holders will have no right to receive, and Ventas, Inc. will have no obligation to pay, a dividend in respect of the applicable dividend period, whether or not dividends on that series are declared payable in the future.

If the applicable series is entitled to a cumulative dividend, Ventas, Inc. may not declare, or pay or set aside for payment, a dividend on any other series of preferred stock ranking, as to dividends, on a parity with or junior to the applicable series, unless it declares, and either pays or sets aside for payment, full cumulative dividends on the applicable series for all past dividend periods and the then current dividend period. If the applicable series does not have a cumulative dividend, Ventas, Inc. must declare, and pay or set aside for payment, full dividends for the then current dividend period only. When dividends are not paid, or set aside for payment, in full on any applicable series and the shares of any other series ranking on a parity as to dividends with the applicable series, Ventas, Inc. must declare, and pay or set aside for payment, all dividends upon the applicable series and any other parity series proportionately, in accordance with accrued and unpaid dividends of the several series. For these purposes, accrued and unpaid dividends do not include unpaid dividend periods on noncumulative shares of preferred stock. No interest will be payable in respect of any dividend payment that may be in arrears.

Except as provided in the immediately preceding paragraph, unless Ventas, Inc. declares, and pays or sets aside for payment, full cumulative dividends, including for the then current period, on any applicable series entitled to a cumulative dividend, it may not declare, or pay or set aside for payment, any dividends on common stock or any other equity securities ranking junior to or on a parity with the applicable series as to dividends or upon liquidation. The foregoing restriction does not apply to dividends paid in common stock or other equity securities ranking junior to the applicable series as to dividends and upon liquidation. If the applicable series does not have cumulative dividends, Ventas, Inc. must declare, and pay or set aside for payment, only the dividend for the then current period before declaring dividends on shares of common stock or junior or parity securities. In addition, under the circumstances in which Ventas, Inc. could not declare a dividend, it may not redeem, purchase or otherwise acquire for any consideration any shares of common stock or other parity or junior equity securities, except upon conversion into or exchange for shares of common stock or other junior equity securities. Ventas, Inc. may, however, make purchases and redemptions otherwise

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prohibited pursuant to certain redemptions or pro rata offers to purchase the outstanding shares of the applicable series and any other parity series of preferred stock.

Ventas, Inc. will credit any dividend payment made on an applicable series first against the earliest accrued but unpaid dividend due with respect to the series.

Redemption

Ventas, Inc. may have the right or may be required to redeem the applicable series, as a whole or in part, in each case upon the terms, if any, and at the times and at the redemption prices shown in the applicable prospectus supplement.

If the applicable series is subject to mandatory redemption, we will specify in the applicable prospectus supplement the number of shares Ventas, Inc. is required to redeem, when the redemption starts, the redemption price, and any other terms and conditions affecting the redemption. The redemption price will include all accrued and unpaid dividends, except in the case of noncumulative preferred stock. The redemption price may be payable in cash or other property, as specified in the applicable prospectus supplement. If the redemption price for the applicable series is payable only from the net proceeds of an issuance of capital stock, the terms of the applicable series may provide that, if no shares of capital stock shall have been issued or to the extent the net proceeds from any such issuance are insufficient to pay in full the aggregate redemption price then due, the shares of preferred stock will automatically and mandatorily be converted into shares of capital stock pursuant to conversion provisions specified in the applicable prospectus supplement.

Liquidation Preference

The applicable prospectus supplement will describe the liquidation preference of the applicable series. Upon our voluntary or involuntary liquidation, before any distribution may be made to the holders of shares of Ventas, Inc. common stock or any other shares of capital stock ranking junior to the applicable series in the distribution of assets upon liquidation, the holders of that series will be entitled to receive, out of assets legally available therefor, liquidating distributions in the amount of the liquidation preference, plus an amount equal to all accrued and unpaid distributions. If the applicable series does not have a cumulative dividend, accrued and unpaid dividends include only the then current dividend period. After payment of the full amount of the liquidating distributions to which they are entitled, the holders of shares of the applicable series will have no right or claim to any of Ventas, Inc.'s remaining assets, and Ventas, Inc.'s remaining assets will be distributed among the holders of any other shares of capital stock ranking junior to the applicable series upon liquidation, according to their rights and preferences.

If, upon any voluntary or involuntary liquidation, Ventas, Inc.'s available assets are insufficient to pay the amount of the liquidating distributions on all outstanding shares of any series and the corresponding amounts payable on all shares of capital stock ranking on a parity in the distribution of assets with that series, then the holders of that series and all other equally ranking shares of capital stock will share ratably in the distribution in proportion to the full liquidating distributions to which they would otherwise be entitled.

Voting Rights

Holders of shares of the applicable series will not have any voting rights, except as otherwise from time to time required by law or as specified in the applicable prospectus supplement.

As more fully described under "Description of Ventas, Inc. Depositary Shares" below, if Ventas, Inc. elects to issue depositary shares, each representing a fraction of a share of a series of preferred stock, each depositary will in effect be entitled to a fraction of a vote per depositary share.

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Conversion Rights

We will describe in the applicable prospectus supplement the terms and conditions, if any, upon which you may, or Ventas, Inc. may require you to, convert shares of the applicable series into shares of common stock or any other class or series of shares of capital stock. The terms will include the number of shares of common stock or other securities into which the shares of the applicable series are convertible, the conversion price (or the manner of determining it), the conversion period, provisions as to whether conversion will be at the option of the holders of the series or at Ventas, Inc.'s option, the events requiring an adjustment of the conversion price, and provisions affecting conversion upon the redemption of shares of the applicable series.

Our Exchange Rights

We will describe in the applicable prospectus supplement the terms and conditions, if any, upon which Ventas, Inc. may require you to exchange shares of the applicable series for debt securities. If an exchange is required, you will receive debt securities with a principal amount equal to the liquidation preference of the applicable series. The other terms and provisions of the debt securities will not be materially less favorable to you than those of the series of preferred stock being exchanged.

Certain Anti-Takeover Provisions

In order to preserve its ability to maintain its REIT status, Ventas, Inc.'s Certificate of Incorporation provides that if a person acquires beneficial ownership of more than 9.9%, in number or value, of the outstanding shares of Ventas, Inc. preferred stock, the shares that are beneficially owned in excess of such 9.9% limit are considered to be "excess shares." Excess shares are automatically deemed transferred to a trust for the benefit of a charitable institution or other qualifying organization selected by Ventas, Inc.'s Board of Directors. The trust is entitled to all dividends with respect to the excess shares and the trustee may exercise all voting power over the excess shares. Ventas, Inc. has the right to buy the excess shares for a purchase price equal to the lesser of (1) the price per share in the transaction that created the excess shares, or (2) the market price on the date Ventas, Inc. buys the shares, and Ventas, Inc. may defer payment of the purchase price for up to five years. If Ventas, Inc. does not purchase the excess shares, the trustee of the trust is required to transfer the excess shares at the direction of Ventas, Inc.'s Board of Directors. The owner of the excess shares is entitled to receive the lesser of the proceeds from the sale of the excess shares or the original purchase price for such excess shares, and any additional amounts are payable to the beneficiary of the trust. Ventas, Inc.'s Board of Directors may grant waivers from the excess share limitations.

DESCRIPTION OF VENTAS, INC. DEPOSITARY SHARES

This section describes the general terms and provisions of shares of Ventas, Inc. preferred stock represented by depositary shares. The prospectus supplement relating to an offering of depositary shares will describe more specific terms of the depositary shares being offered, including the number of shares offered, the initial offering price and the powers, preferences and other rights of the underlying preferred stock and any general terms outlined in this section that will not apply to those depositary shares.

The summary set forth below does not purport to be complete and is subject to and qualified in its entirety by reference to the applicable deposit agreement (including the depositary receipt), the form of which is or will be filed or incorporated by reference as an exhibit to the registration statement of which this prospectus is a part and incorporated by reference herein. You should read the form of deposit agreement (including the depositary receipt) for additional information before you buy any Ventas, Inc. depositary shares.

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General

Ventas, Inc. may, at its option, elect to offer fractional interests in shares of preferred stock, rather than shares of preferred stock. If Ventas, Inc. exercises this option, it will appoint a depositary to issue depositary receipts representing those fractional interests. Shares of preferred stock of each series represented by depositary shares will be deposited under a separate deposit agreement between Ventas, Inc. and the depositary. The applicable prospectus supplement will provide the name and address of the depositary. Subject to the terms of the applicable deposit agreement, each owner of depositary shares will be entitled to all of the dividend, voting, conversion, redemption, liquidation and other rights and preferences of the shares of preferred stock represented by those depositary shares.

Depositary receipts issued pursuant to the applicable deposit agreement will evidence ownership of depositary shares. Upon surrender of depositary receipts at the office of the depositary, and upon payment of the charges provided in and subject to the terms of the deposit agreement, a holder of depositary shares will be entitled to receive the shares of Ventas, Inc. preferred stock underlying the surrendered depositary receipts.

Dividends and Other Distributions

The depositary will be required to distribute all dividends and other cash distributions received in respect of the applicable shares of preferred stock to the record holders of depositary receipts evidencing the related depositary shares in proportion to the number of depositary receipts owned by the holders. Fractions will be rounded down to the nearest whole cent.

If the distribution is other than in cash, the depositary will be required to distribute property received by it to the record holders of depositary receipts entitled thereto, unless the depositary determines that it is not feasible to make the distribution. In that case, the depositary may, with Ventas, Inc.'s approval, sell the property and distribute the net proceeds from the sale to the holders of depositary shares.

Depositary shares that represent shares of preferred stock that have been converted or exchanged will not be entitled to distributions. The deposit agreement will also contain provisions relating to the manner in which any subscription or similar rights we offer to holders of shares of preferred stock will be made available to holders of depositary shares. All distributions will be subject to obligations of holders to file proofs, certificates and other information and to pay certain charges and expenses to the depositary.

Withdrawal of Shares of Preferred Stock

You may receive the number of whole shares of the applicable series of preferred stock and any money or other property represented by your depositary receipts after surrendering your depositary receipts at the corporate trust office of the depositary. Partial shares of preferred stock will not be issued. If the number of depositary shares that you surrender exceeds the number of depositary shares that represent the number of whole shares of preferred stock that you wish to withdraw, then the depositary will deliver to you at the same time a new depositary receipt evidencing the excess number of depositary shares. Once you have withdrawn your shares of preferred stock, you will not be entitled to re-deposit those shares of preferred stock under the deposit agreement in order to receive depositary shares. We do not expect that there will be any public trading market for withdrawn shares of preferred stock.

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Redemption of Depositary Shares

If Ventas, Inc. redeems shares of the applicable series of preferred stock underlying the depositary shares, the depositary will redeem the depositary shares from the proceeds it receives. The redemption price per depositary share will be equal to the applicable fraction of the redemption price per share payable with respect to the applicable series of preferred stock, and the redemption date for depositary shares will be the same as that of the preferred stock. If Ventas, Inc. has elected to redeem less than all of the depositary shares, the depositary will select the depositary shares for redemption by lot or pro rata as the depositary may determine.

After the date fixed for redemption, the depositary shares called for redemption will no longer be deemed outstanding. All rights of the holders of the depositary shares and the related depositary receipts will cease at that time, except the right to receive the money or other property to which the holders of depositary shares were entitled upon redemption. Receipt of the money or other property is subject to surrender to the depositary of the depositary receipts evidencing the redeemed depositary shares.

Voting of the Underlying Shares of Preferred Stock

Upon receipt of notice of any meeting at which the holders of the applicable series of preferred stock are entitled to vote, a depositary will be required to mail the information contained in the notice of meeting to the record holders of the depositary shares representing such preferred stock. Each record holder of depositary shares on the record date will be entitled to instruct the depositary as to how to vote the shares of preferred stock represented by the holder's depositary shares. The record date for the depositary shares will be the same as the record date for the preferred stock. The depositary will vote the shares of preferred stock represented by your depositary shares as you instruct. Ventas, Inc. will agree to take all reasonable action that the depositary deems necessary in order to enable it to vote the preferred stock in that manner. If you do not instruct the depositary how to vote, the depositary will abstain from voting the shares of preferred stock represented by your depositary shares. The depositary will not be responsible for any failure to carry out any voting instruction, or for the manner or effect of any vote, as long as its action or inaction is in good faith and does not result from its negligence or willful misconduct.

Liquidation Preference

Upon Ventas, Inc.'s voluntary or involuntary liquidation, each holder of depositary shares will be entitled to the fraction of the liquidation preference accorded each share of Ventas, Inc. preferred stock represented by the depositary shares, as described in the applicable prospectus supplement.

Conversion or Exchange of Shares of Preferred Stock

The depositary shares will not themselves be convertible into or exchangeable for shares of Ventas, Inc.'s common stock or preferred stock or any other securities or property. Nevertheless, if so specified in the applicable prospectus supplement, the depositary receipts may be surrendered by holders to the applicable depositary with written instructions for the depositary to instruct Ventas, Inc. to cause the conversion of the preferred stock represented by the depositary shares. Similarly, if so specified in the applicable prospectus supplement, Ventas, Inc. may require you to surrender all of your depositary receipts to the applicable depositary upon requiring the conversion or exchange of the preferred stock represented by the depositary shares into debt securities. Ventas, Inc. will agree that, upon receipt of the instruction and any amounts payable in connection with the conversion or exchange, it will cause the conversion or exchange using the same procedures as those provided for delivery of shares of preferred stock to effect the conversion or exchange. If you convert less than all of

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your depositary shares, the depositary will issue you a new depositary receipt for any unconverted depositary shares.

Taxation

As an owner of depositary shares, you will be treated for U.S. federal income tax purposes as if you were an owner of the series of preferred stock represented by the depositary shares. Therefore, you will be required to take into account for U.S. federal income tax purposes income and deductions to which you would be entitled if you were a holder of the underlying series of preferred stock. In addition:

- you will not recognize any gain or loss for U.S. federal income tax purposes upon the withdrawal of shares of preferred stock in exchange for depositary shares provided in the deposit agreement;
- your tax basis in shares of preferred stock received upon exchange of depositary shares will be the same as your aggregate tax basis in the depositary shares so exchanged; and
- if you held the depositary shares as a capital asset at the time of the exchange for shares of preferred stock, the holding period for the shares of preferred stock will include the period during which you owned the depositary shares.

Amendment and Termination of a Deposit Agreement

Ventas, Inc. and the applicable depositary are permitted to amend the provisions of depositary receipts and any deposit agreement. However, the holders of at least a majority of the applicable depositary shares then outstanding must approve any amendment that adds or increases fees or charges or prejudices an important right of holders. Every holder of an outstanding depositary receipt at the time any amendment becomes effective, by continuing to hold the receipt, will be bound by the applicable deposit agreement, as amended.

Any deposit agreement may be terminated by Ventas, Inc. upon not less than 30 days' prior written notice to the applicable depositary if (1) the termination is necessary to preserve our status as a REIT or (2) holders of depositary shares representing a majority of each series of preferred stock affected by the termination consent to the termination. If either event occurs, the depositary will be required to deliver or make available to each holder of depositary receipts, upon surrender of the depositary receipts held by the holder, the number of whole or fractional shares of preferred stock that are represented by the depositary shares evidenced by the depositary receipts, together with any other property held by the depositary with respect to the depositary receipts. In addition, a deposit agreement will automatically terminate if:

- all depositary shares have been redeemed;
- there shall have been a final distribution in respect of the applicable series of preferred stock in connection with a liquidation of Ventas, Inc. and the distribution has been made to the holders of depositary receipts evidencing the depositary shares underlying the Ventas, Inc. preferred stock; or
- each share of the applicable series of preferred stock has been converted or exchanged into securities not represented by depositary shares.

Charges of a Depositary

We will pay all transfer and other taxes and governmental charges arising solely from the existence of a deposit agreement. In addition, we will pay the fees and expenses of the depositary in connection with the initial deposit of the preferred stock and any redemption of preferred stock. However, holders

of depositary receipts will pay any transfer or other governmental charges and the fees and expenses of the depositary for any duties the holders request to be performed that are outside those expressly provided for in the applicable deposit agreement.

Resignation and Removal of Depositary

A depositary may resign at any time by delivering to Ventas, Inc. notice of its election to do so. In addition, Ventas, Inc. may at any time remove a depositary. Any resignation or removal will take effect when Ventas, Inc. appoints a successor depositary and it accepts the appointment. Ventas, Inc. must appoint a successor depositary within 60 days after delivery of a notice of resignation or removal. A depositary must be a bank or trust company having its principal office in the United States that has a combined capital and surplus of at least $50 million.

Miscellaneous

A depositary will be required to forward to holders of depositary receipts any reports and communications it receives from Ventas, Inc. with respect to the related shares of preferred stock. Holders of depository receipts will be able to inspect the transfer books of the depository and the list of holders of receipts upon reasonable notice.

Neither Ventas, Inc. nor the depositary will be liable if the depositary is prevented from or delayed in performing its obligations under a deposit agreement by law or any circumstances beyond its control. Ventas, Inc.'s obligations and those of the depositary under a deposit agreement will be limited to performing duties in good faith and without gross negligence or willful misconduct. Neither Ventas, Inc. nor the depositary will be obligated to prosecute or defend any legal proceeding in respect of any depositary receipts, depositary shares or related shares of preferred stock unless satisfactory indemnity is furnished. Ventas, Inc. and each depositary will be permitted to rely on written advice of counsel or accountants, on information provided by persons presenting shares of preferred stock for deposit, by holders of depositary receipts, or by other persons believed in good faith to be competent to give the information, and on documents believed in good faith to be genuine and signed by a proper party.

If a depositary receives conflicting claims, requests or instructions from any holder of depositary receipts, on the one hand, and Ventas, Inc., on the other hand, the depositary will be entitled to act on the claims, requests or instructions received from us.

DESCRIPTION OF VENTAS, INC. WARRANTS

This section describes the general terms and provisions of Ventas, Inc. warrants. The prospectus supplement relating to an offering of the warrants will describe more specific terms of the warrants being offered, including the number of warrants offered, the initial offering price and the terms of the underlying securities and any general terms outlined in this section that will not apply to those warrants.

The summary set forth below does not purport to be complete and is subject to and qualified in its entirety by reference to the applicable warrant agreement (including the warrant certificate), the form of which is or will be filed or incorporated by reference as an exhibit to the registration statement of which this prospectus is a part and incorporated by reference herein. You should read the form of warrant agreement (including the warrant certificate) for additional information before you buy any Ventas, Inc. warrants.

Ventas, Inc. may issue, together with any other securities being offered or separately, warrants entitling the holder to purchase from or sell to Ventas, Inc., or to receive from Ventas, Inc., the cash value of the right to purchase or sell, debt securities, preferred stock, depositary shares or common stock. Ventas, Inc. will enter into a warrant agreement governing the issuance of the warrants with a

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warrant agent, who will act solely as its agent in connection with the warrants and will not assume any obligation or relationship of agency or trust for or with any holders or beneficial owners of warrants.

The applicable prospectus supplement will describe the terms of each series of warrants being offered, including some or all of the following:

- the offering price of the warrants;
- the number of warrants offered;
- the securities underlying the warrants;
- the exercise price of the warrants, the procedures for exercise and the circumstances, if any, that will cause the warrants to be automatically exercised;
- the date on which the warrants will expire;
- the U.S. federal income tax consequences of owning the warrants;
- the rights, if any, that Ventas, Inc. has to redeem the warrants;
- the name of the warrant agent; and
- any other terms of the warrants.

Warrants may be exercised at the appropriate office of the warrant agent or any other office indicated in the applicable prospectus supplement. Before the exercise of warrants, holders will not have any of the rights of holders of the securities underlying the warrants and will not be entitled to payments made to holders of those securities.

Ventas, Inc. and the applicable warrant agent may amend or supplement the warrant agreement without the consent of the affected holders of warrants to effect changes that are not inconsistent with the provisions of the warrants and that do not adversely affect the interests of the holders of the warrants. However, any amendment that materially and adversely alters the rights of the holders of warrants will not be effective unless the holders of at least a majority of the applicable series of warrants then outstanding approve the amendment. Every holder of an outstanding warrant at the time any amendment becomes effective, by continuing to hold the warrant, will be bound by the applicable warrant agreement, as amended. The applicable prospectus supplement may provide that certain provisions of the warrants, including the securities for which they may be exercisable, the exercise price and the expiration date, may not be altered without the consent of the holder of each warrant.

DESCRIPTION OF DEBT SECURITIES

This section describes the general terms and provisions of the debt securities of Ventas Realty and the debt securities of Ventas, Inc. For purposes hereof, references to the issuer means either Ventas Realty or Ventas, Inc., as applicable. The prospectus supplement relating to any offering of debt securities will describe more specific terms of the debt securities being offered, including the designation of the series, the aggregate principal amount being offered, the initial offering price, the interest rate and any redemption, purchase or conversion rights and any general terms described in this section that will not apply to those debt securities.

The summary set forth below does not purport to be complete and is subject to and qualified in its entirety by reference to the applicable base indenture referred to below and the supplemental indenture (including the form of debt security) relating to the applicable series of debt securities, the form of each of which is or will be filed or incorporated by reference as an exhibit to the registration statement of which this prospectus is a part and incorporated by reference herein. You should read the applicable base indenture and supplemental indenture (including the applicable form of debt security) for additional information before you buy any debt securities of the issuer.

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The debt securities will be direct unsecured general obligations of the issuer and may include debentures, notes, bonds or other evidences of indebtedness. The debt securities may be senior or subordinated and will be issued under one or more indentures among the issuer and the guarantor, if any, named therein, and U.S. Bank National Association, as the initial trustee, which we refer to herein as base indentures. The base indentures do not limit the aggregate principal amount of debt securities that may be issued thereunder.

Senior debt securities will be issued under a senior indenture, in one or more series established pursuant to a supplemental indenture or a resolution duly adopted by the Board of Directors of the issuer or a duly authorized committee thereof. Subordinated debt securities will be issued under a subordinated indenture, in one or more series established pursuant to a supplemental indenture or a resolution duly adopted by the Board of Directors of the issuer or a duly authorized committee thereof. In this prospectus, we refer to the senior indenture and the subordinated indenture (together with each applicable supplemental indenture or resolution establishing the applicable series of debt securities), collectively, as the indentures. The indentures will be subject to and governed by the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act").

General

Each indenture provides that there may be more than one trustee with respect to one or more series of debt securities under that indenture. Any trustee under an indenture may resign or be removed with respect to one or more series of debt securities issued under that indenture, and a successor trustee may be appointed to act with respect to such series.

If two or more persons are acting as trustee with respect to different series of debt securities issued under the same indenture, each of the trustees will be a trustee of a trust under that indenture separate and apart from the trust administered by any other trustee. In that case, except as otherwise indicated in this prospectus, any action described in this prospectus to be taken by the trustee may be taken by a trustee only with respect to the one or more series of debt securities for which it is trustee.

The applicable prospectus supplement will describe the specific terms of each series of debt securities being offered, including some or all of the following:

- the title of the debt securities;
- the issuer of the debt securities;
- any limit on the aggregate principal amount of the debt securities;
- the purchase price of the debt securities, expressed as a percentage of the principal amount;
- the date or dates on which the principal of and any premium on the debt securities will be payable or the method for determining the date or dates;
- if the debt securities will bear interest, the interest rate or rates or the method by which the rate or rates will be determined;
- if the debt securities will bear interest, the date or dates from which any interest will accrue, the interest payment dates on which any interest will be payable, the record dates for those interest payment dates and the basis upon which interest will be calculated if other than that of a 360-day year of twelve 30-day months;
- the place or places where payments on the debt securities will be made and the debt securities may be surrendered for registration of transfer or exchange;
- if the issuer will have the option to redeem all or any portion of the debt securities, the terms and conditions upon which the debt securities may be redeemed;

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- the terms and conditions of any sinking fund or any similar provisions obligating the issuer or permitting a holder to require the issuer to redeem or purchase all or any portion of the debt securities prior to final maturity;
- the currency or currencies in which the debt securities are denominated and payable if other than U.S. dollars and the manner of determining the equivalent of those amounts in U.S. dollars;
- whether the amount of any payments on the debt securities may be determined with reference to an index, formula or other method and the manner in which such amounts are to be determined;
- any additions or changes to the events of default in the applicable base indenture;
- the portion of the principal of the debt securities payable upon acceleration of maturity, if other than the entire principal amount;
- any additions or changes with respect to the other covenants in the applicable base indenture;
- the terms and conditions, if any, upon which the debt securities may be convertible into common stock;
- whether the debt securities will be issued in certificated or book-entry form and, if the latter, the securities depositary;
- whether the debt securities will be issued in denominations other than $1,000 and any integral multiple of $1,000;
- the applicability of the defeasance and covenant defeasance provisions of the applicable base indenture;
- the guarantor, if any, who will guarantee the debt securities and the methods for determining, and releasing, such guarantor, if any;
- the trustee for that series of debt securities, if other than U.S. Bank National Association; and
- any other terms of the debt securities consistent with the provisions of the applicable base indenture.

Debt securities may be issued as original issue discount securities to be offered and sold at a substantial discount from their stated principal amount. Special U.S. federal income tax, accounting and other considerations applicable to original issue discount securities will be described in the applicable prospectus supplement.

Unless otherwise provided with respect to a series of debt securities, the debt securities will be issued only in registered form, without coupons, in denominations of $1,000 and integral multiples of $1,000.

Certificated Debt Securities

Except as otherwise provided in the applicable prospectus supplement, debt securities will not be issued in certificated form. If, however, debt securities are to be issued in certificated form, no service charge will be made for any transfer or exchange of any of those debt securities, but the issuer may require payment of a sum sufficient to cover any tax or governmental charge payable in connection therewith.

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Book-Entry Debt Securities

The debt securities of a series may be issued in whole or in part in the form of one or more fully registered global securities that will be deposited with the depositary identified in the applicable prospectus supplement, which will keep a computerized record of its participants (for example, brokers) whose clients have purchased the debt securities. Each participant will then keep a record of its clients who purchased the debt securities. Unless a global security is exchanged in whole or in part for debt securities in certificated form, it may not be transferred. However, transfers of the whole security between the depositary for that global security and its nominees or their respective successors are permitted.

Unless otherwise provided in the applicable prospectus supplement, The Depository Trust Company, New York, New York ("DTC") will act as depositary for each series of global securities, and DTC will register the global securities in the name of its nominee, Cede & Co. Beneficial interests in global securities will be shown on, and transfers of global securities will be effected only through, records maintained by DTC and its participants.

DTC has provided the following information to us. DTC, the world's largest securities depository, is a:

- limited purpose trust company organized under the New York Banking Law;
- "banking organization" within the meaning of the New York Banking Law;
- member of the Federal Reserve System;
- "clearing corporation" within the meaning of the New York Uniform Commercial Code; and
- "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act.

DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that its direct participants deposit with DTC. DTC also facilitates the post-trade settlement among direct participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between direct participants' accounts. This eliminates the need for physical movement of securities certificates. Direct participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly. DTC has a Standard & Poor's rating of AA+. The rules applicable to DTC and its direct and indirect participants are on file with the SEC.

Principal and interest payments on global securities registered in the name of DTC's nominee will be made in immediately available funds to DTC's nominee as the registered owner of the global securities. The issuer and the trustee will treat DTC's nominee as the owner of the global securities for all other purposes as well. Accordingly, the issuer, the trustee and any paying agent will have no direct responsibility or liability to pay amounts due on the global securities to owners of beneficial interests in the global securities. DTC's practice is to credit direct participants' accounts upon receipt of any payment of principal or interest on the payment date in accordance with their respective holdings of beneficial interests in the global securities as shown on DTC's records. Payments by direct and indirect participants to owners of beneficial interests in the global securities will be governed by standing instructions and customary practices. These payments will be the responsibility of the direct and

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indirect participants and not of DTC, the trustee or the issuer, subject to any statutory or regulatory requirements as may be in effect from time to time.

Debt securities represented by a global security will be exchangeable for debt securities in definitive form of like amount and terms in authorized denominations only if:

DTC notifies us that it is unwilling or unable to continue as depositary;

DTC ceases to be a registered clearing agency and a successor depositary is not appointed by us within 120 days; or

we determine not to require all of the debt securities of a series to be represented by a global security and notify the applicable trustee of our decision.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that we believe to be reliable, but we take no responsibility for the accuracy thereof.

Merger Covenant

Pursuant to the terms of each indenture, Ventas, Inc. may not, directly or indirectly: (1) consolidate or merge with or into another person or entity, or (2) sell, assign, transfer, convey, lease (other than to an unaffiliated operator in the ordinary course of businessign:justify;font-size:10pt;">Even under more favorable economic 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. Those holding interest-sensitive life insurance and annuity products of the Company may begin an elevated level of discretionary withdrawals of policy funds. Adverse 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. At December 31, 2014, approximately 1.5% of the Company’s $9.6 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-indexed 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. 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.

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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.

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. 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. 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. 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.

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

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. 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, 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 affect our competitive position and make it more difficult to market our products vis-à-vis competitors with higher financial strength ratings. In extreme situations, a significant downgrade action by one or more rating 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.

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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, service, scale, and distribution capacity. In recent years, there has been considerable consolidation among companies in the insurance and financial sectors resulting in large, well-capitalized entities that offer products comparable to the Company. Frequently, these larger organizations are not domiciled in the United States or are financial services entities attempting to establish a position in the insurance industry. These larger competitors often enjoy 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, 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.

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.

On July 21, 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.

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.

In addition, the Company has recently become aware that 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. Because the Company has only recently become aware of this investigation, 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. For the year ended December 31, 2014, the Company generated approximately $38.6 million of life insurance premiums and contract revenues from policies issued to Brazilian residents, which represented approximately 20% 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.

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. 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.

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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. 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 resulted in the award of substantial amounts disproportionate to the actual damages including material amounts of punitive compensatory 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. Given the inherent unpredictability of litigation, there can be no assurance that such litigation, current or in the future, will not have such a material adverse effect on the Company's results of operations or cash flows in any particular reporting period. In addition, the Company could also suffer significant harm to its reputation as a result of such litigation and the occurrence of 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. 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.

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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 (and deferred sales inducement amounts) are calculated using a number of these assumptions. They represent costs that vary with and are primarily related to the acquisition of new insurance and annuity contracts. Amortization of deferred policy acquisition expenses 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. The deferred policy acquisition costs recorded on the balance sheet are tested to determine if they are recoverable under current assumptions. The estimates and assumptions used to amortize deferred policy acquisition 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 "DAC unlocking") could result in an acceleration of amortization of DAC. Accordingly, actual results could differ from the related assumptions which could have a material and adverse impact on the Company’s operating results.

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. 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.

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.

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.

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The Company relies on its computer systems to conduct business and produce financial statements. 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 as a result of natural disasters, man-made disasters, criminal activity or other events beyond the Company’s control. A computer virus, information security breach, disaster or unanticipated event could affect the data storage and processing systems of the Company, or its service providers, destroying or compromising valuable data or making it difficult to conduct 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.

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. Preventive actions taken to reduce the risk of cyber-incidents and protect the Company's information may not be sufficient to prevent cyber-attacks or other security breaches. 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. An increasing number of states require customers to be notified of any unauthorized access, use, or disclosure of their information. Any compromise of the security of the Company’s technology systems that results in the disclosure of personally identifiable customer information could damage the Company’s reputation, expose it to litigation, and result in significant technical, legal and other expenses.

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.

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 giving certain of the Company's products a competitive advantage over other non-insurance products. In addition, life insurance death benefits are generally exempt from income tax. If the IRC were amended to reduce 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 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. Provisions in the IRC currently require that a portion of expenses incurred in selling insurance products be deducted over a period of years rather than immediately deducted in the year such expenses are incurred (generally referred to as a "DAC tax" on insurance companies). 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.

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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 all or a portion of the deferred tax assets cannot be realized, 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. 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, 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.

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.

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During 2014, the Company resolved a class action lawsuit pending since June 12, 2006, in the U.S. District Court for the Southern District of California. The case was 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, the Company 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 the Company with a subpoena regarding an administrative proceeding initiated by SUSEP in which it alleged that the Company was operating as an insurance company in Brazil without due authorization. The Company had been informed that SUSEP was attempting to impose a penal fine of approximately $6.0 billion on the Company. SUSEP unsuccessfully attempted to serve the Company with notice regarding this matter. The Company does not transact business in Brazil and has no officers, employees, property, or assets in Brazil. The Company believes that SUSEP has no jurisdiction over the Company, that SUSEP's attempts at service of process were invalid, and that any penal fine would be unenforceable. For the reasons described above, the Company does not believe that this matter meets the definition of a material pending legal proceeding as such term is defined in Item 103 of Regulation S-K but has included the foregoing description solely due to the purported amount of the fine sought at that time.

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

Separately, the Company has recently become aware that 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. Because the Company has only recently become aware of this investigation, 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 plans to cooperate with the relevant governmental authorities in regard to this matter.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

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

Market Information

The principal market on which the Class A common stock of the Company trades is The NASDAQ - Stock Market®
under the symbol "NWLI". The high and low sales prices for the Class A common stock for each quarter during the last two years 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
2014:				
High	$255.49	259.99	264.36	280.02
Low	204.00	227.61	229.99	229.32
Dividends Declared	—	—	0.36	—
2013:				
High	$189.20	200.21	220.05	224.90
Low	157.56	170.00	191.44	197.51
Dividends Declared	—	—	0.36	—

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

Equity Security Holders

The number of stockholders of record on March 9, 2015 was as follows:

Class A Common Stock	3,493
Class B Common Stock	2

Dividends

Class B common stockholders receive dividends at one-half the rate declared on Class A common stock. During 2014, the Company paid cash dividends on its Class A and Class B common stock in the amounts of $1,237,020 and $36,000, respectively. During 2013, the Company also paid cash dividends on its Class A and Class B common stock in the amounts of $1,236,515 and $36,000, respectively. Payment of dividends is within the discretion of the Company's Board of Directors but 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. Under the two plans, a total of 29,768 shares of the Company's Class A common stock may be issued upon exercise of the outstanding options at December 31, 2014. The weighted average exercise price of the outstanding options is $242.48 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, 2014.

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Performance Graph

The following graph compares the change in the Company's cumulative total stockholder return on its common stock with the NASDAQ - U.S. Companies Index and the NASDAQ - Insurance Stock Index. The graph assumes that the value of the Company's Class A common stock and each index was $100 at December 31, 2009, and that all dividends were reinvested.

Issuer Purchases of Equity Securities

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

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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, 2014.

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, 2014 through October 31, 2014	400	$263.01	N/A	N/A
November 1, 2014 through November 30, 2014	—	—	N/A	N/A
December 1, 2014 through December 31, 2014	1,000	$269.25	N/A	N/A
Total	1,400	$267.47	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.

	Years Ended December 31,				
	2014	2013	2012	2011	2010
	(In thousands except per share amounts)				
Earnings Information:					
Revenues:					
Universal life and annuity contract charges	$150,596	148,388	149,328	132,133	127,192
Traditional life and annuity contract premiums	19,519	19,078	18,616	18,078	16,565
Net investment income	505,430	660,432	460,048	391,034	401,383
Other revenues	21,630	23,716	23,470	25,439	25,377
Net realized investment gains (losses)	11,605	8,653	13,200	6,063	5,475
Total revenues	708,780	860,267	664,662	572,747	575,992
Benefits and expenses:					
Life and other policy benefits	54,295	60,050	51,842	46,494	52,929
Amortization of deferred policy acquisition costs	115,154	108,233	121,922	133,088	96,449
Universal life and annuity contract interest	298,259	454,594	262,339	232,788	266,603
Other operating expenses	83,551	95,693	87,978	77,541	55,448
Total benefits and expenses	551,259	718,570	524,081	489,911	471,429
Earnings before Federal income taxes	157,521	141,697	140,581	82,836	104,563
Federal income taxes	51,933	45,450	48,023	27,209	31,666
Net earnings	$105,588	96,247	92,558	55,627	72,897
Basic Earnings Per Share:					
Class A	$29.87	27.23	26.19	15.74	20.67
Class B	$14.93	13.61	13.09	7.87	10.33
Diluted Earnings Per Share:					
Class A	$29.85	27.19	26.19	15.73	20.61
Class B	$14.93	13.61	13.09	7.87	10.33
Balance Sheet Information:					
Total assets	$11,351,892	10,830,416	10,263,858	9,727,999	8,773,948

Total liabilities	$9,795,572	9,382,468	8,872,178	8,451,214	7,555,157
Stockholders' equity	$1,556,320	1,447,948	1,391,680	1,276,785	1,218,791
Book value per common share	$428.01	398.36	382.88	351.27	335.83

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

Forward-Looking Statements

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

Management's discussion and analysis of financial condition and results of operations ("MD&A") of National Western Life Insurance Company for the three years ended December 31, 2014 follows. This discussion should be read in conjunction with the Company's consolidated financial statements and related notes beginning on page 81 of this report.

Overview

The Company provides life insurance products on a global basis for the savings and protection needs of policyholders and annuity contracts for the asset accumulation and retirement needs of 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 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 2014, 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. Conversely, an economy undergoing slow job growth and declining purchasing wherewithal by consumers could adversely impact the demand for the Company's products. The close of the 2014 year generally consisted of positive trends in the U.S. domestic economy. The U.S. stock market posted solid increases which were propelled by upward trending economic growth, consistent accretion in corporate earnings, and the Federal Reserve's accommodative intent to preserve liquidity with low interest rates. The Federal Reserve ceased its quantitative easing program of securities purchases in the fourth quarter pointing to "substantial improvement" in labor market conditions. The unemployment rate fell to 5.6% and the precipitous drop of oil prices by approximately 40% in the fourth quarter created seasonally adjusted inflation rates below zero percent. Observers generally estimate that the drop in oil prices will result in a net positive bump to U.S. GDP as consumers act on the sensation of having additional discretionary funds for purchases. Taken all together, economists generally believe that enough evidence exists to expect the U.S. economy to continue to gain momentum over the next several years.

The fixed income market, our primary investment source, is in the midst of an unprecedented period of low interest rates. Long-term U.S. Treasury rates fell in 2014 such that the Company's current reinvestment yields are lower than the Company's bond portfolio rate of return. Many market observers estimate that interest rates, especially those on the shorter duration end of the spectrum, will commence on an upward path but continue to remain below historic levels during 2015. The current interest rate environment with low yields on the investment-grade securities that the Company purchases exerts downward pressure on the Company's portfolio yield which in turn creates challenges in achieving targeted investment spreads. The Company's interest-sensitive life and annuity policies with guaranteed minimum crediting rates (floors that limit crediting rate reductions) are subject to adverse consequences by a prolonged low interest rate environment as the Company may not have the ability to reduce crediting rates sufficiently to maintain its investment spreads. For the past several years, we have intentionally managed annuity sales to lesser levels than achieved in previous years given the interest rate environment and the Company's desire to avoid adding blocks of business to its in force at historically low interest rate thresholds.

Industry analysts and observers generally agree that a sudden jump in interest rate levels 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. The federal government's burgeoning deficit threatens to eventually push longer term interest rates higher by creating greater borrowing demand and fueling inflationary conditions. 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 the Company's 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 Company actuaries have used their best judgment in determining the assumptions and in calculating the liability for future policy benefits, there is no assurance that the estimate of the liabilities reflected in the financial statements represents the Company's ultimate obligation. In addition, significantly different assumptions could result in materially different reported amounts. A discussion of the assumptions used to calculate the liability for future policy benefits is reported in Note 1, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements.

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

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

Pension Plans and Other Postretirement Benefits. The Company sponsors a qualified defined benefit pension plan, which was frozen effective December 31, 2007, covering substantially all employees, and three nonqualified defined benefit plans covering certain senior officers. In addition, the Company 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,		
	2014	2013	2012
	(In thousands)		
Universal life and annuity contract charges	$150,596	148,388	149,328
Traditional life and annuity premiums	19,519	19,078	18,616
Net investment income (excluding derivatives)	436,814	434,533	432,901
Other revenues	21,630	23,716	23,470
Operating revenues	628,559	625,715	624,315

Derivative gain (loss)	68,616	225,899	27,147
Net realized investment gains (losses)	11,605	8,653	13,200
Total revenues	$708,780	860,267	664,662

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Universal life and annuity contract revenues - Revenues for universal life and annuity contract charges increased slightly in 2014 compared to 2013 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.

Contract Charges:	Years Ended December 31, 2014	2013	2012
	(In thousands)		
Cost of insurance and administrative charges	$129,085	127,932	127,859
Surrender charges	39,051	37,038	39,156
Other charges	(1,776)	(830)	(757)
Gross contract revenues	166,360	164,140	166,258
Reinsurance premiums	(15,764)	(15,752)	(16,930)
Net contract charges	$150,596	148,388	149,328

Cost of insurance charges were $101.7 million in 2014 compared to $99.3 million in 2013 and $95.3 million in 2012. Cost of insurance charges typically trend with the size of the life insurance block in force. The increasing revenue from cost of insurance charges corresponds with the growth in life insurance in force. At December 31, 2014, the volume of life insurance in force increased to $23.1 billion from $22.4 billion as of the end of 2013. Administrative charges were $27.4 million, $28.6 million, and $32.6 million for the years ended December 31, 2014, 2013 and 2012, respectively, and correlate with new life insurance business sales by the number of policies placed, the amount of premiums received and the volume of insurance issued. These levels in 2014 were down marginally in each instance. During 2013, due to the substantial increase in the Company's single premium life insurance sales, the Company began deferring the premium load associated with this product causing a decrease in administrative charge revenue compared to 2012. This reduction was largely offset by corresponding changes to deferred policy acquisition costs and death benefit reserves. Premium loads deferred during 2014 approximated the deferral level of 2013.

Surrender charges assessed against policyholder account balances upon withdrawal were $39.1 million in 2014 compared to $37.0 million in 2013 and $39.2 million in 2012. 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 2014 were generally consistent with those experienced in 2013 and the overall lapse rate was slightly lower. The higher surrender charge income recognized in 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.

Traditional life and annuity premiums - Traditional life and annuity premiums increased 2% in 2014 compared to 2013. 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. However, the global financial crisis generated renewed interest in the Company's term life insurance products particularly with residents outside of the United States leading to modest increases in subsequent periods.

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

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Gross investment income:			
Debt securities	$410,809	410,790	408,204
Mortgage loans	9,847	9,256	11,879
Policy loans	4,252	4,503	5,079
Short-term investments	401	252	936
Other invested assets	12,591	10,759	7,965
Total investment income	437,900	435,560	434,063
Less: investment expenses	1,086	1,027	1,162
Net investment income (excluding derivatives)	436,814	434,533	432,901
Derivative gain (loss)	68,616	225,899	27,147
Net investment income	$505,430	660,432	460,048

Debt securities generated approximately 93.8% of total investment income, excluding derivative gains and losses, in 2014, 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. In the wake of two record years in annuity sales in 2010 and 2011, and the substantial increases in single premium life insurance sales the past several years, the Company has experienced incremental cash flow for investing in debt securities which has caused the portfolio to grow from $8.8 billion at December 31, 2012 to $9.2 billion at December 31, 2013 and to $9.6 billion billion at December 31, 2014. Despite the growth in the debt security portfolio, lower interest rate levels have persisted in accordance with Federal Reserve monetary policy which has depressed long-term U.S. Treasury rates. When combined with historically tight spreads of corporate securities over U.S. Treasury rate levels, this has resulted in lower yields on new investment purchases. The yield on debt security purchases to fund insurance operations rebounded somewhat to 3.68% in 2014 from 3.53% in 2013 but was still below yields of 4% to 6% attained in 2007 through 2011. 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 by historical standards in recent years given the low level of rates and the higher level of risk associated with commercial properties in the current economic environment. Policy loan and other invested asset balances outstanding have remained relatively stable declining modestly over the past few years. The increase in investment income for other invested assets during 2014 and 2013 reflects real estate profits participation loans held in a subsidiary company which received payments of $3.0 million and $2.3 million, respectively, in these periods.

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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,		
	2014	2013	2012
	(In thousands except percentages)		
Excluding derivatives:			
Net investment income	$436,814	434,533	432,901
Average invested assets, at amortized cost	$9,663,880	9,144,120	8,677,522
Yield on average invested assets	4.52 %	4.75 %	4.99 %
Including derivatives:			
Net investment income	$505,430	660,432	460,048
Average invested assets, at amortized cost	$9,805,680	9,257,722	8,721,889
Yield on average invested assets	5.15 %	7.13 %	5.27 %

The decline in average invested asset yield, excluding derivatives, from 2012 to 2013 and to 2014 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, as noted previously, have decreased during this period to levels 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 oscillated over the past few years with gains recorded in each of the three years shown corresponding to increases 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 $21.1 million, $23.3 million and $22.8 million in 2014, 2013 and 2012, respectively.

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 also reflected as a component of net investment income.

Gains and losses from index options are 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 2012 through 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.

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

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Derivatives:			
Unrealized gain (loss)	$(67,547)	106,514	36,639
Realized gain (loss)	136,163	119,385	(9,492)
Total gain (loss) included in net investment income	$68,616	225,899	27,147
Total contract interest	$298,259	454,594	262,339

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 financial result for these options is dependent upon the purchase cost of the option remaining within the financial budget for purchasing 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 impairment write-downs on real estate and investments in debt and equity securities. The net investment gains reported in 2014 consisted of gross gains of $12.3 million, primarily from calls of debt securities, offset by gross losses of $0.7 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 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,		
	2014	2013	2012
	(In thousands)		
Impairment or valuation write-downs:			
Debt securities	$7	242	1,243
Equities	143	63	97
Mortgage loans	—	—	637
Real estate	—	—	214
Total	$150	305	2,191

Debt security impairments in 2014, 2013 and 2012 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 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 $43,000.

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The mortgage loan valuation write-down in 2012 of $650,000 represents a general valuation allowance established for the Company's mortgage loan portfolio based upon the Company's loss experience over the past ten years. It is not identified with a specific underlying asset.

Benefits and Expenses. The following details benefits and expenses.

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Life and other policy benefits	$54,295	60,050	51,842
Amortization of deferred policy acquisition costs	115,154	108,233	121,922
Universal life and annuity contract interest	298,259	454,594	262,339
Other operating expenses	83,551	95,693	87,978
Totals	$551,259	718,570	524,081

Life and other policy benefits - Life and other policy benefits include death claims of $31.7 million, $36.9 million and $31.8 million for 2014, 2013 and 2012, 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. Although not utilized previously, the Company initiated a project during 2012 to identify unreported death claims by researching the Social Security Administration master data base for deceased individuals matching with insureds under in force policies of the Company. The Company identified death claims of $2.5 million in 2012 through this initiative for deaths incurred over the past decade and prior in some cases. Going forward, new state regulations require the Company to continue this program as frequently as quarterly in order to identify unreported death claims.

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 profit patterns 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.

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The following table identifies the effects of unlocking and true-up adjustments on DPAC balances recorded through amortization expense for 2014, 2013 and 2012.

Increase (Decrease) in DPAC Balance	Years Ended December 31, 2014	2013	2012
	(In thousands)		
Unlocking	$1,430	—	—
True-up	7,181	15,842	12,820
Totals	$8,611	15,842	12,820

During the third quarter of 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 or 2012.

True-up adjustments are recorded quarterly and the adjustments in 2014, 2013 and 2012 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. During 2014, the Company identified certain renewal trail commission arrangements not meeting the criteria for deferral that incrementally added to the negative true-up adjustment for the annuity line of business. The true-up adjustments by line of business are as shown in the following table.

True-up Adjustments	Years Ended December 31, 2014	2013	2012
	(In thousands)		
Annuities	$(10,860)	(3,553)	(5,886)
International life	9,140	11,306	12,696
Domestic life	8,901	8,089	6,010
Totals	$7,181	15,842	12,820

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, 2014	2013	2012	December 31, 2014	2013	2012
	(Excluding fixed-index products)			(Including fixed-index products)		

Annuity	2.52 %	2.63 %	2.88 %	2.86 %	4.73 %	2.87 %
Interest sensitive life	3.77 %	3.88 %	4.06 %	5.54 %	8.40 %	5.48 %

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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 in 2014, 2013 and 2012 of $68.6 million, $225.9 million and $27.1 million, respectively.

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 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, 2014, 2013, and 2012 the Company recorded true-ups adjustments of its deferred sales inducement balances resulting in additional contract interest expense of $1.6 million, $0.8 million and $5.5 million, respectively.

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,		
	2014	2013	2012
	(In thousands)		
General insurance expense	$18,420	29,916	24,028
Nursing home expenses	19,541	21,230	21,620
Compensation expense	28,207	28,202	23,120
Commission expense	11,090	9,478	11,607
Taxes, licenses and fees	6,293	6,867	7,603
Totals	$83,551	95,693	87,978

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.

General insurance expense includes amortization expense associated with capitalized system costs. The Company has been involved in major information system initiatives to enhance actuarial, accounting, policy acquisition, and policy administration processes. Costs related to these systems are capitalized during the development process and then amortized once they are placed into service and used in operations. Amortization expense in association with these system implementations was $1.4 million, $2.5 million, and $3.5 million in 2014, 2013, and 2012, respectively. During 2013, some components became fully amortized and one component was written off, increasing other operating expense by $1.0 million.

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 resulting in lower expenses.

Compensation expense includes share based compensation costs related to outstanding vested and unvested stock options and stock appreciation rights (SARs) under the Company's long-term equity incentive compensation plans. As these costs vary in tandem with the Company's Class A common share price as a result of marking the stock options and SARs to fair value under the liability method of accounting, the related expense amount varies positive or negative in any given period. For the three years shown, share based compensation expense totaled $4.4 million in 2014, $5.7 million in 2013 and $1.1 million in 2012. The expense increases in 2013 and 2014 reflect an escalation in the Company's Class A common share price from $157.74 at December 31, 2012 to $223.55 at December 31, 2013 and to $269.25 at December 31, 2014.

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At year-end 2012, the Company was informed by the California Life and Health Guaranty Fund Association that it would be assessing the Company approximately $1.8 million for its pro rata share as part of the finalization of the Executive Life Insurance Company insolvency of twenty years ago. The entire amount was accrued at December 31, 2012 and included in taxes, licenses and fees expense. The assessment was paid in the first half of 2013.

Segment Operations

Summary of Segment Earnings

A summary of segment earnings from continuing operations for the years ended December 31, 2014, 2013 and 2012 is provided below. The segment earnings exclude realized gains and losses on investments, net of taxes.

	Domestic Life Insurance (In thousands)	International Life Insurance	Annuities	All Others	Totals
Segment earnings (loss):					
2014	$2,812	37,092	42,935	15,204	98,043
2013	2,094	35,718	37,725	15,085	90,622
2012	1,255	35,556	33,206	13,961	83,978

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,		
	2014 (In thousands)	2013	2012
Premiums and other revenue:			
Premiums and contract charges	$28,801	29,567	31,143
Net investment income	34,695	33,818	21,194
Other revenues	55	29	62
Total premiums and other revenue	63,551	63,414	52,399
Benefits and expenses:			
Life and other policy benefits	11,856	11,660	10,633
Amortization of deferred policy acquisition costs	6,913	6,738	7,461
Universal life insurance contract interest	27,050	26,427	17,507
Other operating expenses	13,547	15,515	14,895
Total benefits and expenses	59,366	60,340	50,496
Segment earnings (loss) before Federal income taxes	4,185	3,074	1,903
Federal income taxes (benefit)	1,373	980	648

Segment earnings (loss)	$2,812	2,094	1,255

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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,		
	2014	2013	2012
	(In thousands)		
Universal life insurance revenues	$28,505	31,192	32,655
Traditional life insurance premiums	6,687	4,386	4,640
Reinsurance premiums	(6,391)	(6,011)	(6,152)
Totals	$28,801	29,567	31,143

The Company’s domestic life insurance in force policy count has been declining several years resulting in lower universal life contract revenue charges. 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. This ratio improved somewhat during 2012 to a three-to-one relationship and in 2013 and 2014 to a two-to-one ratio. Nonetheless, the number of domestic life insurance policies has declined from 60,000 at December 31, 2012 to 57,700 at December 31, 2013 and to 55,700 at December 31, 2014. Policy lapse rates in 2014 improved to 6.2% from 6.7% and 6.5% in 2013 and 2012, 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 2014 was 11% lower than in 2013 and the volume of insurance issued was 10% less than that in 2013. 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. This served to contain the level of universal life insurance revenues in comparison to prior year levels.

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,		
	2014	2013	2012
	(In thousands)		
Universal life insurance:			
First year and single premiums	$115,928	129,518	76,545
Renewal premiums	20,181	19,849	18,428
Totals	$136,109	149,367	94,973

Sales the past several years have been substantially weighted toward single premium policies which do not have 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 are expected to augment renewal

premium levels in the future.

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Net investment income for this segment of business has been gradually increasing as well due to the increased new business activity described above (single premium policies) and a higher level of investments needed to support this growth in policy obligations. The increase in net investment income has been partially muted by lower investment yields attained 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,		
	2014	2013	2012
	(In thousands)		
Net investment income (excluding derivatives)	$30,340	24,253	20,205
Derivative gain (loss)	4,355	9,565	989
Net investment income	$34,695	33,818	21,194

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.

Life and policy benefits for a smaller block of business are subject to variation from period to period. Claim activity during 2014 was essentially flat compared to 2013 with both years consistent compared to historical trends. 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 2014, 2013 and 2012.

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Increase (Decrease) in DPAC Balance			
Unlocking	$—	—	—
True-up	8,901	8,089	6,010
Totals	$8,901	8,089	6,010

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 2014 from the prior year and the level of domestic life new business activity and in force activity declined, 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,		
	2014	2013	2012
	(In thousands)		
Premiums and other revenue:			
Premiums and contract charges	$118,838	117,668	114,605
Net investment income	51,539	63,504	43,469
Other revenues	372	299	485
Total premiums and other revenue	170,749	181,471	158,559
Benefits and expenses:			
Life and other policy benefits	24,034	25,706	20,877
Amortization of deferred policy acquisition costs	21,807	18,946	18,103
Universal life insurance contract interest	46,255	58,757	39,639
Other operating expenses	23,449	25,624	26,007
Total benefits and expenses	115,545	129,033	104,626
Segment earnings before Federal income taxes	55,204	52,438	53,933
Federal income taxes	18,112	16,720	18,377
Segment earnings	$37,092	35,718	35,556

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,		
	2014	2013	2012
	(In thousands)		
Universal life insurance revenues	$115,378	112,874	111,407
Traditional life insurance premiums	12,833	14,692	17,119
Reinsurance premiums	(9,373)	(9,898)	(13,921)
Totals	$118,838	117,668	114,605

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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 grown from $19.2 billion at December 31, 2012 to $19.6 billion at December 31, 2013 and to $20.0 billion at December 31, 2014 promoting an increasing trend in revenues. 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 2014, the number of international life policies and the volume of insurance issued both increased approximately 1% from the prior year.

International universal life revenues also 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 evidenced itself in the Company's termination activity in its international life policies in force with the high point occurring in 2009 and the Company recognizing increased surrender charge fee income. This level of termination activity subsequently subsided in 2011 with the termination activity over the past few years remaining relatively level. 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, 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	%
Year Ended December 31, 2010	1,721.8	9.0	%

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,		
	2014	2013	2012
	(In thousands)		
Universal life insurance			
First year and single premiums	$29,688	28,328	32,293
Renewal premiums	115,019	118,661	120,876
Totals	$144,707	146,989	153,169

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 $94.9 million, $93.4 million and $97.8 million for the years ended 2014, 2013 and 2012, respectively.

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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,		
	2014	2013	2012
	(In thousands)		
Net investment income (excluding derivatives)	$38,903	34,181	39,074
Derivative gain (loss)	12,636	29,323	4,395
Net investment income	$51,539	63,504	43,469

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 separately reserved for. Accordingly, a comparable impact for the 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, 2014, the average face amount of insurance purchased was approximately $383,000, reflecting a consistent level with that of the previous year. 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. During 2013, the Company incurred a higher than normal volume of international life claims which increased the related benefit expense during this period relative to 2014 and 2012. The Company's maximum risk exposure per insured life is capped at $500,000. 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 2014, 2013 and 2012.

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Increase (Decrease) in DPAC Balance			
Unlocking	$1,430	—	—
True-up	9,140	11,306	12,696
Totals	$10,570	11,306	12,696

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. The unlocking adjustment in 2014 came about as the Company implemented premium load increases 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).

As indicated in the discussion concerning net investment income, contract interest expense includes fluctuations that are the result of the performance of underlying equity indices associated with fixed-index universal life products. The derivative gain (loss) realized on purchased call options is included in 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.

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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,		
	2014	2013	2012
	(In thousands)		
Premiums and other revenue:			
Premiums and contract charges	$22,476	20,231	22,196
Net investment income	398,163	543,077	375,431
Other revenues	68	45	80
Total premiums and other revenue	420,707	563,353	397,707
Benefits and expenses:			
Life and other policy benefits	18,405	22,684	20,332
Amortization of deferred policy acquisition costs	86,434	82,549	96,358
Annuity contract interest	224,954	369,410	205,193
Other operating expenses	27,015	33,325	25,456
Total benefits and expenses	356,808	507,968	347,339
Segment earnings before Federal income taxes	63,899	55,385	50,368
Federal income taxes	20,964	17,660	17,162
Segment earnings	$42,935	37,725	33,206

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 2014 was 6.6%, a slight increase from a rate of 6.5% in 2013 and 6.1% in 2012.

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,		
	2014	2013	2012
	(In thousands)		
Fixed-index annuities	$748,022	717,630	680,210
Other deferred annuities	66,997	78,579	145,785
Immediate annuities	18,254	17,671	38,722

Totals	$833,273	813,880	864,717

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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 90%, 88% and 79%for the years ended December 31, 2014, 2013 and 2012, respectively. The increasing percentage of fixed-index products to total annuity deposits reflects the low interest rate environment and the current 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 $18.4 million, $26.2 million and $31.8 million for the years ended December 31, 2014, 2013 and 2012, 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,		
	2014	2013	2012
	(In thousands)		
Net investment income (excluding derivatives)	$346,538	356,067	353,668
Derivative gain (loss)	51,625	187,010	21,763
Net investment income	$398,163	543,077	375,431

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. Given the bifurcation of the embedded option in the determination of the contract reserve liability, a comparable impact for the derivative component in fixed-index annuity products is reflected in contract interest expense.

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.

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 2014, 2013 and 2012.

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Increase (Decrease) in DPAC Balance			

Unlocking	$—	—	—
True-up	(10,860)	(3,553)	(5,886)
Totals	$(10,860)	(3,553)	(5,886)

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 2014, 2013 and 2012 relate to policy lapse or termination rates, renewal trail commissions, expense levels, investment yields and interest credited rates compared to anticipated experience. There was no unlocking for the years ended December 31, 2014, 2013 and 2012.

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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,		
	2014	2013	2012
	(In thousands)		
Fixed-indexed annuities	$127,672	259,981	107,046
All other annuities	89,391	110,342	102,757
Gross contract interest	217,063	370,323	209,803
Bonus interest deferred and capitalized	(18,355)	(26,159)	(31,758)
Bonus interest amortization	26,246	25,246	27,150
Total contract interest	$224,954	369,410	205,195

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. The derivative gain (loss) information included in the net investment income discussion above is largely reflected in the amounts shown for contract interest for fixed-indexed annuities.

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, 2014, 2013, and 2012 deferred sales inducement balances were reduced by $1.6 million, $0.8 million and $5.5 million, respectively, with a corresponding increase to bonus interest amortization.

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.

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 $1.6 million, $2.1 million and $1.2 million of operating earnings in 2014, 2013, and 2012, respectively. The remaining earnings in Other Operations of $13.6 million, $13.0 million, and $12.8 million for the years ended December 31, 2014, 2013, 2012, 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 $6.0 million, $5.4 million, and $4.9 million in 2014, 2013, and 2012, respectively.

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.

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The Company's overall conservative investment philosophy is reflected in the allocation of its investments, which is detailed below as of December 31, 2014 and 2013. 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, 2014		December 31, 2013	
	Carrying Value (In thousands)	%	Carrying Value (In thousands)	%
Debt securities	$9,552,920	96.2	$9,146,986	95.7
Mortgage loans	149,503	1.5	132,765	1.4
Policy loans	63,645	0.6	65,969	0.7
Derivatives, index options	114,287	1.2	169,314	1.8
Real estate	16,741	0.2	18,191	0.2
Equity securities	17,303	0.2	14,878	0.1
Other	12,033	0.1	12,800	0.1
Totals	$9,926,432	100.0	$9,560,903	100.0

The Company's investment portfolio increased 4% to $9.9 billion at December 31, 2014 compared to $9.6 billion at December 31, 2013 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 to a constant level with approximately $0.8 billion in annuity deposits collected in 2014. The increase in the portfolio balance also reflects the unrealized gain position of the Company's securities available for sale portfolio, which is reported at fair market value, as it increased from $116.3 million at December 31, 2013 to $138.6 million at December 31, 2014 due to the decrease in interest rates during 2014 (which serves to increase 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 balance sheet at fair value in accordance with GAAP. The unrealized gain position of options held at December 31, 2014 of $40.3 million was $67.6 million lower than the unrealized gain position at December 31, 2013 of $107.9 million as a result of equity markets increasing at a lesser rate during 2014 as compared to 2013.

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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:

	December 31, 2014		December 31, 2013	
	Carrying Value (In thousands)	%	Carrying Value (In thousands)	%
Corporate	$6,208,241	65.1	$5,752,432	62.8
Mortgage-backed securities	1,693,372	17.7	1,770,726	19.4
Public utilities	1,158,063	12.1	1,111,729	12.2
States & political subdivisions	432,739	4.5	423,770	4.6
U.S. agencies	10,061	0.1	23,088	0.3
Asset-backed securities	38,199	0.4	43,556	0.5
Foreign governments	10,325	0.1	19,772	0.2
U.S. Treasury	1,920	—	1,913	—
Totals	$9,552,920	100.0	$9,146,986	100.0

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

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

	Year Ended December 31			
	2014		2013	
	(Dollars in thousands)			
Cost of acquisitions	$1,166,112		$1,691,809	
Average S&P quality	A-		A	
Effective annual yield	3.68	%	3.53	%
Spread to treasuries	1.12	%	1.21	%
Effective duration	8.5 years		8.5 years	

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Rating agencies generally view mortgage-backed securities as having additional risk for insurers holding interest sensitive product liabilities given a potential asset/liability disintermediation. Consequently, the Company holds predominantly agency mortgage-backed securities. Because mortgage-backed securities are subject to prepayment and extension risk, the Company has substantially reduced these risks by investing in collateralized mortgage obligations ("CMO"), which have more predictable cash flow patterns than pass-through securities. These securities, known as planned amortization class I ("PAC I"), very accurately defined maturity ("VADM") and sequential tranches are designed to amortize in a more predictable manner than other CMO classes or pass-throughs. The Company does not purchase tranches, such as PAC II and support tranches, that subject the portfolio to greater than average prepayment risk. Using this strategy, the Company can more effectively manage and reduce prepayment and extension risks, thereby helping to maintain the appropriate matching of the Company's assets and liabilities.

In addition to diversification, an important aspect of the Company's investment approach is managing the credit quality of its investments in debt securities. Thorough credit analysis is performed on potential corporate investments including examination of a company's credit and industry outlook, financial ratios and trends, and event risks. This emphasis is reflected in the high average credit rating of the Company's debt securities portfolio with 98.5% held in investment grade securities. In the table below, investments in debt securities are classified according to credit ratings by Standard and Poor's ("S&P®"), or other nationally recognized statistical rating organizations if securities were not rated by S&P®.

	December 31, 2014		December 31, 2013	
	Carrying Value (In thousands)	%	Carrying Value (In thousands)	%
AAA	$105,973	1.1	$110,688	1.2
AA	2,519,235	26.4	2,608,156	28.5
A	3,216,935	33.7	2,848,866	31.1
BBB	3,563,641	37.3	3,400,650	37.2
BB and other below investment grade	147,136	1.5	178,626	2.0
Totals	$9,552,920	100.0	$9,146,986	100.0

The Company's investment guidelines do not allow for the purchase of below investment grade securities. The investments held in debt securities below investment grade are the result of subsequent downgrades of the securities. These holdings are further summarized below.

	Below Investment Grade Debt Securities			
	Amortized Cost	Carrying Value	Fair Value	% of Invested Assets
	(In thousands except percentages)			
December 31, 2014	$146,143	147,136	152,586	1.5 %
December 31, 2013	$173,974	178,626	183,874	1.9 %

The Company's percentage of below investment grade securities compared to total invested assets at December 31, 2014 decreased from year-end 2013 due mostly to upgrades of securities to investment grade and disposals of below-investment grade securities during the year. The Company's holdings of below investment grade securities are relatively small and as a percentage of total invested assets low compared to industry averages.

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Holdings in below investment grade securities by category as of December 31, 2014 are summarized below, including 2014 and 2013 fair values for comparison. The Company continually monitors developments in these industries for issues that may affect security valuation.

Industry Category	Below Investment Grade Debt Securities			
	Amortized Cost 2014	Carrying Value 2014	Fair Value 2014	Fair Value 2013
	(In thousands)			
Retail	$14,969	15,600	15,600	18,188
Telecommunications	5,050	5,650	5,650	11,889
Asset-backed securities	5,941	5,942	7,743	8,863
Mortgage-backed	6,921	6,989	7,244	12,402
Transportation	—	61	61	171
Manufacturing	50,897	51,898	54,823	55,535
Banking/finance	18,014	18,102	16,583	32,312
Other	44,351	42,894	44,882	44,514
Totals	$146,143	147,136	152,586	183,874

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

With the precipitous drop in oil prices over the past year, the oil and gas industry has been experiencing a severe downturn which may consequently affect the credit quality of individual companies included in the Company's debt security portfolio. At December 31, 2014, the Company's aggregate holdings in this sector approximated $802 million. These holdings represented debt securities issued by forty-two companies in the oil and gas industry, all of which are investment grade as of the balance sheet date.

Certain European countries have experienced varying degrees of financial stress. Risks from the continued debt crisis in Europe could continue to disrupt financial markets and have a detrimental impact on global conditions as well as on sovereign and non-sovereign obligations.The Company has no exposure to the sovereign debt of Portugal, Ireland, Italy, Greece or Spain. These countries in particular are experiencing significant economic, fiscal and political strains that increase the likelihood of default for these countries. Additionally, the Company has no exposure to the debt of financial institutions domiciled in these countries.

However, the Company does have exposure to the debt of non-financial companies in certain of these countries. The following table shows bond holdings at December 31, 2014 of non-financial companies that are domiciled in Portugal, Ireland, Italy, Greece or Spain held in the available for sale and held to maturity debt security portfolios.

Securities Available for Sale:

Company	S&P Rating	Amortized Cost 2014	Fair Value 2014	Country Domiciled
	(In thousands)			

Covidien	A	$24,160	25,202	Ireland
CRH	BBB+	3,999	4,593	Ireland
Telefonica	BBB	11,776	12,922	Spain
Totals		$39,935	42,717	

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Securities Held to Maturity:

Company	S&P Rating (In thousands)	Amortized Cost 2014	Fair Value 2014	Country Domiciled
Covidien	A	$4,990	4,907	Ireland
EDP	BB+	17,250	18,606	Portugal
Enel	BBB	19,938	22,174	Italy
Finmeccanica	BB+	15,018	16,350	Italy
Iberdrola Finance	BBB	2,925	3,310	Spain
Kerry Group	BBB+	21,955	21,523	Ireland
Telefonica	BBB	8,102	9,105	Spain
Perrigo	BBB	25,814	26,646	Ireland
Totals		$115,992	122,621	

Generally accepted accounting principles require that investments in debt securities be written down to fair value when declines in value are judged to be other-than-temporary. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price methodology). Refer to Note 14, Fair Values of Financial Instruments, of the accompanying consolidated financial statements for further discussion.

During the year ended December 31, 2014, the Company recorded minimal other-than-temporary impairment ("OTTI") credit related write-downs on debt securities and a separate $0.1 million on equity securities. The only debt security impairment during 2014 pertained to one asset-backed security whose fair value and present value of future cash flows fell below the amortized cost of the security. See Note 3, Investments Debt and Equity Securities, of the accompanying consolidated financial statements for further discussion.

Since the Company's adoption of the GAAP guidance and accounting for other-than-temporary impairments due to credit loss versus non-credit loss, the Company recognized a total of $6.3 million of other-than-temporary impairments of which $2.5 million was deemed credit related and recognized as realized investment losses in earnings, and $3.8 million was deemed a non-credit related impairment and recognized in other comprehensive income.

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The Company is required to classify its investments in debt and equity securities into one of three categories: (a) trading securities; (b) securities available for sale; or (c) securities held to maturity. The Company purchases securities with the intent to hold to maturity and accordingly does not maintain a portfolio of trading securities. Of the remaining two categories, available for sale and held to maturity, the Company makes a determination on categorization based on various factors including the type and quality of the particular security and how it will be incorporated into the Company's overall asset/liability management strategy. As shown in the table below, at December 31, 2014, approximately 27.6% of the Company's total debt and equity securities, based on fair values, were classified as securities available for sale. These holdings in available for sale provide flexibility to the Company to react to market opportunities and conditions and to practice active management within the portfolio to provide adequate liquidity to meet policyholder obligations and other cash needs.

	December 31, 2014		
	Fair Value	Amortized Cost	Unrealized Gains
	(In thousands)		
Securities held to maturity:			
Debt securities	$7,175,443	6,841,543	333,900
Securities available for sale:			
Debt securities	2,711,377	2,577,275	134,102
Equity securities	17,303	12,799	4,504
Totals	$9,904,123	9,431,617	472,506

Asset-Backed Securities

The Company holds approximately $38.2 million in asset-backed securities as of December 31, 2014. This portfolio includes $7.4 million of manufactured housing bonds and $30.8 million of home equity loans (also referred to as subprime securities). The Company does not have any holdings in collaterized bond obligations ("CBO"s), collateralized debt obligations ("CDO"s), or collateralized loan obligations ("CLO"s). Principal risks in holding asset-backed securities are structural, credit, and capital market risks. Structural risks include the securities' priority in the issuer's capital structure, the adequacy of and ability to realize proceeds from collateral and the potential for prepayments. Credit risks include corporate credit risks or consumer credit risks for financing such as subprime mortgages. Capital market risks include the general level of interest rates and the liquidity for these securities in the marketplace.

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During the second quarter of 2014, the Company sold its one remaining Alt-A security. The Alt-A sector is a sub-sector of the jumbo prime MBS sector. The Company's exposure to the subprime sector is limited to investments in the senior tranches of subprime residential mortgage loans. The subprime sector is generally categorized under the asset-backed sector. This sector lends to borrowers who do not qualify for prime interest rates due to poor or insufficient credit history. Subprime borrowers generally have FICO scores of 660 or below. The slowing housing market, rising interest rates, and relaxed underwriting standards for loans originated after 2005 resulted in higher delinquency rates and losses beginning in 2007. These events caused illiquidity in the market and volatility in the market prices of subprime securities. With the government intervention initiatives in 2009, the housing market began to stabilize. There was an improvement in the prices of subprime securities as the bond market also became more liquid. All of the loans classified as subprime in the Company's portfolio as of December 31, 2014 were underwritten prior to 2005 as noted in the table below.

	December 31, 2014		December 31, 2013	
Investment Origination Year	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)			
Subprime:				
1998	$3,322	3,275	4,033	4,161
2003	3,709	5,469	3,930	5,424
2004	23,773	26,737	24,533	27,617
Subtotal subprime	$30,804	35,481	32,496	37,202
Alt A:				
2004	$—	—	3,535	3,535

As of December 31, 2014, 2 of the subprime securities were rated AA, 4 were rated BBB, 1 was rated B, 2 were rated CC, and 1was not rated.

Mortgage Loans and Real Estate

In general, the Company originates loans on high quality, income-producing properties such as shopping centers, freestanding retail stores, office buildings, industrial, sales or service facilities, selected apartment buildings, motels, and health care facilities. The location of these properties is typically in major metropolitan areas that offer a potential for property value appreciation. Credit and default risk is minimized through strict underwriting guidelines and diversification of underlying property types and geographic locations. In addition to being secured by the property, mortgage loans with leases on the underlying property are often guaranteed by the lease payments and also by the borrower. This approach has proven to result in quality mortgage loans with few defaults. Mortgage loan interest income is recognized on an accrual basis with any premium or discount amortized over the life of the loan. Prepayment and late fees are recorded on the date of collection.

The Company requires a minimum specified yield on mortgage loan investments. During the past several years, the low interest rate environment has resulted in fewer loan opportunities being available that meet the Company's required rate of return. Mortgage loans originated by the Company totaled $37.1 million and $34.1 million for the years 2014 and 2013, respectively.

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

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The Company's direct investments in real estate are not a significant portion of its total investment portfolio as most of these investments were acquired through mortgage loan foreclosures. For the years ended December 31, 2014 and 2013, there were no real estate properties acquired through mortgage loan foreclosure. The Company also participates in several real estate joint ventures and limited partnerships that invest primarily in income-producing retail properties.

The Company held net investments in mortgage loans, after allowances for possible losses, totaling $149.5 million and $132.8 million at December 31, 2014 and 2013, respectively. The diversification of the portfolio by geographic region, property type, and loan-to-value ratio was as follows:

	December 31, 2014		December 31, 2013	
	Amount (In thousands)	%	Amount (In thousands)	%
Mortgage Loans by Geographic Region:				
West South Central	$97,918	65.2	$79,702	59.7
East South Central	14,137	9.4	10,098	7.6
New England	12,155	8.1	17,400	13.0
East North Central	10,714	7.1	10,607	8.0
Pacific	10,282	6.9	10,364	7.8
Mountain	3,050	2.0	3,239	2.4
Middle Atlantic	1,897	1.3	2,005	1.5
Gross balance	150,153	100.0	133,415	100.0
Allowance for possible losses	(650)	(0.4)	(650)	(0.5)
Totals	$149,503	99.6	$132,765	99.5

	December 31, 2014		December 31, 2013	
	Amount (In thousands)	%	Amount (In thousands)	%
Mortgage Loans by Property Type:				
Retail	$130,544	86.9	$103,487	77.6
Apartments	7,333	4.9	15,275	11.4
Land/Lots	3,333	2.2	3,155	2.4
Hotel/Motel	1,600	1.1	3,742	2.8
Office	893	0.6	1,313	1.0
All other	6,450	4.3	6,443	4.8
Gross balance	150,153	100.0	133,415	100.0
Allowance for possible losses	(650)	(0.4)	(650)	(0.5)
Totals	$149,503	99.6	$132,765	99.5

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	December 31, 2014		December 31, 2013	
	Amount (In thousands)	%	Amount (In thousands)	%
Mortgage Loans by Loan-to-Value Ratio (1):				
Less than 50%	$52,564	35.0	$57,445	43.0
50% to 60%	50,553	33.7	23,339	17.5
60% to 70%	14,567	9.7	20,120	15.1
70% to 80%	12,656	8.4	9,723	7.3
80% to 90%	5,399	3.6	—	—
Greater than 90%	14,414	9.6	22,788	17.1
Gross balance	150,153	100.0	133,415	100.0
Allowance for possible losses	(650)	(0.4)	(650)	(0.5)
Totals	$149,503	99.6	$132,765	99.5

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

The greater than 90% category is related to loans made with a long standing borrower which are backed by the investment property, contracted leases and the guarantee of the borrower.

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

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

The Company recognized valuation losses of $0 million, $0 million and $0.65 million for the years ended December 31, 2014, 2013 and 2012, respectively. The mortgage loan valuation write-down in 2012 represents a general valuation allowance established for the Company's mortgage loan portfolio based upon the Company's loss experience for more than ten years and is not specifically identified to individual loans.

The following table represents the mortgage loan allowance for the years ended December 31, 2014 and 2013:

	2014	2013
	(In thousands)	
Balance, beginning of period	$650	650

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

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The Company does not recognize interest income on loans past due ninety days or more. The Company had no mortgage loans past due six months or more at December 31, 2014 and 2013. There was no interest income not recognized in 2014, 2013 and 2012.

The contractual maturities of mortgage loan principal balances at December 31, 2014 and 2013 were as follows:

	December 31, 2014		December 31, 2013	
	Amount (In thousands)	%	Amount (In thousands)	%
Principal Balance by Contractual Maturity:				
Due in one year or less	$16,390	10.9	$10,491	7.8
Due after one year through five years	83,965	55.7	51,304	38.3
Due after five years through ten years	30,591	20.3	51,839	38.7
Due after ten years through fifteen years	—	—	—	—
Due after fifteen years	19,813	13.1	20,300	15.2
Totals	$150,759	100.0	$133,934	100.0

The Company's real estate investments total approximately $16.7 million at December 31, 2014 and $18.2 million at December 31, 2013, and consist primarily of income-producing properties which are being operated by a wholly-owned subsidiary of the Company. The Company recognized operating income on these properties of approximately $1.7 million, $1.7 million and $1.6 million for the years ended December 31, 2014, 2013 and 2012, respectively. The Company monitors the conditions and market values of these properties on a regular basis and makes repairs and capital improvements to keep the properties in good condition. The Company recorded net realized investment gains of $1.0 million, $0.3 million and $2.6 million associated with these properties in the years ended December 31, 2014, 2013 and 2012, respectively.

Derivatives, Index Options

The Company offers fixed-index universal life and annuity products that guarantee the return of principal to policyholders and, at the policyholder's election, credit interest based on a percentage gain in a specified market index, typically the S&P 500 Index® (policyholders may alternatively elect a fixed interest rate). Premiums and deposits received on these products are predominantly invested in investment grade fixed income securities with a portion used to purchase derivatives consisting of call options on the applicable market index to fund the index credits due to fixed-index policyholders. The call options purchased are one-year over-the-counter option contracts coinciding with the initial issuance of the policy and annual renewal periods in order to match the Company's funding requirements for the underlying policies. On the respective anniversary dates of the index policies, the index used to compute the annual index credit is reset and a new one-year call option is purchased to fund the next annual index credit.

Although the call options are employed to be effective hedges against the Company's policyholder obligations from an economic standpoint, they do not meet the requirements for hedge accounting under GAAP. Accordingly, the call options are marked to fair value on each reporting date with the change in fair value, plus or minus, included as a component of net investment income. The change in fair value of the call options includes the gains or losses recognized at the expiration of the option term and the changes in fair value for open contracts.

The Company's design of its fixed-index products incorporates a budget for the purchase of over-the-counter call options to fund the index credits due to policyholders. Management monitors current prices of these call options and

manages the cost of purchases through the terms of the policy contracts. These terms permit the Company to change caps, participation rates, and asset fees, subject to guaranteed minimums, thus managing the cost of the call options quoted by counterparties. In addition, the Company's product terms allow for the Company to withdraw from offering a particular index option at any time effective on the next policy anniversary date.

The fair value of derivative instruments presented in the Company’s consolidated financial statements totaling $114.3 million at December 31, 2014 and $169.3 million at December 31, 2013 pertain to notional policyholder account values of $3.2 billion and $2.6 billion at December 31, 2014 and 2013, respectively, electing interest credits based upon applicable market index performance.

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Market Risk

Market risk is the risk of change in market values of financial instruments due to changes in interest rates, currency exchange rates, commodity prices, or equity prices. The most significant market risk exposure for National Western is interest rate risk. Substantial and sustained increases and decreases in market interest rates can affect the profitability of insurance products and fair value of investments. The yield realized on new investments generally increases or decreases in direct relationship with interest rate changes. The fair values of fixed income debt securities correlate to external market interest rate conditions as market values typically increase when market interest rates decline and decrease when market interest rates rise. However, market values may fluctuate for other reasons, such as changing economic conditions, market dislocations or increasing event-risk concerns.

Interest Rate Risk

A gradual increase in interest rates from current levels would generally be a positive development for the Company. Rate increases would be expected to provide incremental net investment income, produce increased sales of fixed rate products, and limit the potential erosion of the Company’s interest rate spread on products due to minimum guaranteed crediting rates in products. Alternatively, a rise in interest rates will reduce the fair value of the Company’s investment portfolio and if long-term rates rise dramatically within a relatively short time period could expose the Company to disintermediation risk. Disintermediation risk is the risk that policyholders will surrender their policies in a rising interest rate environment forcing the Company to liquidate assets when they are in an unrealized loss position.

A decline in interest rates could cause certain mortgage-backed securities in the Company’s portfolio to be more likely to pay down or prepay, as has been the case the past several years. In this situation, the Company typically will be unable to reinvest the proceeds at comparable yields. Lower interest rates will likely also cause lower net investment income, subject the Company to reinvestment rates risks, and possibly reduce profitability through reduced interest rate margins associated with products with minimum guaranteed crediting rates. Alternatively, the fair value of the Company’s investment portfolio will increase when interest rates decline.

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

	December 31, 2014	2013
	(In thousands except percentages)	
Debt securities - fair value	$9,886,820	9,292,810
Debt securities - amortized cost	$9,418,818	9,034,438
Fair value as a percentage of amortized cost	104.97 %	102.86 %
Unrealized gains at year-end	$468,002	258,372
Ten-year U.S. Treasury bond - increase (decrease) in yield for the year	(0.86)%	1.27 %

	Unrealized Gains Balance		
	Net Balance at December 31, 2014	Net Balance at December 31, 2013	Change in Net Balance
	(In thousands)		
Debt securities held to maturity	$333,900	145,824	188,076

Debt securities available for sale	134,102	112,548	21,554
Totals	$468,002	258,372	209,630

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Debt securities held to maturity are recorded at their amortized cost basis. Accordingly, the unrealized gain amounts shown in the table above are not incorporated into the Company's consolidated financial statements at December 31, 2014 and 2013, respectively.

Changes in interest rates typically have a sizable effect on the fair values of the Company's debt securities. During 2014, market interest rates of the ten-year U.S. Treasury bond decreased roughly 86 basis points from year end 2013. Therefore, the increase in unrealized gains of $209.6 million was primarily the result of the decrease in interest rates. The Company would expect similar results in the future from a significant upward or downward movement in market rates. However, since the majority of the Company's debt securities are classified as held to maturity, which are recorded at amortized cost, changes in fair values have relatively small effects on the Company's financial results.

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

The Company has the ability to adjust interest rates, participation rates, and asset fees and caps, as applicable, in response to changes in investment portfolio yields for a substantial portion of its business in force. The ability to adjust these rates is subject to competitive forces in the market for the Company’s products. Surrender rates could increase and new sales could be negatively affected if crediting rates are not competitive with the rates offered on competing products offered by other insurance companies and financial service entities. The Company designs its products with features encouraging policy persistency. Interest sensitive life and annuity products have surrender and withdrawal penalty provisions. Depending on the products, surrender charge rates on annuity contracts sold or in force range up to 25% and surrender charge periods up to 15 years. Typically, surrender charge rates gradually decrease each year the contract is in force.

The Company seeks to minimize the impact of interest rate risk through surrender charges that are imposed to discourage policy surrenders and to offset unamortized acquisition costs. Certain products, such as supplementary contracts with life contingencies, are not subject to surrender or discretionary withdrawal. The Company also includes a market value adjustment (“MVA”) feature on many of its annuity products which may increase or decrease the amount paid to contract holders upon surrender of their contract as a means to further mitigate interest rate risk. The MVA is a mathematical formula which uses changes in interest rates since the inception of a contract (typically linked to U.S. Treasury interest rates) to the date of surrender and will decrease the amount paid upon surrender when interest rates rise or increase the amounts paid when interest rates decline. As noted above, the value of the Company’s fixed debt securities decline in a rising interest rate environment and the MVA feature which decreases amounts paid upon surrender in a rising rate environment serves to discourage this activity. Conversely, in a decreasing interest rate environment surrender activity poses less of a risk to the Company as the value of its fixed debt securities backing the contracts increases. If necessary, the securities backing the contracts surrendered could be sold at a gain offsetting the increased amount paid upon surrender due to the MVA.

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The following table profiles the Company’s insurance liabilities at December 31, 2014 for annuities, deposit-type contracts and supplementary contracts with life contingencies by surrender and discretionary withdrawal characteristics.

	December 31, 2014	
	Amount	%
	(In thousands)	
Subject to discretionary withdrawal:		
With market value adjustment	$1,531,199	20.6
With surrender charge of 5% or more	5,046,711	68.0
With surrender charge of 5% or less	425,884	5.8
Not subject to discretionary withdrawal	418,024	5.6
Total	$7,421,818	100.0

Interest Rate Sensitivity

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

	Fair Values of Assets				
	Changes in Interest Rates in Basis Points				
	-100	0	+100	+200	+300
	(In thousands)				
Debt and equity securities	$10,409,533	9,904,123	9,397,642	8,904,497	8,435,875
Mortgage loans	162,848	156,548	150,678	145,196	140,065
Other loans	2,334	2,300	2,266	2,233	2,200
Derivatives	112,856	114,287	118,915	123,641	128,407

The selection of the 100 basis point parallel shift in the yield curve was made only as an illustration of the potential hypothetical impact of such an event and should not be construed as a prediction of future market events. Actual results could vary materially from those illustrated due to the nature of the estimates and assumptions used in the above analysis. Expected maturities of debt securities may differ from contractual maturities due to call or prepayment provisions. The models assume that prepayments on mortgage-backed securities are influenced by agency and pool types, the level of interest rates, loan age, refinancing incentive, month of the year, and underlying coupon. During periods of declining interest rates, principal payments on mortgage-backed securities and collateralized mortgage obligations tend to increase as the underlying mortgages are prepaid. Conversely, during periods of rising interest rates, the rate of prepayment slows. Both of these situations can expose the Company to the possibility of asset-liability cash flow and yield mismatch. The model uses a proprietary method of sampling interest rate paths along with a mortgage prepayment model to derive future cash flows. The initial interest rates used are based on the current U.S. Treasury yield curve as well as current mortgage rates for the various types of collateral in the portfolio.

Mortgage and other loans were modeled by discounting scheduled cash flows through the scheduled maturities of the loans, starting with interest rates currently being offered for similar loans to borrowers with similar credit

ratings. Policy loans were modeled by discounting estimated cash flows using U.S. Treasury Bill interest rates as the base rates at December 31, 2014. The estimated cash flows include assumptions as to whether such loans will be repaid by the policyholders or settled upon payment of death or surrender benefits on the underlying insurance contracts and incorporate both Company experience and mortality assumptions associated with such contracts.

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

The Company's market risk liabilities, which include policy liabilities for annuity and supplemental contracts, are managed for interest rate risk through cash flow testing as previously described. As part of this cash flow testing, the Company has analyzed the potential impact on net earnings of a 100 basis point decrease and increases in increments of 100 basis points in the U.S. Treasury yield curve as of December 31, 2014. The potential impact on net earnings from these interest rate changes are summarized below.

	Changes in Interest Rates in Basis Points			
	-100	+100	+200	+300
	(In thousands)			
Impact on net earnings	$1,481	1,216	1,999	2,259

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

The above described scenarios produce estimated changes in cash flows as well as cash flow reinvestment projections. Estimated cash flows in the Company's model assume cash flow reinvestments, which are representative of the Company's current investment strategy. Calls and prepayments include scheduled maturities and those expected to occur which would benefit the security issuers. Assumed policy surrenders consider differences and relationships between credited interest rates and market interest rates as well as surrender charges on individual policies. The impact to earnings also includes the expected effects on amortization of deferred policy acquisition costs. The model considers only annuity and supplemental contracts in force at December 31, 2014, and does not consider new product sales or the possible impact of interest rate changes on sales.

Credit Risk

The Company is exposed to credit risk through counterparties and within its investment portfolio. Credit risk relates to the uncertainty associated with an obligor’s continued ability to make timely payments of principal and interest in accordance with the contractual terms of an instrument or contract. As previously discussed, the Company manages credit risk through established investment credit policies and guidelines which address the quality of creditors and counterparties, concentration limits, diversification practices and acceptable risk levels. These policies and guidelines are regularly reviewed and approved by senior management and the Company’s Board of Directors.

In connection with the Company’s use of call options to hedge the equity return component of its fixed-indexed annuity and life products, the Company is exposed to the risk that a counterparty fails to perform under terms of the option contract. The Company purchases one-year option contracts from multiple counterparties and evaluates the creditworthiness of all counterparties prior to the purchase of the contracts. For consideration in contracting with a counterparty the rating required by the Company is a Standard & Poor’s credit rating of “A” or higher and a Moody’s rating of “A2” or higher. Accordingly, all options are purchased from nationally recognized financial institutions with a demonstrated performance for honoring their financial obligations and possessing substantial financial capacity. In addition, each counterparty is required to execute a credit support agreement obligating the counterparty to provide

collateral to the Company when the fair value of the Company's exposure to the counterparty exceeds specified amounts. The amount of collateral to be provided is based upon a sliding scale tied to the credit rating of the counterparty. As of December 31, 2014 the counterparty thresholds ranged from $0 to $10 million. Counterparty credit ratings and credit exposure are monitored continuously by the Company's Investment department with adjustments to collateral levels managed as per the credit support agreements.

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The Company's net exposure to loss due to credit risk if the option counterparties failed to completely perform according to the terms of the one-year contracts is as follows at December 31, 2014 and 2013.

		December 31, 2014		
Counterparty	Moody/ S&P Rating	Fair Value	Collateral Held	Net Exposure
		(In thousands)		
Credit Suisse	A1/A	$23,957	28,367	—
Wells Fargo	Aa3/AA-	28,298	20,826	7,472
Bank of America	A2/A	19,125	17,900	1,225
Barclays Bank	A2/A	17,397	19,527	—
BNP Paribas	A1/A+	15,232	17,608	—
JPMorgan Chase	Aa3/A+	4,741	521	4,220
Royal Bank of Canada	Aa3/AA-	5,537	5,859	—
		$114,287	110,608	12,917

		December 31, 2013		
Counterparty	Moody/ S&P Rating	Fair Value	Collateral Held	Net Exposure
		(In thousands)		
Credit Suisse	A1/A	$37,135	37,342	—
Wells Fargo	Aa3/AA-	20,580	12,389	8,191
Bank of America	A2/A	33,159	28,548	4,611
Barclays Bank	A2/A	33,140	23,195	9,945
BNP Paribas	A2/A+	20,075	20,522	—
JPMorgan Chase	Aa3/A+	11,809	6,641	5,168
Royal Bank of Canada	Aa3/AA-	13,416	12,811	605
		$169,314	141,448	28,520

The Company has never incurred a loss on index options due to counterparty default.

The Company is also exposed to credit spread risk related to market prices of investment securities and cash flows associated with changes in credit spreads. Credit spread tightening will reduce net investment income associated with new purchases of fixed debt securities and increase the fair value of the investment portfolio. Credit spread widening will reduce the fair value of the investment portfolio and will increase net investment income on new purchases.

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LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Liquidity requirements are met primarily by funds provided from operations. Premium deposits and annuity considerations, investment income, and investment maturities and prepayments are the primary sources of funds while investment purchases, policy benefits in the form of claims, and payments to policyholders and contract holders in connection with surrenders and withdrawals as well as operating expenses are the primary uses of funds. To ensure the Company will be able to pay future commitments, the funds received as premium payments and deposits are invested in high quality investments, primarily fixed income securities. Funds are invested with the intent that the income from investments, plus proceeds from maturities, will meet the ongoing cash flow needs of the Company. The approach of matching asset and liability durations and yields requires an appropriate mix of investments. Although the Company historically has not been put in the position of having to liquidate invested assets to provide cash flow, its investments consist primarily of marketable debt securities that could be readily converted to cash for liquidity needs. The Company may also borrow up to $40 million on its bank line of credit for short-term cash needs. There were no borrowings outstanding under the line of credit at December 31, 2014.

A primary liquidity concern for life insurers is the risk of an extraordinary level of early policyholder withdrawals, particularly with respect to annuity products whose funds tend to move more rapidly with interest rate changes. The Company includes provisions within its annuity and universal life insurance policies, such as surrender and market value adjustments, that help limit and discourage early withdrawals. The following table sets forth withdrawal characteristics of the Company's annuity reserves and deposit liabilities (based on statutory liability values) as of the dates indicated.

	December 31, 2014			December 31, 2013		
	Amount	% of Total		Amount	% of Total	
	(In thousands except percentages)					
Not subject to discretionary withdrawal provisions	$418,024	5.6	%	$434,997	6.1	%
Subject to discretionary withdrawal, with adjustment:						
With market value adjustment	1,531,199	20.6	%	1,663,460	23.3	%
At contract value less current surrender charge of 5% or more	5,046,711	68.0	%	4,662,884	65.2	%
Subtotal	6,995,934	94.2	%	6,761,341	94.6	%
Subject to discretionary withdrawal at contract value with no surrender charge or surrender charge of less than 5%	425,884	5.8	%	386,785	5.4	%
Total annuity reserves and deposit liabilities	$7,421,818	100.0	%	$7,148,126	100.0	%

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

	December 31, 2014 (In thousands)	2013	2012
Product Line:			
Traditional Life	$5,763	4,862	4,913
Universal Life	67,186	56,663	50,905
Annuities	487,313	471,588	458,249
Total	$560,262	533,113	514,067

The above contractual withdrawals, as well as the level of surrenders experienced, were generally consistent with the Company's assumptions in asset-liability management, and the associated cash outflows did not have an adverse impact on overall liquidity. The nominal increase in annuity dollar outflows coincides with a growing block of business which added approximately $2.5 billion in deposits over the past three years. Individual life insurance policies are less susceptible to withdrawal than annuity reserves and deposit liabilities because policyholders may incur surrender charges and undergo a new underwriting process in order to obtain a new insurance policy. Cash flow projections and tests under various market interest rate scenarios are also performed to assist in evaluating liquidity needs and adequacy. The Company currently expects available liquidity sources and future cash flows to be more than adequate to meet the demand for funds.

Cash flows from the Company's insurance operations have historically been sufficient to meet current needs. Cash flows from operating activities were $313.3 million, $253.6 million, and $290.3 million in 2014, 2013, and 2012, respectively. The Company also has significant cash flows from both scheduled and unscheduled investment security maturities, redemptions, and prepayments. These cash flows totaled $0.8 billion, $1.5 billion, and $1.8 billion in 2014, 2013, and 2012, respectively. Cash flows from security maturities, redemptions, and prepayments coincide primarily with scheduled maturity dates of securities given the Company buy and hold investment philosophy but may become amplified during periods of significant declines in interest rates. Conversely, these cash flow items could experience reduced levels of activity if interest rates rise in the future. Net cash flows from the Company's universal life and annuity deposit product operations totaled $104.3 million, $106.6 million, and $144.2 million in 2014, 2013, and 2012, respectively.

Capital Resources

The Company relies on stockholders' equity for its capital resources as there is no long-term debt outstanding and the Company does not anticipate the need for any long-term debt in the near future. As of December 31, 2014, the Company had no commitments beyond its normal operating and investment activities. The Company has declared and paid an annual dividend on its common shares since 2005 although its practice remains to substantially reinvest earnings internally to finance the development of new business. Despite the fact the Company's market price of its Class A common shares has been trading at a discount to the book value for several years, there are no imminent plans for the Company to repurchase its shares as the Board of Directors has adopted a strategic policy of building a strong capital base to maintain high financial strength ratings and the ability to take competitive advantages as they arise. The capacity to pay dividends is limited by law in the state of Colorado to earned profits (statutory unassigned surplus). At December 31, 2014, the maximum amount legally available for distribution without further regulatory approval is $118.2 million.

OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

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

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Insurance reserves are the means by which life insurance companies determine the liabilities that must be established to assure that future policy benefits are provided for and can be paid. These reserves are required by law and based upon standard actuarial methodologies to ensure fulfillment of commitments guaranteed to policyholders and their beneficiaries, even though the obligations may not be due for many years. Refer to Note 1, Summary of Significant Accounting Policies, of the accompanying consolidated financial statements for a discussion of reserving methods.

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

	Payment Due by Period				
	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
	(In thousands)				
Loan commitments	$7,029	7,029	—	—	—
Operating lease obligations (1)	1,094	214	476	380	24
Life claims payable (2)	56,022	56,022	—	—	
Other long-term reserve liabilities reflected on the balance sheet under GAAP (3)	10,954,373	948,744	1,855,012	1,879,569	6,271,048
Total	$11,018,518	$1,012,009	$1,855,488	$1,879,949	$6,271,072

(1) Refer to Note 9, Commitments and Contingencies, of the accompanying consolidated financial statements relating to Company leases.

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

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

ACCOUNTING STANDARDS AND CHANGES IN ACCOUNTING

Recently Issued Accounting Standards

During February 2013, the Financial Accounting Standards Board ("FASB") issued new guidance related to the presentation of amounts reclassified out of accumulated other comprehensive income. The new guidance requires disclosure on the statement of income amounts reclassified. As the Company already reports reclassifications on its Consolidated Statements of Earnings and Consolidated Statements of Comprehensive Income (Loss), the new guidance did not have a significant impact on the Company's consolidated financial statements.

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

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

Correction of Errors

None.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Attachment A, Index to Financial Statements and Schedules.

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

There have been no disagreements with auditors that are reportable pursuant to Item 304 of Regulation S-K.

On January 10, 2014, management of the Company notified KPMG LLP ("KPMG") that the Company would not be renewing the engagement of KPMG as independent accountants beginning with the audit of its consolidated financial statements for the year ending December 31, 2014. KPMG's dismissal was effective with the Company's filing of the Form 10-K for the year ended December 31, 2013 and issuance of the statutory financial statement audit reports for the same period. The Company's Audit Committee of the Board of Directors approved the dismissal of KPMG as the Company's independent accountants based upon the results of a competitive proposal process. Also on January 10, 2014, management of the Company notified BKD LLP ("BKD") of its engagement as the Company's independent registered public accounting firm which was approved by the Company's Audit Committee that same day. BKD's engagement for the audit of the Company's consolidated financial statements for the year ended December 31, 2014 was effective with their first quarter review for the period ended March 31, 2014. The Company provided notice of the foregoing via a Form 8-K filing dated January 16, 2014.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

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Internal controls over financial reporting change as the Company modifies and enhances its systems and processes to meet business needs. Any significant changes in controls are evaluated prior to implementation to help ensure continued effectiveness of internal controls and the control environment. During the quarter ended June 30, 2013, the Company implemented a new investment accounting system. During the quarter ended December 31, 2013, the Company implemented a new share-based (stock option and stock appreciation rights) compensation accounting system. These implementations constitute a change in the Company's internal controls over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Prior to each implementation, the Company performed conversion testing, evaluated and tested internal controls and determined that each change did not materially affect, nor will reasonably likely materially affect, the Company's internal controls over financial reporting.

While other changes have taken place in internal controls during the year ended December 31, 2014, none of these changes have materially affected, or are reasonably likely to materially affect, the Company’s internal controls over financial reporting. There have been no significant changes in the Company’s internal controls or in other factors that could significantly affect these controls subsequent to the date of this examination.

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

Management's Report on Internal Control Over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles. Under the supervision and participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2014 was conducted based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in Internal Control - Integrated Framework (1992). Based on the Company's assessment under the criteria of this framework, management concluded that the Company maintained effective internal control over financial reporting as of December 31, 2014.

Attestation Report of the Company’s Registered Public Accounting Firm

The Company engages BKD LLP as the independent registered accounting firm to audit the Company’s financial statements and internal control over financial reporting and express their opinion thereon. A copy of BKD LLP’s attestation report on the Company’s internal control over financial reporting is set forth on the page that follows.

Changes in Internal Control Over Financial Reporting

Internal controls over financial reporting change as the Company modifies and enhances its systems and processes to meet business needs. Any significant changes in controls are evaluated prior to implementation to help ensure continued effectiveness of internal controls and the control environment. As noted above, during 2013 the Company implemented two accounting systems that provide information necessary for financial reporting which the Company vetted and determined did not materially affect the Company's internal controls over financial reporting. No other changes have taken place in internal controls during the year ended December 31, 2014, that have materially affected,

or are reasonably likely to materially affect, the Company’s internal controls over financial reporting.

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

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Report of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors and Stockholders
National Western Life Insurance Company

We have audited National Western Life Insurance Company's (the Company) internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.
Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.
In our opinion, National Western Life Insurance Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (1992), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of National Western Life Insurance Company and subsidiaries as of December 31, 2014 and the related consolidated statements of earnings, comprehensive income (loss), changes in stockholders' equity, and cash flows for the year ended December 31, 2014, and our report dated March 13, 2015 expressed an unqualified opinion on those consolidated financial statements.

/S/BKD LLP

Little Rock, Arkansas
March 13, 2015

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ITEM 9B. OTHER INFORMATION

There is no information required to be disclosed on Form 8-K for the quarter ended December 31, 2014 which has not been previously reported.

PART III

The information required by Part III is incorporated by reference from our definitive proxy statement for our annual meeting of shareholders to be held June 19, 2015 to be filed with the Commission pursuant to Regulation 14A within 120 days after December 31, 2014.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Listing of Financial Statements

See Attachment A, Index to Financial Statements and Schedules, on page 80 for a list of financial statements included in this report.

(a) 2. Listing of Financial Statement Schedules

See Attachment A, Index to Financial Statements and Schedules, on page 80 for a list of financial statement schedules included in this report.

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

(a) 3. Listing of Exhibits

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

Exhibit 2	-	Order Confirming Third Amended Joint Consensual Plan of Reorganization Proposed By The Debtors And The Official Committee Of Unsecured Creditors (As Modified As of August 28, 1998) (incorporated by reference to Exhibit 2 to the Company's Form 8-K dated August 28, 1998).
Exhibit 3(a)	-	Restated Articles of Incorporation of National Western Life Insurance Company dated April 10, 1968 (incorporated by reference to Exhibit 3(a) to the Company's Form 10-K for the year ended December 31, 1995).
Exhibit 3(b)	-	Amendment to the Articles of Incorporation of National Western Life Insurance Company dated July 29, 1971 (incorporated by reference to Exhibit 3(b) to the Company's Form 10-K for the year ended December 31, 1995).

Exhibit 3(c)	-	Amendment to the Articles of Incorporation of National Western Life Insurance Company dated May 10, 1976 (incorporated by reference to Exhibit 3(c) to the Company's Form 10-K for the year ended December 31, 1995).
Exhibit 3(d)	-	Amendment to the Articles of Incorporation of National Western Life Insurance Company dated April 28, 1978 (incorporated by reference to Exhibit 3(d) to the Company's Form 10-K for the year ended December 31, 1995).

Exhibit 3(e)	-	Amendment to the Articles of Incorporation of National Western Life Insurance Company dated May 1, 1979 (incorporated by reference to Exhibit 3(e) to the Company's Form 10-K for the year ended December 31, 1995).
Exhibit 3(f)	-	Bylaws of National Western Life Insurance Company as amended through April 24, 1987 (incorporated by reference to Exhibit 3(f) to the Company's Form 10-K for the year ended December 31, 1995).
Exhibit 3ii(h)	-	Bylaws of National Western Life Insurance Company dated March 22, 2010 (incorporated by reference to Exhibit 3ii(h) to the Company's Form 8-K dated March 22, 2010).
Exhibit 10(a)	-	National Western Life Insurance Company Non-Qualified Defined Benefit Plan dated July 26, 1991 (incorporated by reference to Exhibit 10(a) to the Company's Form 10-K for the year ended December 31, 1995).
Exhibit 10(c)	-	National Western Life Insurance Company Non-Qualified Deferred Compensation Plan, as amended and restated, dated March 27, 1995 (incorporated by reference to Exhibit 10(c) to the Company's Form 10-K for the year ended December 31, 1995).
Exhibit 10(d)	-	First Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective July 1, 1995 (incorporated by reference to Exhibit 10(d) to the Company's Form 10-K for the year ended December 31, 1995).
Exhibit 10(e)	-	National Western Life Insurance Company 1995 Stock and Incentive Plan (incorporated by reference to Exhibit 10(e) to the Company's Form 10-K for the year ended December 31, 1995).
Exhibit 10(f)	-	First Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective December 17, 1996 (incorporated by reference to Exhibit 10(f) to the Company's Form 10-K for the year ended December 31, 1996).
Exhibit 10(g)	-	Second Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective December 17, 1996 (incorporated by reference to Exhibit 10(g) to the Company's Form 10-K for the year ended December 31, 1996).
Exhibit 10(h)	-	Second Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective December 17, 1996 (incorporated by reference to Exhibit 10(h) to the Company's Form 10-K for the year ended December 31, 1996).
Exhibit 10(i)	-	Third Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective December 17, 1996 (incorporated by reference to Exhibit 10(i) to the Company's Form 10-K for the year ended December 31, 1996).
Exhibit 10(j)	-	Fourth Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective June 20, 1997 (incorporated by reference to Exhibit 10(j) to the Company's Form 10-K for the year ended December 31, 1997).
Exhibit 10(k)	-	First Amendment to the National Western Life Insurance Company 1995 Stock and Incentive Plan effective June 19, 1998 (incorporated by reference to Exhibit 10(k) to the Company's Form

	10-Q for the quarter ended June 30, 1998).
Exhibit 10(m) -	Fifth Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective July 1, 1998 (incorporated by reference to Exhibit 10(m) to the Company's Form 10-Q for the quarter ended September 30, 1998).

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Exhibit 10(n) -	Sixth Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective August 7, 1998 (incorporated by reference to Exhibit 10(n) to the Company's Form 10-K for the year ended December 31, 1998).
Exhibit 10(o) -	Third Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective August 7, 1998 (incorporated by reference to Exhibit 10(o) to the Company's Form 10-K for the year ended December 31, 1998).
Exhibit 10(p) -	Exchange Agreement by and among National Western Life Insurance Company, NWL Services, Inc., Alternative Benefit Management, Inc., and American National Insurance Company effective November 23, 1998 (incorporated by reference to Exhibit 10(p) to the Company's Form 10-K for the year ended December 31, 1998).
Exhibit 10(s) -	Seventh Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective August 7, 1998 (incorporated by reference to Exhibit 10(s) to the Company's Form 10-K for the year ended December 31, 2000).
Exhibit 10(u) -	Eighth Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective December 1, 2000 (incorporated by reference to Exhibit 10(u) to the Company's Form 10-K for the year ended December 31, 2000).
Exhibit 10(v) -	Fourth Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective December 1, 2000 (incorporated by reference to Exhibit 10(v) to the Company's Form 10-K for the year ended December 31, 2000).
Exhibit 10(w) -	Second Amendment to the National Western Life Insurance Company 1995 Stock and Incentive Plan (incorporated by reference to Exhibit 10(w) to the Company's Form 10-Q for the quarter ended September 30, 2001).
Exhibit 10(z) -	Fifth Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective January 1, 2001 (incorporated by reference to Exhibit 10(z) to the Company's Form 10-K for the year ended December 31, 2001).
Exhibit 10(ae) -	Sixth Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective August 23, 2002 (incorporated by reference to Exhibit 10(ae) to the Company's Form 10-Q for the quarter ended September 30, 2002).
Exhibit 10(af) -	Seventh Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective October 18, 2002 (incorporated by reference to Exhibit 10(af) to the Company's Form 10-Q for the quarter ended September 30, 2002).
Exhibit 10(ai) -	Eighth Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective January 1, 2003 (incorporated by reference to Exhibit 10(ai) to the Company's Form 10-K for the year ended December 31, 2002).
Exhibit 10(am)-	Ninth amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan effective November 1, 2003 (incorporated by reference to Exhibit 10(am) to the Company's Form 10-K for the year ended December 31, 2003).

Exhibit 10(an) -	Ninth amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective December 5, 2003 (incorporated by reference to Exhibit 10(an) to the Company's Form 10-K for the year ended December 31, 2003.)
Exhibit 10(ar) -	Third Amendment to the National Western Life Insurance Company 1995 Stock and Incentive Plan (incorporated by reference to Exhibit 10(ar) to the Company's Form 10-Q for the quarter ended September 30, 2004).

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Exhibit 10(as) -	Amendment to the National Western Life Insurance Company Group Excess Benefit Plan effective December 15, 2004 (incorporated by reference to Exhibit 10(as) to the Company's Form 10-K for the year ended December 31, 2004).
Exhibit 10(at) -	The National Western Life Insurance Company Employee Health Plan was amended and restated effective August 20, 2004 (incorporated by reference to Exhibit 10(at) to the Company's Form 10-K for the year ended December 31, 2004).
Exhibit 10(au) -	Tenth Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan effective December 31, 2004 (incorporated by reference to Exhibit 10(au) to the Company's Form 10-K for the year ended December 31, 2004).
Exhibit 10(az) -	National Western Life Insurance Company Non-Qualified Defined Benefit Plan for Robert L. Moody (Exhibit 10(az) to Form 8-K dated July 1, 2005).
Exhibit 10(ba) -	First Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan for Robert L. Moody (Exhibit 10(ba) to Form 8-K dated August 22, 2005).
Exhibit 10(bb) -	Second Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan for Robert L. Moody (Exhibit 10(bb) to Form 8-K dated December 15, 2005).
Exhibit 10(bc) -	Tenth Amendment to the National Western Life Insurance Company Non-Qualified Deferred Compensation Plan (Exhibit 10(bc) to Form 8-K dated December 15, 2005).
Exhibit 10(bd) -	National Western Life Insurance Company Retirement Bonus Program for Robert L. Moody (Exhibit 10(bd) to Form 8-K dated December 15, 2005).
Exhibit 10(be) -	Eleventh Amendment to the National Western Life Insurance Company Non-Qualified Defined Benefit Plan (Exhibit 10(be) to Form 8-K dated December 15, 2005).
Exhibit 10(bf) -	Non-Qualified Defined Benefit Plan for the President of National Western Life Insurance Company (Exhibit 10(bf) to Form 8-K dated December 15, 2005).
Exhibit 10(bg) -	National Western Life Insurance Company 2006 Executive Officer Bonus Program (Exhibit 10(bg) to Form 8-K dated February 17, 2006).
Exhibit 10(bh) -	National Western Life Insurance Company 2006 Executive Officer Bonus Program (as amended) (Exhibit 10(bh) to Form 8-K dated April 21, 2006).
Exhibit 10(bi) -	2006 International Marketing Officer Bonus Program (Exhibit 10(bi) to Form 8-K dated June 23, 2006).
Exhibit 10(bj) -	2006 Domestic Marketing Officer Bonus Program (Exhibit 10(bj) to Form 8-K dated June 23, 2006).
Exhibit 10(bk) -	National Western Life Insurance Company Harvest Nonqualified Deferred Compensation Plan (Exhibit 10(bk) to Form 8-K dated June 23, 2006).

Exhibit 10(bl) -	Amendment No. 16 to Loan Agreement (Exhibit 10(bl) to Form 8-K dated July 31, 2006).
Exhibit 10(bm)-	Life Systems, Incorporated Termination Agreement (Exhibit 10(bm) to Form 8-K dated March 30, 2007).

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Exhibit 10(bn) -	National Western Life Insurance Company 2007 Executive Officer Bonus Program (Exhibit 10(bn) to Form 8-K dated April 19, 2007).
Exhibit 10(bo) -	National Western Life Insurance Company 2007 Domestic Marketing Officer Bonus Program (Exhibit 10(bo) to Form 8-K dated April 19, 2007).
Exhibit 10(bp) -	National Western Life Insurance Company 2007 International Marketing Officer Bonus Program (Exhibit 10(bp) to Form 8-K dated April 19, 2007).
Exhibit 10(bq) -	National Western Life Insurance Company 2008 Executive Officer Bonus Program (Exhibit 10(bq) to Form 8-K dated March 17, 2008).
Exhibit 10(br) -	National Western Life Insurance Company 2008 Domestic Marketing Officer Bonus Program (Exhibit 10(br) to Form 8-K dated August 22, 2008).
Exhibit 10(bs) -	National Western Life Insurance Company 2008 International Marketing Officer Bonus Program (Exhibit 10(bs) to Form 8-K dated August 22, 2008).
Exhibit 10(bt) -	National Western Life Insurance Company 2008 Domestic Marketing Officer Bonus Program (as amended) (Exhibit 10(bt) to Form 8-K dated October 16, 2008).
Exhibit 10(bu) -	National Western Life Insurance Company 2008 Incentive Plan (Exhibit 10(bu) to S-8 dated September 2, 2008).
Exhibit 10(bv) -	National Western Life Insurance Company 2008 Senior Vice President Bonus Program (incorporated by reference to Exhibit 10(bv) to the Company's Form 10-K for the year ended December 31, 2008).
Exhibit 10(bw)-	National Western Life Insurance Company 2009 Executive Officer Bonus Program (Exhibit 10(bw) to Form 8-K dated February 19, 2009).
Exhibit 10(bx) -	National Western Life Insurance Company 2009 Domestic Marketing Officer Bonus Program (Exhibit 10(bx) to Form 8-K dated February 19, 2009).
Exhibit 10(by) -	National Western Life Insurance Company 2009 International Marketing Officer Bonus Program (Exhibit 10(by) to Form 8-K dated February 19, 2009).
Exhibit 10(bz) -	National Western Life Insurance Company 2009 Senior Vice President Bonus Program (Exhibit 10(bz) to Form 8-K dated February 19, 2009).
Exhibit 10(ca) -	National Western Life Insurance Company Non-Qualified Defined Benefit Plan for Robert L. Moody As Amended and Restated Effective as of January 1, 2009 (incorporated by reference to Exhibit 10(ca) to the Company's Form 10-K for the year ended December 31, 2008).
Exhibit 10(cb) -	Non-Qualified Defined Benefit Plan for the President of National Western Life Insurance Company As Amended and Restated Effective as of January 1, 2009 (incorporated by reference to Exhibit 10(cb) to the Company's Form 10-K for the year ended December 31, 2008).

Exhibit 10(cc) -	National Western Life Insurance Company Grandfathered Non-Qualified Defined Benefit Plan As Amended and Restated Effective as of December 31, 2004 (incorporated by reference to Exhibit 10(cc) to the Company's Form 10-K for the year ended December 31, 2008).

Exhibit 10(cd) -	National Western Life Insurance Company Non-Qualified Defined Benefit Plan As Amended and Restated Effective as of January 1, 2009 (incorporated by reference to Exhibit 10(cd) to the Company's Form 10-K for the year ended December 31, 2008).
Exhibit 10(ce) -	National Western Life Insurance Company Grandfathered Non-Qualified Deferred Compensation Plan As Amended and Restated Effective as of December 31, 2004 (incorporated by reference to Exhibit 10(ce) to the Company's Form 10-K for the year ended December 31, 2008).
Exhibit 10(cf) -	National Western Life Insurance Company Non-Qualified Deferred Compensation Plan As Amended and Restated Effective as of January 1, 2009 (incorporated by reference to Exhibit 10(cf) to the Company's Form 10-K for the year ended December 31, 2008).
Exhibit 10(cg) -	First Amendment to The National Western Life Insurance Company Pension Plan As Amended and Restated Effective as of January 1, 2007 (incorporated by reference to Exhibit 10(cg) to the Company's Form 10-K for the year ended December 31, 2008).
Exhibit 10(ch) -	Amended National Western Life Insurance Company Group Excess Benefit Plan, effective May 1, 2009 (incorporated by reference to Exhibit 10(ch) to the Company's Form 10-Q for the quarter ended March 31, 2009).
Exhibit 10(ci) -	Revolving Credit Loan Agreement with Moody National Bank (Exhibit 10(ci) to Form 8-K dated August 31, 2009).
Exhibit 10(cj) -	National Western Life Insurance Company 2010 Executive Officer Bonus Program (Exhibit 10(cj) to Form 8-K dated December 16, 2009).
Exhibit 10(ck) -	National Western Life Insurance Company 2010 Domestic Marketing Officer Bonus Program (Exhibit 10(ck) to Form 8-K dated December 16, 2009).
Exhibit 10(cl) -	National Western Life Insurance Company 2010 International Marketing Officer Bonus Program (Exhibit 10(cl) to Form 8-K dated December 16, 2009).
Exhibit 10(cm)-	National Western Life Insurance Company 2010 Officer President Bonus Program (Exhibit 10(cm) to Form 8-K dated December 16, 2009).
Exhibit 10(cn) -	Master Service Agreement between National Western Life Insurance Company and Flexible Architecture and Simplified Technology, Inc. dated March 30, 2010 (Exhibit 10(cn) to Form 8-K dated March 30, 2010).
Exhibit 10(co) -	Amended National Western Life Insurance Company Pension Plan, effective January 1, 2008. (incorporated by reference to Exhibit 10(co) to the Company's Form 10-Q for the quarter ended March 31, 2010).
Exhibit 10(cp) -	Management/Consultant Agreement dated March 29, 2000 by and between Regent Care Operations, Limited Partnership and Regent Management Services, Limited Partnership. (incorporated by reference to Exhibit 10(cp) to the Company's Form 10-K /A for the year ended December 31, 2010).

Exhibit 10(cq) -	Management Agreement dated October 1, 2008 by and between Regent Care San Marcos B-3, Limited Partnership and Regent Management Services, Limited Partnership. (incorporated by reference to Exhibit 10(cq) to the Company's Form 10-K /A for the year ended December 31, 2010).

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Exhibit 10(cr) -	Administrative Services Only Agreement dated January 1, 2001 by and between National Western Life Insurance Company and American National Insurance Company (ANICO) pertaining to ANICO Excess Benefit Plan. (incorporated by reference to Exhibit 10(cr) to the Company's Form 10-K /A for the year ended December 31, 2010).
Exhibit 10(cs) -	Premium Payment Agreement dated January 1, 2001 by and between National Western Life Insurance Company and American National Insurance Company (ANICO) pertaining to ANICO Excess Benefit Plan. (incorporated by reference to Exhibit 10(cs) to the Company's Form 10-K /A for the year ended December 31, 2010).
Exhibit 10(ct) -	Administrative Services Only Agreement dated January 1, 2001 by and between National Western Life Insurance Company and American National Insurance Company (ANICO) pertaining to ANICO Excess Benefit Plan. (incorporated by reference to Exhibit 10(ct) to the Company's Form 10-K /A for the year ended December 31, 2010).
Exhibit 10(cu) -	Premium Payment Agreement dated January 1, 2001 by and between National Western Life Insurance Company and American National Insurance Company (ANICO) pertaining to ANICO Excess Benefit Plan. (incorporated by reference to Exhibit 10(cu) to the Company's Form 10-K /A for the year ended December 31, 2010).
Exhibit 10(cv) -	National Western Life Insurance Company 2011 Executive Officer Bonus Program (Exhibit 10(cv) to Form 8-K dated December 16, 2010).
Exhibit 10(cw) -	National Western Life Insurance Company 2011 Domestic Marketing Officer Bonus Program (Exhibit 10(cw) to Form 8-K dated December 16, 2010).
Exhibit 10(cx) -	National Western Life Insurance Company 2011 International Marketing Officer Bonus Program (Exhibit 10(cx) to Form 8-K dated December 16, 2010).
Exhibit 10(cy) -	National Western Life Insurance Company 2011 Officer President Bonus Program (Exhibit 10(cy) to Form 8-K dated December 16, 2010).
Exhibit 10(cz) -	National Western Life Insurance Company 2012 Executive Officer Bonus Program (Exhibit 10(cz) to Form 8-K dated December 14, 2011).
Exhibit 10(da) -	National Western Life Insurance Company 2012 Domestic Marketing Officer Bonus Program (Exhibit 10(da) to Form 8-K dated December 14, 2011).
Exhibit 10(db) -	National Western Life Insurance Company 2012 International Marketing Officer Bonus Program (Exhibit 10(db) to Form 8-K dated December 14, 2011).
Exhibit 10(dc) -	National Western Life Insurance Company 2012 Officer President Bonus Program (Exhibit 10(dc) to Form 8-K dated December 14, 2011).
Exhibit 10(dd) -	National Western Life Insurance Company 2013 Executive Officer Bonus Program (Exhibit 10(dd) to Form 8-K dated December 12, 2012).
Exhibit 10(de) -	

	National Western Life Insurance Company 2013 Domestic Marketing Officer Bonus Program (Exhibit 10(de) to Form 8-K dated December 12, 2012).
Exhibit 10(df) -	National Western Life Insurance Company 2013 International Marketing Officer Bonus Program (Exhibit 10(df) to Form 8-K dated December 12, 2012).

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Exhibit 10(dg) -	National Western Life Insurance Company 2013 Officer President Bonus Program (Exhibit 10(dg) to Form 8-K dated December 12, 2012).
Exhibit 10(dh) -	National Western Life Insurance Company 2014 Executive Officer Bonus Program (Exhibit 10(dh) to Form 8-K dated December 11, 2013).
Exhibit 10(di) -	National Western Life Insurance Company 2014 Domestic Marketing Officer Bonus Program (Exhibit 10(di) to Form 8-K dated December 11, 2013).
Exhibit 10(dj) -	National Western Life Insurance Company 2014 International Marketing Officer Bonus Program (Exhibit 10(dj) to Form 8-K dated December 11, 2013).
Exhibit 10(dk) -	National Western Life Insurance Company 2014 Officer Bonus Program (Exhibit 10(dk) to Form 8-K dated December 11, 2013).
Exhibit 10(dl) -	National Western Life Insurance Company 2015 Executive Officer Bonus Program (Exhibit 10(dl) to Form 8-K dated December 10, 2014).
Exhibit 10(dm)-	National Western Life Insurance Company 2015 Domestic Marketing Officer Bonus Program (Exhibit 10(dm) to Form 8-K dated December 10, 2014).
Exhibit 10(dn) -	National Western Life Insurance Company 2015 International Marketing Officer Bonus Program (Exhibit 10(dn) to Form 8-K dated December 10, 2014).
Exhibit 10(do) -	National Western Life Insurance Company 2015 Officer Bonus Program (Exhibit 10(do) to Form 8-K dated December 10, 2014).
Exhibit 21 -	Subsidiaries of the Registrant.
Exhibit 23(a) -	Consent of Independent Registered Public Accounting Firm.
Exhibit 23(b) -	Consent of Independent Registered Public Accounting Firm.
Exhibit 31(a) -	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31(b) -	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32(a) -	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Exhibits

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

(c) Financial Statement Schedules

The financial statement schedules required by Regulation S-K are listed as to location in Attachment A, Index to Financial Statements and Schedules, on page 80 of this report.

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ATTACHMENT A

Index to Consolidated Financial Statements and Schedules

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Report of Independent Registered Public Accounting Firm	81
Consolidated Balance Sheets, December 31, 2014 and 2013	83
Consolidated Statements of Earnings for the years ended December 31, 2014, 2013 and 2012	85
Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2014, 2013 and 2012	86
Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2014, 2013 and 2012	87
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Notes to Consolidated Financial Statements	91
Schedule I - Summary of Investments Other Than Investments in Related Parties, December 31, 2014	149
Schedule V - Valuation and Qualifying Accounts for the years ended December 31, 2014, 2013 and 2012	150

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

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Audit Committee, Board of Directors and Stockholders
National Western Life Insurance Company:

We have audited the accompanying consolidated balance sheet of National Western Life Insurance Company and subsidiaries (the Company) as of December 31, 2014, and the related consolidated statements of earnings, comprehensive income (loss), changes in stockholders' equity and cash flow for the year ended December 31, 2014. In connection with our audit of the consolidated financial statements, we have also audited financial statement schedules I, summary of investments other than investments in related parties, and V, valuation and qualifying accounts. These consolidated financial statements and financial statement schedules I and V are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules I and V based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Western Life Insurance Company and subsidiaries as of December 31, 2014 and the results of their operations and their cash flows for the year ended December 31, 2014 in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statements schedule I, summary of investments other than investments in related parties, and V, valuation and qualifying accounts, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), National Western Life Insurance Company's internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 13, 2015 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/S/BKD
Little Rock, Arkansas
March 13, 2015

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheet of National Western Life Insurance Company and subsidiaries (the Company) as of December 31, 2013, and the related consolidated statements of earnings, comprehensive income, stockholders' equity and cash flows for each of the years in the two-year period ended December 31, 2013. In connection with our audits of the consolidated financial statements, we have also audited financial statement schedules I and V. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Western Life Insurance Company and subsidiaries as of December 31, 2013, and the results of their operations and their cash flows for the two-year period ended December 31, 2013 in conformity with U.S. generally accepted accounting principles.

/S/KPMG LLP

Houston, Texas
March 17, 2014

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2014 and 2013
(In thousands)

ASSETS	2014	2013
Investments:		
Securities held to maturity, at amortized cost (fair value: $7,175,443 and $6,656,144)	$6,841,543	6,510,320
Securities available for sale, at fair value (amortized cost: $2,590,074 and $2,535,264)	2,728,680	2,651,544
Mortgage loans, net of allowance for possible losses ($650 and $650)	149,503	132,765
Policy loans	63,645	65,969
Derivatives, index options	114,287	169,314
Other long-term investments	28,774	30,991
Total Investments	9,926,432	9,560,903
Cash and cash equivalents	277,078	120,859
Deferred policy acquisition costs	802,919	785,706
Deferred sales inducements	159,766	169,570
Accrued investment income	96,127	95,367
Other assets	89,570	98,011
Total assets	$11,351,892	10,830,416

See accompanying notes to consolidated financial statements.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2014 and 2013
(In thousands except share amounts)

LIABILITIES AND STOCKHOLDERS' EQUITY	2014	2013
LIABILITIES:		
Future policy benefits:		
Universal life and annuity contracts	$9,384,297	8,987,062
Traditional life reserves	138,225	138,072
Other policyholder liabilities	139,222	142,587
Deferred Federal income tax liability	31,675	7,199
Federal income tax payable	3,336	10,067
Other liabilities	98,817	97,481
Total liabilities	9,795,572	9,382,468
COMMITMENTS AND CONTINGENCIES (Notes 4, 7, and 9)		
STOCKHOLDERS' EQUITY:		
Common stock:		
Class A - $1 par value; 7,500,000 shares authorized; 3,436,166 shares issued and outstanding in 2014 and 3,434,765 in 2013	3,436	3,435
Class B - $1 par value; 200,000 shares authorized, issued, and outstanding in 2014 and 2013	200	200
Additional paid-in capital	38,116	37,767
Accumulated other comprehensive income	41,786	38,080
Retained earnings	1,472,782	1,368,466
Total stockholders' equity	1,556,320	1,447,948
Total liabilities and stockholders' equity	$11,351,892	10,830,416

See accompanying notes to consolidated financial statements.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
For the Years Ended December 31, 2014, 2013 and 2012
(In thousands except per share amounts)

	2014	2013	2012
Premiums and other revenue:			
Universal life and annuity contract charges	$150,596	148,388	149,328
Traditional life premiums	19,519	19,078	18,616
Net investment income	505,430	660,432	460,048
Other revenues	21,630	23,716	23,470
Net realized investment gains (losses):			
Total other-than-temporary impairment (“OTTI”) (losses) recoveries	(18)	846	1,023
Portion of OTTI losses recognized in other comprehensive income	(132)	(1,151)	(2,364)
Net OTTI losses recognized in earnings	(150)	(305)	(1,341)
Other net investment gains	11,755	8,958	14,541
Total net realized investment gains (losses)	11,605	8,653	13,200
Total revenues	708,780	860,267	664,662
Benefits and expenses:			
Life and other policy benefits	54,295	60,050	51,842
Amortization of deferred policy acquisition costs	115,154	108,233	121,922
Universal life and annuity contract interest	298,259	454,594	262,339
Other operating expenses	83,551	95,693	87,978
Total benefits and expenses	551,259	718,570	524,081
Earnings before Federal income taxes	157,521	141,697	140,581
Federal income taxes	51,933	45,450	48,023
Net earnings	$105,588	96,247	92,558
Basic Earnings Per Share:			
Class A	$29.87	27.23	26.19
Class B	$14.93	13.61	13.09
Diluted Earnings Per Share:			
Class A	$29.85	27.19	26.19
Class B	$14.93	13.61	13.09

See accompanying notes to consolidated financial statements.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the Years Ended December 31, 2014, 2013 and 2012
(In thousands)

	2014	2013	2012
Net earnings	$105,588	96,247	92,558
Other comprehensive income (loss), net of effects of deferred costs and taxes:			
Unrealized gains (losses) on securities:			
Net unrealized holding gains (losses) arising during period	12,536	(42,218)	27,211
Net unrealized liquidity gains (losses)	26	333	1,307
Reclassification adjustment for net amounts included in net earnings	(5,000)	(3,061)	(4,504)
Amortization of net unrealized (gains) losses related to transferred securities	—	—	148
Net unrealized gains (losses) on securities	7,562	(44,946)	24,162
Foreign currency translation adjustments	(556)	652	221
Benefit plans:			
Amortization of net prior service cost and net gain	(3,300)	5,588	(773)
Other comprehensive income (loss)	3,706	(38,706)	23,610
Comprehensive income (loss)	$109,294	$57,541	116,168

See accompanying notes to consolidated financial statements.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2014, 2013 and 2012
(In thousands)

	2014	2013	2012
Common stock:			
Balance at beginning of period	$3,635	3,635	3,635
Shares exercised under stock option plan	1	—	—
Balance at end of period	3,636	3,635	3,635
Additional paid-in capital:			
Balance at beginning of period	37,767	37,767	37,767
Shares exercised under stock option plan	349	—	—
Balance at end of period	38,116	37,767	37,767
Accumulated other comprehensive income (loss):			
Unrealized gains (losses) on non-impaired securities:			
Balance at beginning of period	46,693	91,972	69,117
Change in unrealized gains (losses) during period	7,536	(45,279)	22,855
Balance at end of period	54,229	46,693	91,972
Unrealized losses on impaired held to maturity securities:			
Balance at beginning of period	(1,287)	(1,426)	(2,321)
Amortization	84	210	393
Other-than-temporary impairments, non-credit, net of tax	—	95	289
Additional credit loss on previously impaired securities	—	54	411
Change in shadow deferred policy acquisition costs	(59)	(220)	(198)
Balance at end of period	(1,262)	(1,287)	(1,426)
Unrealized losses on impaired available for sale securities:			
Balance at beginning of period	(2)	(196)	(608)
Change in shadow deferred policy acquisition costs	(1)	(196)	(424)
Recoveries, net of tax	2	390	836
Balance at end of period	(1)	(2)	(196)

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2014, 2013 and 2012
(In thousands)

	2014	2013	2012
Foreign currency translation adjustments:			
Balance at beginning of period	3,241	2,589	2,368
Change in translation adjustments during period	(556)	652	221
Balance at end of period	2,685	3,241	2,589
Benefit plan liability adjustment:			
Balance at beginning of period	(10,565)	(16,153)	(15,380)
Amortization of net prior service cost and net gain, net of tax	(3,300)	5,588	(773)
Balance at end of period	(13,865)	(10,565)	(16,153)
Accumulated other comprehensive income (loss) at end of period	41,786	38,080	76,786
Retained earnings:			
Balance at beginning of period	1,368,466	1,273,492	1,182,207
Net earnings	105,588	96,247	92,558
Stockholder dividends	(1,272)	(1,273)	(1,273)
Balance at end of period	1,472,782	1,368,466	1,273,492
Total stockholders' equity	$1,556,320	1,447,948	1,391,680

See accompanying notes to consolidated financial statements.

NATIONAL WESTERN LIFE INSURANCE COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2014, 2013 and 2012
(In thousands)

	2014	2013	2012
Cash flows from operating activities:			
Net earnings	$105,588	96,247	92,558
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Universal life and annuity contract interest	298,259	454,594	262,339
Surrender charges and other policy revenues	(12,913)	(14,622)	(14,720)
Realized (gains) losses on investments	(11,605)	(8,653)	(13,201)
Accretion/amortization of discounts and premiums, investments	(653)	(2,019)	(1,458)
Depreciation and amortization	3,421	4,674	5,688
(Increase) decrease in value of derivatives	(68,616)	(225,899)	(27,147)
(Increase) decrease in deferred policy acquisition and sales inducement costs	(18,336)	(26,165)	(10,623)
(Increase) decrease in accrued investment income	(760)	(2,312)	(4,790)
(Increase) decrease in other assets	(867)	(17,343)	(7,176)
Increase (decrease) in liabilities for future policy benefits	7,698	9,664	13,536
(Decrease) increase in other policyholder liabilities	(3,365)	(5,974)	(2,747)
(Decrease) increase in Federal income tax liability	(6,731)	15,722	(10,617)
Increase (decrease) in deferred Federal income tax	22,538	(23,654)	(4,437)
(Decrease) increase in other liabilities	(394)	(660)	13,076
Other, net	—	(1)	—
Net cash provided by operating activities	313,264	253,599	290,281
Cash flows from investing activities:			
Proceeds from sales of:			
Securities held to maturity	—	1,980	—
Securities available for sale	29,730	10,246	8,214
Other investments	3,399	11,024	8,791
Proceeds from maturities and redemptions of:			
Securities held to maturity	445,679	1,231,796	1,473,885
Securities available for sale	330,127	287,858	347,521
Derivatives, index options	203,349	172,112	54,745
Purchases of:			
Securities held to maturity	(773,743)	(1,775,153)	(1,787,388)
Securities available for sale	(410,127)	(256,855)	(490,689)
Derivatives, index options	(73,318)	(61,624)	(56,413)
Other investments	(376)	(15)	(5,380)

(Continued on Next Page)

NATIONAL WESTERN LIFE INSURANCE COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2014, 2013 and 2012
(In thousands)

	2014	2013	2012
Principal payments on mortgage loans	20,506	43,856	36,545
Cost of mortgage loans acquired	(37,104)	(34,129)	(21,454)
(Increase) decrease in policy loans	2,324	5,580	3,418
Other, net	—	—	3
Net cash used in investing activities	(259,554)	(363,324)	(428,202)
Cash flows from financing activities:			
Dividends on common stock	$(1,273)	(1,273)	(1,273)
Deposits to account balances for universal life and annuity contracts	985,003	982,305	985,370
Return of account balances on universal life and annuity contracts	(880,658)	(875,661)	(841,126)
Issuance of common stock under stock option plan	350	—	—
Net cash provided by (used in) financing activities	103,422	105,371	142,971
Effect of foreign exchange	(913)	652	221
Net increase (decrease) in cash and cash equivalents	156,219	(3,702)	5,271
Cash and cash equivalents at beginning of year	120,859	124,561	119,290
Cash and cash equivalents at end of year	$277,078	120,859	124,561
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	$40	50	40
Income taxes	$36,123	57,350	62,540
Noncash operating activities:			
Deferral of sales inducements	$(8,003)	803	4,498

See accompanying notes to consolidated financial statements.

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

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The table below shows the unrealized gains and losses on available-for-sale securities that were reclassified out of accumulated other comprehensive income for the years ended December 31, 2014, 2013 and 2012.

Affected Line Item In the Consolidated Statements of Earnings	Amount Reclassified from Accumulated Other Comprehensive Income		
	Twelve Months Ended December 31,		
	2014	2013	2012
	(In thousands)		
Other net investment gains (losses)	$7,843	4,923	7,308
Net OTTI losses recognized in earnings	(150)	(213)	(378)
Earnings before federal income taxes	7,693	4,710	6,930
Federal income taxes	2,693	1,649	2,426
Net Earnings	$5,000	3,061	4,504

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

Certain amounts in the prior year consolidated financial statements have been reclassified to conform to the current year presentation.

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

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

Transfers of securities between categories are recorded at fair value at the date of transfer.

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

Quarterly the Company reviews its investment portfolio for market value changes to identify changes caused by issuer credit deterioration, changes in market interest rates and changes in economic conditions. If this review indicates a decline in fair value that is other-than-temporary, the Company’s carrying amount in the investment is reduced to its estimated fair value. In accordance with GAAP guidance the estimated credit versus non-credit components are bifurcated. The credit component is taken through earnings. The non-credit component is reclassified as unrealized loss in other comprehensive income. The Company would not recognize impairment of securities due to changing of interest rates or market dislocations unless the Company had the intent to sell the securities prior to recovery or maturity.

The Company considers a number of factors in determining whether the impairment is other-than-temporary. These include, but are not limited to: 1) actions taken by rating agencies, 2) default by the issuer, 3) the significance of the decline in fair value, 4) the intent and ability to hold the investment until recovery, 5) the time period during which the decline has occurred, 6) an economic analysis of the issuer’s industry, and 7) the financial strength, liquidity, and recoverability of the issuer. Management performs a security-by-security review each quarter in evaluating the need for any other-than-temporary impairments. Although no set formula is used in this process, the investment performance, collateral position, and continued viability of the issuer are significant measures considered.

Realized gains and losses for securities available for sale and securities held to maturity are included in earnings and are derived using the specific identification method for determining the cost of securities sold or called. Decline in the fair value below cost that is deemed other-than-temporary is bifurcated in credit and non-credit declines. The noncredit related declines are reclassified as unrealized losses in accumulated other comprehensive income (loss). Credit losses are recorded in earnings and result in the establishment of a new cost basis for the security. The new discount or reduced premium amount is amortized over the remaining life of the impaired debt security prospectively based on the amount and timing of future estimated cash flows.

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

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

While the Company closely manages its investment portfolio, future changes in issuer facts and circumstances can result in impairments beyond those currently identified.

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

(E) Derivatives. Fixed-index products combine features associated with traditional fixed annuities and universal life contracts, with the option to have interest rates linked in part to an underlying equity index. The equity return component of such policy contracts is identified separately and accounted for in future policy benefits as embedded derivatives on the consolidated balance sheet. The remaining portions of these policy contracts are considered the host contracts and are recorded separately as fixed annuity or universal life contracts. The host contracts are accounted for under debt instrument type accounting. The host contracts are recorded as discounted debt instruments that are accreted, using the effective yield method, to their minimum account values at their projected maturities or termination dates.

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

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

Although there is credit risk in the event of nonperformance by counterparties to the index options, the Company does not expect any counterparties to fail to meet their obligations, given their high credit ratings. In addition, credit support agreements are in place with all counterparties for option holdings in excess of specific limits, which may further reduce the Company's credit exposure. At December 31, 2014 and 2013, the fair values of index options owned by the Company totaled $114.3 million and $169.3 million, respectively.

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

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

Company considers estimated future gross profits or future premiums, as applicable for the type of contract. The Company also considers expected mortality, interest earned and credited rates, persistency, and expenses.

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

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Deferred policy acquisition costs, beginning of year	$785,706	705,397	722,542
Policy acquisition costs deferred:			
Agents' commissions	134,262	127,161	121,900
Other	7,606	6,821	6,617
Total costs deferred	141,868	133,982	128,517
Amortization of deferred policy acquisition costs	(115,154)	(108,233)	(121,922)
Adjustments for unrealized (gains) losses on investment securities	(9,501)	54,560	(23,740)
Deferred policy acquisition costs, end of year	$802,919	785,706	705,397

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

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Deferred sales inducements, beginning of year	$169,570	152,844	155,753
Sales inducement costs deferred	18,355	26,159	31,758
Amortization of sales inducements	(26,357)	(25,357)	(27,261)
Adjustments for unrealized (gains) losses on investment securities	(1,802)	15,924	(7,406)
Deferred sales inducements, end of year	$159,766	169,570	152,844

Amortization of deferred policy acquisition costs increased to $115.2 million in the year ended December 31, 2014 compared to $108.2 million reported in 2013. Amortization expense in 2014 includes an unlocking adjustment to incorporate premium load increases implemented on several international life contracts which decreased DPAC amortization by $1.4 million. There were no unlocking adjustments in 2013 and 2012. DPAC true-up adjustments were also recorded in 2014, 2013 and 2012 relative to renewal trailer commissions, partial surrender rates, mortality rates, credited interest rates and earned rates for the current year’s experience resulting in a $7.2 million, $15.8 million and $12.8 million decrease in amortization expense in 2014, 2013 and 2012, respectively.

Similar to deferred policy acquisition costs, amortization of deferred sales inducements include true-up and unlocking adjustments. Deferred sales inducement true-up adjustments were recorded in 2014, 2013, and 2012 of $1.6 million, $0.8 million and $5.5 million , respectively, each of which increased contract interest expense. There were no unlocking adjustments during these periods.

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Under GAAP, the liability for future policy benefits on traditional products has been calculated using assumptions as to future mortality (based on the 1965-1970, 1975-1980 and 2001 Select and Ultimate mortality tables), interest ranging from 3.25% to 8%, and withdrawals based on Company experience. For universal life and annuity contracts, the liability for future policy benefits represents the account balance. Fixed-index products combine features associated with traditional fixed annuities and universal life contracts, with the option to have interest rates linked in part to an equity index. In accordance with GAAP guidance, the equity return component of such policy contracts must be identified separately and accounted for as embedded derivatives. The remaining portions of these policy contracts are considered the host contracts and are recorded separately as fixed annuity or universal life contracts. The host contracts are accounted for under GAAP guidance provisions that require debt instrument type accounting. The host contracts are recorded as discounted debt instruments that are accreted, using the effective yield method, to their minimum account values at their projected maturities or termination dates. The embedded derivatives are recorded at fair value.

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

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

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

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

1. The Company accounts for universal life and annuity contracts based on the provisions of GAAP guidance. The basic difference between GAAP guidance and statutory accounting practices with respect to certain long-duration contracts is that deposits for universal life and annuity contracts are not reflected as revenues, and surrenders and certain other benefit payments are not reflected as expenses. Only contracts with no insurance risk qualify for such treatment under statutory accounting practices. For all other contracts, statutory accounting practices do reflect such items as revenues and expenses.

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

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Annuity deposits	$833,273	813,868	864,719
Universal life insurance deposits	280,980	296,286	248,118
Traditional life and other premiums	22,651	22,164	21,476
Totals	$1,136,904	1,132,318	1,134,313

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

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

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

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

6. Investments in subsidiaries are recorded as affiliated common stock investments at their respective SSAP investment value under statutory accounting, whereas the financial statements of the subsidiaries have been consolidated with those of the Company under GAAP.

7. Compensation costs related to the Company's share based compensation plans are recognized in income based on intrinsic value at each reporting date under statutory accounting, whereas under GAAP these costs are determined using the fair value method.

8. The calculation of pension liabilities and net periodic benefit costs are recognized for both statutory and GAAP accounting. Prior to January 1, 2013, in accordance with SSAP No. 89, the accumulated benefit obligation in excess of the fair value of plan assets, including unfunded accrued pension costs, was recognized in the statutory financial statements as an additional minimum liability with an equal amount recognized as a non-admitted intangible asset. Effective January 1, 2013, with the adoption of SSAP No. 102, statutory accounting pension liabilities are based upon the projected benefit obligation consistent with GAAP.

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

10. The table below provides the Company's net gain from operations, net income, unassigned surplus (retained earnings) and capital and surplus (stockholders' equity), on the statutory basis used to report to regulatory authorities for the years ended December 31.

	2014	2013	2012
	(In thousands)		
Net gain from operations before Federal and foreign income taxes	$95,892	170,796	130,644
Net income	$77,220	106,159	84,473
Unassigned surplus	$1,141,579	1,082,519	961,054

Capital and surplus	$1,185,643	1,126,232	1,004,766

(J) Stock Compensation. The Company accounts for its share-based compensation for GAAP reporting using liability accounting, and measures compensation cost using the fair value method at each reporting date. For stock options, fair value is determined using an option pricing model that takes into account various information and assumptions including the Company's stock price, volatility, option price, vesting dates, exercise dates and projected option lapses. Under the intrinsic value based method, compensation cost is the excess, if any, of the quoted market price of the stock at grant date or other measurement date over the amount an employee must pay to acquire the stock.

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(K) Accounting Standards and Changes in Accounting

During February 2013, the Financial Accounting Standards Board ("FASB") issued new guidance related to the presentation of amounts reclassified out of accumulated other comprehensive income. The new guidance requires disclosure on the statement of income amounts reclassified. As the Company already reports reclassifications on its Consolidated Statements of Earnings and Consolidated Statements of Comprehensive Income (Loss), the new guidance did not have a significant impact on the Company's consolidated financial statements.

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

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

(2) DEPOSITS WITH REGULATORY AUTHORITIES

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

	December 31,	
	2014	2013
	(In thousands)	
Debt securities held to maturity	$15,279	15,407
Debt securities available for sale	814	819
Short-term investments	475	475
Totals	$16,568	16,701

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(3) INVESTMENTS

(A) Investment Income

The major components of net investment income are as follows:

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Gross investment income:			
Debt securities	$410,809	410,790	408,204
Mortgage loans	9,847	9,256	11,879
Policy loans	4,252	4,503	5,079
Derivative gains (losses)	68,616	225,899	27,147
Money market investments	401	252	936
Other investment income	12,591	10,759	7,965
Total investment income	506,516	661,459	461,210
Investment expenses	1,086	1,027	1,162
Net investment income	$505,430	660,432	460,048

The Company had real estate investments that were non-income producing for the preceding twelve months totaling $0.9 million, $1.3 million and $1.5 million at December 31, 2014, 2013 and 2012, respectively.

(B) Mortgage Loans and Real Estate

A financing receivable is a contractual right to receive money on demand or on fixed or determinable dates that is recognized as an asset in a company’s statement of financial position. The Company’s mortgage, participation and mezzanine loans on real estate are the only financing receivables included in the balance sheet.

In general, the Company originates loans on high quality, income-producing properties such as shopping centers, freestanding retail stores, office buildings, industrial and sales or service facilities, selected apartment buildings, motels, and health care facilities. The location of these properties is typically in major metropolitan areas that offer a potential for property value appreciation. Credit and default risk is minimized through strict underwriting guidelines and diversification of underlying property types and geographic locations. In addition to being secured by the property, mortgage loans with leases on the underlying property are often guaranteed by the lease payments and also by the borrower. This approach has proven to result in quality mortgage loans with few defaults. Mortgage loan interest income is recognized on an accrual basis with any premium or discount amortized over the life of the loan. Prepayment and late fees are recorded on the date of collection.

The Company requires a minimum specified yield on mortgage loan investments. The historically low interest rate environment of the past couple of years has resulted in fewer loan opportunities being available meeting the Company's required rate of return. Consequently, new mortgage loan origination activity has been less significant in

this time frame with $37.1 million and $34.1 million in total loans for the years 2014 and 2013, respectively.

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

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

The Company held net investments in mortgage loans totaling $149.5 million and $132.8 million at December 31, 2014 and 2013, respectively. The diversification of the portfolio by geographic region, property type, and loan-to-value ratio was as follows:

	December 31, 2014		December 31, 2013	
	Amount (In thousands)	%	Amount (In thousands)	%
Mortgage Loans by Geographic Region:				
West South Central	$97,918	65.2	$79,702	59.7
East South Central	14,137	9.4	10,098	7.6
New England	12,155	8.1	17,400	13.0
East North Central	10,714	7.1	10,607	8.0
Pacific	10,282	6.9	10,364	7.8
Mountain	3,050	2.0	3,239	2.4
Middle Atlantic	1,897	1.3	2,005	1.5
Gross balance	150,153	100.0	133,415	100.0
Allowance for possible losses	(650)	(0.4)	(650)	(0.5)
Totals	$149,503	99.6	$132,765	99.5

	December 31, 2014		December 31, 2013	
	Amount (In thousands)	%	Amount (In thousands)	%
Mortgage Loans by Property Type:				
Retail	$130,544	86.9	$103,487	77.6
Apartments	7,333	4.9	15,275	11.4
Land/Lots	3,333	2.2	3,155	2.4
Hotel/Motel	1,600	1.1	3,742	2.8
Office	893	0.6	1,313	1.0
All other	6,450	4.3	6,443	4.8
Gross balance	150,153	100.0	133,415	100.0
Allowance for possible losses	(650)	(0.4)	(650)	(0.5)
Totals	$149,503	99.6	$132,765	99.5

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	December 31, 2014		December 31, 2013	
	Amount (In thousands)	%	Amount (In thousands)	%
Mortgage Loans by Loan-to-Value Ratio (1):				
Less than 50%	$52,564	35.0	$57,445	43.0
50% to 60%	50,553	33.7	23,339	17.5
60% to 70%	14,567	9.7	20,120	15.1
70% to 80%	12,656	8.4	9,723	7.3
80% to 90%	5,399	3.6	—	—
Greater than 90%	14,414	9.6	22,788	17.1
Gross balance	150,153	100.0	133,415	100.0
Allowance for possible losses	(650)	(0.4)	(650)	(0.5)
Totals	$149,503	99.6	$132,765	99.5

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

The greater than 90% category is related to loans made with a long standing borrower which are backed by the investment property, contracted leases and the guarantee of the borrower.

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

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

The Company recognized valuation losses of $0.0 million, $0.0 million and $0.7 million for the years ended December 31, 2014, 2013 and 2012, respectively. The mortgage loan valuation write-down in 2012 represents a general valuation allowance established for the Company's mortgage loan portfolio based upon the Company's loss experience over the past ten years and is not specifically identified to individual loans. The impairments in 2012 were based on information which indicated that the Company may not collect all amounts in accordance with the mortgage agreement. While the Company closely monitors its mortgage loan portfolio, future changes in economic conditions can result in impairments beyond those currently identified.

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The following table represents the mortgage loan allowance for the years ended December 31, 2014 and 2013:

	2014	2013
	(In thousands)	
Balance, beginning of period	$650	650
Provision	—	—
Releases	—	—
Balance, end of period	$650	650

The Company does not recognize interest income on loans past due 90 days or more. The Company had no mortgage loan past due six months or more at December 31, 2014, 2013 and 2012. There was no interest income not recognized in 2014, 2013 and 2012.

The contractual maturities of mortgage loan principal balances at December 31, 2014 and 2013 were as follows:

	December 31, 2014		December 31, 2013	
	Amount	%	Amount	%
	(In thousands)		(In thousands)	
Principal Balance by Contractual Maturity:				
Due in one year or less	$16,390	10.9	$10,491	7.8
Due after one year through five years	83,965	55.7	51,304	38.3
Due after five years through ten years	30,591	20.3	51,839	38.7
Due after ten years through fifteen years	—	—	—	—
Due after fifteen years	19,813	13.1	20,300	15.2
Totals	$150,759	100.0	$133,934	100.0

The Company's real estate investments totaled approximately $16.7 million at December 31, 2014 and $18.2 million at December 31, 2013, and consist primarily of income-producing properties which are being operated by a wholly-owned subsidiary of the Company. The Company’s real estate holdings are reflected in other long-term investments in the accompanying consolidated financial statements. The Company records real estate at the lower of cost or fair value less estimated cost to sell, which is determined on an individual asset basis. The Company recognized operating income on these properties of approximately $1.7 million, $1.7 million and $1.6 million for the years ended December 31, 2014, 2013 and 2012, respectively. The Company monitors the conditions and market values of these properties on a regular basis and makes repairs and capital improvements to keep the properties in good condition. The Company recorded net realized investment gains on disposals of $1.0 million, $0.3 million and $2.6 million associated with these properties in the years ended December 31, 2014, 2013 and 2012, respectively. The realized gains in 2014 were due to several properties being sold: one was an impaired and foreclosed property located in Steubenville, Ohio, another property was located in Houston, Texas and two were located in Freeport, Texas. The realized gain in 2012 was due to an impaired and foreclosed property located in New Orleans, LA that was subsequently sold at an amount above its impaired value.

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(C) Debt and Equity Securities

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

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

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

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

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The table below presents amortized costs and fair values of securities held to maturity at December 31, 2013.

	Securities Held to Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Debt securities:				
U.S. agencies	$23,088	1,700	—	24,788
U.S. Treasury	1,913	434	—	2,347
States and political subdivisions	423,286	13,433	(10,944)	425,775
Foreign governments	9,997	159	—	10,156
Public utilities	864,324	53,222	(9,687)	907,859
Corporate	3,463,521	153,442	(81,760)	3,535,203
Mortgage-backed	1,696,887	54,035	(33,376)	1,717,546
Home equity	20,179	4,738	(32)	24,885
Manufactured housing	7,125	460	—	7,585
Totals	$6,510,320	281,623	(135,799)	6,656,144

The table below presents amortized costs and fair values of securities available for sale at December 31, 2013.

	Securities Available for Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Debt securities:				
States and political subdivisions	$594	—	(110)	484
Foreign governments	9,931	—	(156)	9,775
Public utilities	233,788	15,014	(1,397)	247,405
Corporate	2,195,124	124,519	(30,732)	2,288,911
Mortgage-backed	68,799	5,040	—	73,839
Home equity	12,079	245	(7)	12,317
Manufactured housing	3,803	132	—	3,935
	2,524,118	144,950	(32,402)	2,636,666
Equity public	11,146	4,489	(757)	14,878
Totals	$2,535,264	149,439	(33,159)	2,651,544

The Company's investment policy is to invest in high quality securities with the primary intention of holding these securities until the stated maturity. As such, the portfolio has exposure to interest rate risk which is the risk that funds

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

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In addition, the Company is exposed to credit risk which is continually monitored. Credit risk is the risk that an issuer of a security will not be able to fulfill their obligations relative to a security payment schedule. The Company reviewed pertinent information for all issuers in an unrealized loss position at December 31, 2014 including market pricing history, credit ratings, analyst reports, as well as data provided by the issuers themselves. The Company then made a determination on each specific issuer relating to other-than-temporary impairment. For the securities that have not been impaired at December 31, 2014, the Company intends to hold these securities until recovery in fair value and expects to receive all amounts due relative to principal and interest.

The Company held below investment grade debt securities totaling $147.1 million and $178.6 million at December 31, 2014 and 2013, respectively. These amounts represent 1.5% and 1.9% of total invested assets for December 31, 2014 and 2013, respectively. Below investment grade holdings are the result of downgrades subsequent to purchase, as the Company only invests in high quality securities with ratings quoted as investment grade. Below investment grade securities generally have greater default risk than higher rated corporate debt. The issuers of these securities are usually more sensitive to adverse industry or economic conditions than are investment grade issuers.

For the year ended December 31, 2014, the Company recorded net realized gains totaling $11.8 million related to the disposition of investment securities. The net realized gains included $0.2 million of losses for other-than-temporary impairment write-downs on investments in debt and equity securities. For the years ended December 2013 and 2012, the Company recorded realized gains totaling $9.0 million and $14.5 million, respectively, related to disposition of securities.

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

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

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

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

Unrealized losses decreased in 2014 due to the decline in interest rates (which serves to increase market values). The Company does not consider these investments to be other-than-temporarily impaired because the Company does not intend to sell these securities until recovery in fair value and expects to receive all amounts due relative to principal and interest.

The Company does not consider securities to be other-than-temporarily impaired where the market decline is attributable to factors such as market volatility, liquidity, spread widening and credit quality where we anticipate a recovery of all amounts due under the contractual terms of the security and have the intent and ability to hold until recovery or maturity. Based on the Company’s review in concert with the Company’s ability and intent to hold these securities until maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2014. The Company will monitor the investment portfolio for future changes in issuer facts and circumstances that could result in future impairments beyond those currently identified.

Debt securities. The gross unrealized losses for debt securities are made up of 190 individual issues, or 14.5% of the total debt securities held by the Company. The market value of these bonds as a percent of amortized cost averages 97.8%. Of the 190 securities, 148, or approximately 77.5%, fall in the 12 months or greater aging category; and 186 were rated investment grade at December 31, 2014.

Equity securities. The gross unrealized losses for equity securities are made up of 16 individual issues. These holdings are reviewed quarterly for impairment. Four of the equity securities were other-than-temporarily impaired at December 31, 2014, in accordance with Company policy.

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The following table shows the gross unrealized losses and fair values of the Company's held to maturity investments by investment category and length of time the individual securities have been in a continuous unrealized loss position at December 31, 2013.

	Held to Maturity					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Debt securities:						
State and political subdivisions	$128,711	(9,249)	8,080	(1,695)	136,791	(10,944)
Public utilities	260,982	(8,998)	7,821	(689)	268,803	(9,687)
Corporate	1,335,088	(71,330)	117,179	(10,430)	1,452,267	(81,760)
Mortgage-backed	581,373	(32,043)	13,861	(1,333)	595,234	(33,376)
Home equity	—	—	2,617	(32)	2,617	(32)
Total temporarily impaired securities	$2,306,154	(121,620)	149,558	(14,179)	2,455,712	(135,799)

The following table shows the gross unrealized losses and fair values of the Company's available for sale investments by investment category, and length of time the individual securities have been in a continuous unrealized loss position at December 31, 2013.

	Available For Sale					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Debt securities:						
State and political subdivisions	$—	—	484	(110)	484	(110)
Foreign governments	9,775	(156)	—	—	9,775	(156)
Public utilities	20,090	(1,343)	962	(54)	21,052	(1,397)
Corporate	532,310	(26,376)	46,187	(4,356)	578,497	(30,732)
Mortgage-backed	—	—	—	—	—	—
Home equity	4,833	(7)	—	—	4,833	(7)
	567,008	(27,882)	47,633	(4,520)	614,641	(32,402)
Equity public	3,707	(757)	—	—	3,707	(757)
	$570,715	(28,639)	47,633	(4,520)	618,348	(33,159)

Total temporarily impaired securities

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The amortized cost and fair value of investments in debt securities at December 31, 2014, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Debt Securities Available for Sale		Debt Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Due in 1 year or less	$265,789	271,938	213,353	218,435
Due after 1 year through 5 years	665,953	736,333	1,181,707	1,309,733
Due after 5 years through 10 years	1,540,081	1,592,133	3,448,906	3,562,392
Due after 10 years	56,778	58,183	356,995	379,739
	2,528,601	2,658,587	5,200,961	5,470,299
Mortgage and asset-backed securities	48,674	52,790	1,640,582	1,705,144
Total	$2,577,275	2,711,377	6,841,543	7,175,443

The Company uses the specific identification method in computing realized gains and losses. The table below details the nature of realized gains and losses, excluding impairments, during the year.

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Available for sale debt securities:			
Realized gains on disposal	$7,795	4,418	7,115
Realized losses on disposal	(22)	(6)	—
Held to maturity debt securities:			
Realized gains on redemption	3,453	3,845	6,065
Realized losses on redemption	(17)	(72)	(679)
Equity securities realized gains	69	511	193
Real estate	955	262	2,485
Mortgage loans	—	—	(638)
Other	(478)	—	—
Totals	$11,755	8,958	14,541

Due to significant credit deterioration, one bond from the held to maturity portfolio was sold in both 2013 and 2012. The sale in 2013 resulted in an insignificant realized gain. The sale in 2012 resulted in a loss of $0.3 million. No transfers were made out of the held to maturity portfolio to the available for sale portfolio in 2014, 2013 and 2012.

Except for U.S. government agency mortgage-backed securities, the Company had no other investments in any entity in excess of 10% of stockholders' equity at December 31, 2014 or 2013.

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

	December 31, 2014 (In thousands)	2013	2012
Total other-than-temporary impairment recoveries (losses) on debt securities	$125	909	1,121
Portion recognized in comprehensive income	(132)	(1,151)	(2,364)
Net impairment losses on debt securities recognized in earnings	(7)	(242)	(1,243)
Equity securities impairments	(143)	(63)	(98)
Totals	$(150)	(305)	(1,341)

For the years ended December 31, 2014 and December 31, 2013, the Company recovered $0.1 million and $0.9 million, respectively, on previously impaired asset-backed securities. The credit component of the impairment was determined to be the difference between amortized cost and the present value of the cash flows expected to be received, discounted at the original yield. The significant inputs used to project cash flows are estimated future prepayment rates, default rates and default loss severity.

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

	Year Ended December 31, 2014 (In thousands)	Year Ended December 31, 2013
Beginning balance, cumulative credit losses related to other-than-temporary impairments	$2,472	2,247
Reductions for securities sold during current period	—	(17)
Additions for OTTI where credit losses have been previously recognized	7	242
Ending balance, cumulative credit losses related to other-than-temporary impairments	$2,479	2,472

(D) Net Unrealized Gains (Losses)

Net unrealized gains (losses) on investment securities included in stockholders' equity at December 31, 2014 and 2013, are as follows:

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	December 31,	
	2014	2013
	(In thousands)	
Gross unrealized gains	$157,304	159,080
Gross unrealized losses	(12,926)	(37,263)
Adjustments for:		
Deferred policy acquisition costs and sales inducements	(62,856)	(51,929)
Deferred Federal income tax expense	(28,556)	(24,484)
	52,966	45,404
Net unrealized gains related to securities transferred to held to maturity	—	—
Net unrealized gains on investment securities	$52,966	45,404

(E) Transfer of Securities

There were no transfers between the held to maturity portfolio and the available for sale portfolio in 2014 or 2013.

(4) REINSURANCE

Effective January 1, 2011, the Company began reinsuring any risk on any one life in excess of $500,000. The Company's general policy prior to that date was to reinsure that portion of any risk in excess of $250,000 on the life of any one individual. Total life insurance in force was $23.1 billion and $22.4 billion at December 31, 2014 and 2013, respectively. Of these amounts, life insurance in force totaling $5.3 billion and $5.4 billion was ceded to reinsurance companies on a yearly renewable term basis, at December 31, 2014 and 2013, respectively. In accordance with the reinsurance contracts, reinsurance receivables including amounts related to claims incurred but not reported and liabilities for future policy benefits totaled $7.4 million and $8.2 million at December 31, 2014 and 2013, respectively. Premiums and contract revenues were reduced by $19.0 million, $18.7 million and $19.8 million for reinsurance premiums ceded during 2014, 2013 and 2012, respectively. Benefit expenses were reduced by $6.4 million, $7.0 million and $8.2 million, for reinsurance recoveries during 2014, 2013 and 2012, respectively. A contingent liability exists with respect to reinsurance, as the Company remains liable if the reinsurance companies are unable to meet their obligations under the existing agreements. The Company does not assume reinsurance.

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(5) FEDERAL INCOME TAXES

Total Federal income taxes were allocated as follows:

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Taxes (benefits) on earnings from continuing operations:			
Current	$29,395	71,709	51,886
Deferred	22,538	(26,259)	(3,863)
Taxes on earnings	51,933	45,450	48,023
Taxes (benefits) on components of stockholders' equity:			
Net unrealized gains and losses on securities available for sale	4,072	(24,201)	13,011
Foreign currency translation adjustments	(358)	(398)	(157)
Change in benefit liability	(1,777)	3,005	(410)
Total Federal income taxes (benefit)	$53,870	23,856	60,467

The provisions for Federal income taxes attributable to earnings from continuing operations vary from amounts computed by applying the statutory income tax rate of 35% to earnings before Federal income taxes. The reasons for the differences and the corresponding tax effects are as follows:

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Income tax expense at statutory rate of 35%	$55,133	49,594	49,204
Dividend received deduction	(1,076)	(1,140)	(1,292)
Tax exempt interest	(2,155)	(2,065)	(1,977)
Tax adjustment on foreign currency	(358)	(214)	245
Adjustments pertaining to prior tax years	1	(273)	1,244
Nondeductible insurance	160	160	160
Nondeductible expenses	277	121	112
Amortization of life interest in a trust	—	—	116
Other, net	(49)	(733)	211
Taxes on earnings from continuing operations	$51,933	45,450	48,023

There were no deferred taxes attributable to enacted tax rate changes for the years ended December 31, 2014, 2013 and 2012.

The Company expects its effective tax rate to be less than the statutory rate of 35% due to recurring permanent differences that reduce tax expense, principally tax exempt interest income and the dividend received deduction.

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The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2014 and 2013 are presented below.

	December 31, 2014	2013
	(In thousands)	
Deferred tax assets:		
Future policy benefits, excess of financial accounting liabilities over tax liabilities	$292,262	305,795
Investment securities write-downs for financial accounting purposes	6,246	7,523
Pension liabilities	11,333	9,055
Accrued operating expenses recorded for financial accounting purposes not currently tax deductible	5,588	6,778
Foreign currency translation adjustments	4,318	4,355
Accrued and unearned investment income recognized for tax purposes and deferred for financial accounting purposes	390	369
Other	6	6
Total gross deferred tax assets	320,143	333,881
Deferred tax liabilities:		
Deferred policy acquisition and sales inducement costs, principally expensed for tax purposes	(311,680)	(305,700)
Debt securities, principally due to deferred market discount for tax	(8,477)	(8,017)
Real estate, principally due to adjustments for financial accounting purposes	(1,023)	(949)
Net unrealized gains on securities available for sale	(25,185)	(21,150)
Fixed assets, due to different bases	(757)	(897)
Other	(4,696)	(4,367)
Total gross deferred tax liabilities	(351,818)	(341,080)
Net deferred tax liabilities	$(31,675)	(7,199)

There were no valuation allowances for deferred tax assets at December 31, 2014 and 2013. In assessing deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and available tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences.

In accordance with GAAP, the Company assessed whether it had any significant uncertain tax positions related to open examination or other IRS issues and determined that there were none. Accordingly, no reserve for uncertain tax positions was recorded. Should a provision for any interest or penalties relative to unrecognized tax benefits be

necessary, it is the Company's policy to accrue for such in its income tax accounts. There were no such accruals as of December 31, 2014 or 2013. The Company and its corporate subsidiaries file a consolidated U.S. Federal income tax return, which is subject to examination for all years after 2010.

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

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(6) INFORMATION REGARDING CONTROLLING STOCKHOLDER

Robert L. Moody, Chairman of the Board of Directors and Chief Executive Officer, owns 99.0% of the total outstanding shares of the Company's Class B common stock and 33.7% of the Class A common stock as of December 31, 2014.

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

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(7) PENSION AND OTHER POSTRETIREMENT PLANS

(A) Defined Benefit Pension Plans

The Company sponsors a qualified defined benefit pension plan covering substantially all employees. The plan provides benefits based on the participants' years of service and compensation. The Company makes annual contributions to the plan that complies with the minimum funding provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). On October 19, 2007, the Company’s Board of Directors approved an amendment to freeze the Pension Plan as of December 31, 2007. The freeze ceased future benefit accruals to all participants and closed the Plan to any new participants. In addition, all participants became immediately 100% vested in their accrued benefits as of that date. As participants are no longer earning credit for service, future qualified defined benefit plan expense is projected to be minimal. Fair values of plan assets and liabilities are measured as of December 31 for each year. A detail of plan disclosures is provided below.

Obligations and Funded Status

	December 31, 2014	2013
	(In thousands)	
Changes in projected benefit obligations:		
Projected benefit obligations at beginning of year	$21,187	23,535
Service cost	168	190
Interest cost	958	873
Actuarial gain (loss)	2,357	(2,088)
Benefits paid	(1,342)	(1,323)
Projected benefit obligations at end of year	23,328	21,187
Changes in plan assets:		
Fair value of plan assets at beginning of year	18,908	16,813
Actual return on plan assets	1,747	2,967
Contributions	333	451
Benefits paid	(1,342)	(1,323)
Fair value of plan assets at end of year	19,646	18,908
Funded status at end of year	$(3,682)	(2,279)

The service cost of $168,000 for 2014 represents plan expenses expected to be paid out of plan assets. Under the new and clarified rules of the Pension Protection Act, plan expenses paid from plan assets are to be included in the plan's service cost component.

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	December 31, 2014 (In thousands)	2013
Amounts recognized in the Company's consolidated financial statements:		
Assets	$—	—
Liabilities	(3,682)	(2,279)
Net amount recognized	$(3,682)	(2,279)
Amounts recognized in accumulated other comprehensive income:		
Net loss	$8,017	6,551
Prior service cost	3	7
Net amount recognized	$8,020	6,558

The accumulated benefit obligation was $23.3 million and $21.2 million at December 31, 2014 and 2013, respectively.

Components of Net Periodic Benefit Cost

	Years Ended December 31, 2014 (In thousands)	2013	2012
Components of net periodic benefit costs:			
Interest cost	$958	873	928
Service cost	168	190	174
Expected return on plan assets	(1,278)	(1,134)	(1,070)
Amortization of prior service cost	4	4	4
Amortization of net loss	422	812	786
Net periodic benefit cost	274	745	822
Other changes in plan assets and benefit obligations recognized in other comprehensive income:			
Net loss (gain)	1,888	(3,921)	
Amortization of prior service cost	(4)	(4)	
Amortization of net loss (gain)	(422)	(812)	
Total recognized in other comprehensive income	1,462	(4,737)	
Total recognized in net periodic benefit cost and other comprehensive income	$1,736	(3,992)	

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The estimated net loss that will be amortized from accumulated other comprehensive income into net periodic benefit cost over 2015, based on the average expected future service of plan participants, is $509,300. The estimated prior service cost that will be amortized from accumulated other comprehensive income into net periodic benefit cost over 2015 will be minimal.

Assumptions

	December 31, 2014	2013
Weighted-average assumptions used to determine benefit obligations:		
Discount rate	3.75 %	4.60 %
Rate of compensation increase	n/a	n/a

	December 31, 2014	2013	2012
Weighted-average assumptions used to determine net periodic benefit cost:			
Discount rate	4.25 %	3.75 %	4.25 %
Expected long-term return on plan assets	7.00 %	7.00 %	7.00 %
Rate of compensation increase	n/a	n/a	n/a

The assumed long-term rate of return on plan assets is generally set at the rate expected to be earned based on the long-term investment policy of the plan and the various classes of invested funds, based on the input of the plan's investment advisors and consulting actuary and the plan's historic rate of return. As of December 31, 2014, the plan's average 10-year and inception-to-date returns were 6.14% and 7.28%, respectively.

In setting the annual discount rate assumption, the Pension Committee reviews the current 10 year and 30 year corporate bond yields, the current spread to treasuries and their relative change during the past twelve months. It also considers the present value of the projected benefit payment stream based on the Citigroup Pension Discount Curve. Based on the facts and circumstances currently existing, the Pension Committee elected to use the Citigroup Pension Discount Curve.

In setting the annual portfolio rate of return assumption, the Pension Committee considers the Plan's actual long-term performance, the portfolio's current allocation and individual investment holdings, the Committee's and the investment manager's expectations for future long term investment strategy and expected performance, and the advice of consultants knowledgeable about overall market expectations and benchmark rates of return used by comparable companies.

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Plan Assets

As discussed in Note 14, Fair Values of Financial Instruments, the Company adopted GAAP guidance which defines fair value and establishes a framework for measuring fair value of financial assets. Using this guidance, the Company has categorized its pension plan assets into a three level hierarchy, based on the priority of inputs to the valuation process. The fair value hierarchy classifications are reviewed annually. Reclassification of certain financial assets and liabilities may result based on changes in the observability of valuation attributes. The following table sets forth the Company's pension plan assets within the fair value hierarchy as of December 31, 2014.

	December 31, 2014			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Cash	$678	678	—	—
Equity securities				
Domestic	12,390	12,390	—	—
International	274	274	—	—
Debt securities				
U.S. government agencies	—	—	—	—
Corporate bonds	6,304	—	6,304	—
Total	$19,646	13,342	6,304	—

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

Cash and cash equivalents. The carrying amounts reported in the balance sheet for these instruments approximate their fair values.

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

	December 31,		
	2014	2013	2012
Asset Category:			
Equity securities	64%	70%	60%
Debt securities	32%	29%	35%
Cash and cash equivalents	4%	1%	5%
Total	100%	100%	100%

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

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

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The Pension Plan is a highly diversified portfolio; the 96% of the pension assets not invested in cash or U.S. Government agencies are allocated among 225 different investments, with no single credit representing more than 2.1% of the fair value of the portfolio. The investment policy statement sets forth the following acceptable ranges for each asset's class.

	Acceptable Range
Asset Category:	
Equity securities	55-70%
Debt securities	30-40%
Cash and cash equivalents	0-15%

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

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

Contributions

The Company expects to contribute $0 to the plan during 2015 although additional amounts may be contributed. The plan’s funding status is reviewed periodically throughout the year by the Company’s Pension Plan Committee. The Company intends to contribute at least the minimum amounts necessary for tax compliance and to maintain an Adjusted Funding Target Attainment Percentage (AFTAP) of over 80% to meet the Pension Protection Act Plan’s threshold.

Estimated Future Benefit Payments

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

2015	$1,339
2016	1,347
2017	1,433
2018	1,402
2019	1,386
2019-2023	6,627

The Company also sponsors three nonqualified defined benefit pension plans. The first plan covers certain senior officers and provides benefits based on the participants' years of service and compensation. The primary pension obligations and administrative responsibilities of the plan are maintained by a pension administration firm, which is a subsidiary of American National Insurance Company ("ANICO"), a related party. ANICO has guaranteed the payment of pension obligations under the plan. However, the Company has a contingent liability with respect to the plan

should these entities be unable to meet their obligations under the existing agreements. Also, the Company has a contingent liability with respect to the plan in the event that a plan participant continues employment with the Company beyond age seventy, the aggregate average annual participant salary increases exceed 10% per year, or any additional employees become eligible to participate in the plan. If any of these conditions are met, the Company would be responsible for any additional pension obligations resulting from these items. Amendments were made to this plan to allow an additional employee to participate and to change the benefit formula for the Chairman of the Company. As previously mentioned, these additional obligations are a liability to the Company. Effective December 31, 2004, this plan was frozen with respect to the continued accrual of benefits of the Chairman and the President of the Company in order to comply with law changes under the American Jobs Creation Act of 2004 ("Act").

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

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

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

Obligations and Funded Status

	December 31, 2014	2013
	(In thousands)	
Changes in projected benefit obligations:		
Projected benefit obligations at beginning of year	$19,870	22,525
Service cost	294	177
Interest cost	1,003	801
Actuarial (gain) loss	4,960	(1,652)
Benefits paid	(1,982)	(1,981)
Projected benefit obligations at end of year	24,145	19,870
Change in plan assets:		
Fair value of plan assets at beginning of year	—	—
Contributions	1,982	1,981
Benefits paid	(1,982)	(1,981)
Fair value of plan assets at end of year	—	—
Funded status at end of year	$(24,145)	(19,870)

	December 31, 2014	2013
	(In thousands)	
Amounts recognized in the Company's consolidated financial statements:		
Assets	$—	—
Liabilities	(24,145)	(19,870)

Net amount recognized	$(24,145)	(19,870)
Amounts recognized in accumulated other comprehensive income:		
Net loss	$11,959	8,293
Prior service cost	759	818
Net amount recognized	$12,718	9,111

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The accumulated benefit obligation was $17.7 million and $17.6 million at December 31, 2014 and 2013, respectively.

Components of Net Periodic Benefit Cost

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Components of net periodic benefit cost:			
Service cost	$294	177	168
Interest cost	1,003	801	912
Amortization of prior service cost	59	59	59
Amortization of net loss	1,294	1,173	1,142
Net periodic benefit cost	2,650	2,210	2,281
Other changes in plan assets and benefit obligations recognized in other comprehensive income:			
Net (gain) loss	4,960	(1,652)	
Amortization of prior service cost	(59)	(59)	
Amortization of net (gain) loss	(1,294)	(1,173)	
Total recognized in other comprehensive income	3,607	(2,884)	
Total recognized in net periodic benefit cost and other comprehensive income	$6,257	(674)	

The estimated net loss to be amortized from accumulated other comprehensive income into net periodic benefit cost over 2015, based on the average expected future service of plan participants, is $1,487,000. The estimated prior service cost to be amortized from accumulated other comprehensive income into net periodic benefit cost over 2015 will be $59,000.

Assumptions

	December 31,	
	2014	2013
Weighted-average assumptions used to determine benefit obligations:		
Discount rate	3.75 %	4.60 %
Rate of compensation increase	4.00 %	4.00 %

	December 31,		
	2014	2013	2012

Weighted-average assumptions used to determine net periodic benefit costs:			
Discount rate	4.60 %	3.75 %	4.25 %
Expected long-term return on plan assets	n/a	n/a	n/a
Rate of compensation increase	4.00 %	4.00 %	4.00 %

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

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Plan Assets

The plan is unfunded and therefore had no assets at December 31, 2014 or 2013.

Contributions

The Company expects to contribute approximately $2.0 million to the plan in 2015.

Estimated Future Benefit Payments

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

2015	$1,982
2016	1,982
2017	1,982
2018	1,982
2019	1,982
2019-2023	9,908

(B) Defined Contribution Pension Plans

In addition to the defined benefit pension plans, the Company sponsors a qualified 401(k) plan for substantially all employees and a nonqualified deferred compensation plan primarily for senior officers. The Company made annual contributions to the 401(k) plan in 2014, 2013 and 2012, of up to three percent of each employee's compensation based on the employee's personal level of salary deferrals to the plan. All Company contributions are subject to a vesting schedule based on the employee's years of service. For the years ended December 31, 2014, 2013 and 2012, Company contributions totaled $491,000, $410,000 and $323,000, respectively.

The nonqualified deferred compensation plan was established to allow eligible employees to defer the payment of a percentage of their compensation and to provide for additional Company contributions. Company contributions are subject to a vesting schedule based on the employee's years of service. For the years ended December 31, 2014, 2013 and 2012, Company contributions totaled $99,000, $140,000, and $66,000, respectively.

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(C) Postretirement Employment Plans Other Than Pension

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

Obligations and Funded Status

	December 31, 2014 (In thousands)	2013
Changes in projected benefit obligations:		
Projected benefit obligations at beginning of year	$2,725	3,482
Interest cost	111	117
Actuarial loss (gain)	107	(827)
Benefits paid	(53)	(47)
Projected benefit obligations at end of year	2,890	2,725
Changes in plan assets:		
Fair value of plan assets at beginning of year	—	—
Contributions	53	47
Benefits paid	(53)	(47)
Fair value of plan assets at end of year	—	—
Funded status at end of year	$(2,890)	(2,725)

	December 31, 2014 (In thousands)	2013
Amounts recognized in the Company's consolidated financial statements:		
Assets	$—	—
Liabilities	(2,890)	(2,725)
Net amount recognized	$(2,890)	(2,725)
Amounts recognized in accumulated other comprehensive income:		
Net loss	$128	18
Prior service cost	464	567
Net amount recognized	$592	585

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Components of Net Periodic Benefit Cost

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Components of net periodic benefit cost:			
Interest cost	$111	117	129
Amortization of prior service cost	103	103	103
Amortization of net loss	(4)	33	41
Net periodic benefit cost	210	253	273
Other changes in plan assets and benefit obligations recognized in other comprehensive income:			
Net (gain) loss	107	(827)	
Amortization of prior service cost	(103)	(103)	
Amortization of net (gain) loss	4	(33)	
Total recognized in other comprehensive income	8	(963)	
Total recognized in net periodic benefit cost and other comprehensive income	$218	(710)	

The estimated net loss to be amortized from accumulated other comprehensive income into net periodic benefit cost over 2015, based on the average expected future service of plan participants, is $0. The estimated prior service cost to be amortized from accumulated other comprehensive income into net periodic benefit cost over 2015 will be $103,000.

Assumptions

	December 31,	
	2014	2013
Weighted-average assumptions used to determine benefit obligations:		
Discount rate	3.75 %	4.60 %
Expected long-term return on plan assets	n/a	n/a

For measurement purposes, a 8% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2015 and future years.

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

	December 31, 2014	December 31, 2013

	1% Point Increase (In thousands)	1% Point Decrease	1% Point Increase	1% Point Decrease
Effect on total of service and interest cost components	$22	(17)	25	(20)
Effect on postretirement benefit obligation	$595	(466)	575	(447)

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Plan Assets

The plans are unfunded and therefore had no assets at December 31, 2014 and 2013.

Contributions

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

2015	$70
2016	76
2017	82
2018	89
2019	96
2019-2023	607

(8) SHORT-TERM BORROWINGS

The Company has available a $40 million bank line of credit (with Moody National Bank, a related party) primarily for cash management purposes. The Company is required to maintain a collateral security deposit in trust with the sponsoring bank equal to 110% of any outstanding liability. The Company had no outstanding borrowings with the bank at December 31, 2014 or 2013. The Company had assets having an amortized value of $43.6 million on deposit with the lender at year end 2014.

(9) COMMITMENTS AND CONTINGENCIES

(A) Legal Proceedings

In the normal course of business, the Company is involved or may become involved in various legal actions in which claims for alleged economic and punitive damages have been or may be asserted, some for substantial amounts. In recent years, carriers offering life insurance and annuity products have faced litigation, including class action lawsuits, alleging improper product design, improper sales practices, and similar claims. As discussed below, the Company has been a defendant over the past several years in such a class action lawsuit. 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.

During 2014, the Company resolved a class action lawsuit pending since June 12, 2006, in the U.S. District Court for the Southern District of California. The case was 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.

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

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

Separately, the Company has recently become aware that 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. Because the Company has only recently become aware of this investigation, 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 plans to cooperate with the relevant governmental authorities in regard to this matter.

(B) Financial Instruments

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

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

The Company had $7.0 million of commitments to extend credit relating to loans at December 31, 2014. The Company evaluates each customer's creditworthiness on a case-by-case basis.

(C) Guaranty Association Assessments

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

The Company estimates its liabilities for guaranty association assessments by using the latest information available from the National Organization of Life and Health Insurance Guaranty Associations. The Company monitors and revises its estimates for assessments as additional information becomes available which could result in changes to the estimated liabilities. As of December 31, 2014 and 2013, liabilities for guaranty association assessments totaled $0.3 million and $1.0 million, respectively. Other operating expenses related to state guaranty association assessments were minimal for the years ended December 31, 2014, and 2013. Guaranty association assessment expense for the year ended December 31, 2012 was approximately $1.9 million as a result of an assessment from the State of California Life and Health Insurance Guarantee Association for the final costs associated with the Executive Life insolvency.

(D) Leases

The Company leases various computers and other office related equipment under operating leases. Rental expenses for these leases were $0.1 million, $0.4 million and $0.2 million for the years ended December 31, 2014, 2013 and 2012, respectively. The Company's future annual lease obligations as of December 31, 2014 are in the table below (in thousands).

2015	$214
2016 and thereafter	880
Total	$1,094

(E) Compensation Plan

Effective January 1, 2006, the Company implemented a nonqualified deferred compensation plan to provide incentive bonuses to eligible agents. Agents qualify for participation by meeting certain sales goals each year. Company contributions are subject to a vesting schedule based on the agents' years of qualification in the plan. The Company expects that it will terminate the plan in 2015, pay out approximately $1.8 million of vested balances as of December 31, 2014, and recover nonvested amounts of approximately $1.2 million.

(10) STOCKHOLDERS' EQUITY

(A) Changes in Common Stock Shares Outstanding

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

Years Ended December 31,

	2014	2013	2012
	(In thousands)		
Common stock shares outstanding:			
Shares outstanding at beginning of year	3,635	3,635	3,635
Shares exercised under stock option plan	1	—	—
Shares outstanding at end of year	3,636	3,635	3,635

(B) Dividend Restrictions

The Company is restricted by state insurance laws as to dividend amounts which may be paid to stockholders without prior approval from the Colorado Division of Insurance. The restrictions are based on the greater of statutory earnings from operations excluding capital gains or 10% of statutory surplus of the Company. The maximum dividend payment which may be made without prior approval in 2015 is $118.2 million.

On August 22, 2014, the Board of Directors of the Company declared a cash dividend to stockholders on record as of October 31, 2014 and payable December 4, 2014. The dividends approved were $0.36 per common share to Class A stockholders and $0.18 per common share to Class B stockholders. A dividend in the same amounts per share on Class A and Class B shares was declared in August and paid in December of 2013.

(C) Regulatory Capital Requirements

The Colorado Division of Insurance imposes minimum risk-based capital requirements on insurance companies that were developed by the National Association of Insurance Commissioners ("NAIC"). The formulas for determining the amount of risk-based capital ("RBC") specify various weighting factors that are applied to statutory financial balances or various levels of activity based on the perceived degree of risk. Regulatory compliance is determined by a ratio of the Company's regulatory total adjusted capital to its authorized control level RBC, as defined by the NAIC. Companies below specific trigger points or ratios are classified within certain levels, each of which requires specified corrective action. The Company's current authorized control level RBC of $72.4 million is significantly below its total adjusted capital of $1.3 billion.

(D) Share-Based Payments

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

All of the employees of the Company and its subsidiaries are eligible to participate in the two Plans. In addition, directors of the Company are eligible to receive the same types of awards as employees except that they are not eligible to receive incentive stock options. Company directors, including members of the Compensation and Stock Option Committee, are eligible for nondiscretionary stock options. The directors’ grants vest 20% annually following one full year of service to the Company from the date of grant. The employees’ grants vest 20% annually following three full years of service to the Company from the date of grant. All grants issued expire after ten years.

In 2006, the Company adopted and implemented a limited stock buy-back program with respect to the 1995 Plan which provides option holders the additional alternative of selling shares acquired through the exercise of options

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

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The Company uses the current fair value method to measure compensation cost. As of December 31, 2014, the liability balance was $9.3 million versus $5.9 million as of December 31, 2013. A summary of shares available for grant and stock option activity is detailed below.

	Shares Available For Grant	Options Outstanding Shares	Weighted-Average Exercise Price
Stock Options:			
Balance at January 1, 2014	291,000	36,668	$229.24
Exercised	—	(6,400)	$165.64
Forfeited	—	(500)	$255.13
Expired	—	—	$—
Stock options granted	—	—	$—
Balance at December 31, 2014	291,000	29,768	$242.48

	Stock Appreciation Rights Outstanding Awards	Weighted-Average Exercise Price
Balance at January 1, 2014	99,461	$156.93
Exercised	(3,425)	$119.87
Forfeited	(3,850)	$171.27
Granted	—	$—
Balance at December 31, 2014	92,186	$157.71

The total intrinsic value of options exercised was $1.1 million and $2.5 million for the years ended December 31, 2014 and 2013, respectively. The total share-based liabilities paid were $1.1 million and $2.5 million for the years ended December 31, 2014 and 2013, respectively. For the years ended December 31, 2014 and 2013, the total cash received by the Company from the exercise of options under the Plan was $0.2 million and $0.0 million. The total fair value of shares vested during the years ended December 31, 2014 and 2013 was $1.1 million and $0.7 million, respectively.

The following table summarizes information about stock options and SARs outstanding at December 31, 2014.

	Options and SARs Outstanding		
	Number Outstanding	Weighted-Average Remaining Contractual Life	Number Exercisable
Exercise prices:			
$255.13 (options)	21,768	3.3 years	17,415
$208.05 (options)	8,000	3.5 years	8,000
$236.00 (SARs)	250	3.6 years	200
$114.64 (SARs)	25,918	4.1 years	17,161
$132.56 (SARs)	30,518	7.0 years	8,904
$210.22 (SARs)	35,500	9.0 years	1,800
Totals	121,954		53,480
Aggregate intrinsic value (in thousands)	$11,079		$4,812

The aggregate intrinsic value in the table above is based on the closing stock price of $269.25 per share on December 31, 2014.

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

	December 31, 2014	December 31, 2013
Expected term of options	3.3 to 9.0 years	0 to 10 years
Expected volatility:		
Range	19.67% to 37.75%	21.03% to 42.71%
Weighted-average	22.91 %	30.50 %
Expected dividend yield	0.13 %	0.16 %
Risk-free rate:		
Range	0.13% to 1.62%	0.12% to 3.93%
Weighted-average	0.56 %	2.10 %

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

The pre-tax compensation expense/(benefit) recognized in the financial statements related to the two Plans was $4.4 million, $5.7 million and $1.1 million for the years ended December 31, 2014, 2013 and 2012, respectively. The related tax (benefit)/expense recognized was $(1.5) million, $(2.0) million and $(0.4) million for the years ended December 31, 2014, 2013 and 2012, respectively.

For the years ended December 31, 2014, 2013 and 2012, the total pre-tax compensation expense related to nonvested options not yet recognized was $2.3 million, $3.7 million and $1.7 million, respectively. This amount is expected to be recognized over a weighted-average period of 2.3 years. The Company recognizes compensation cost over the graded vesting periods.

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(11) EARNINGS PER SHARE

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

	Years Ended December 31,					
	2014		2013		2012	
	Class A	Class B	Class A	Class B	Class A	Class B
	(In thousands except per share amounts)					
Numerator for Basic and Diluted Earnings Per Share:						
Net income	$105,588		96,247		92,558	
Dividends – Class A shares	(1,237)		(1,237)		(1,237)	
Dividends – Class B shares	(36)		(36)		(36)	
Undistributed income	$104,315		94,974		91,285	
Allocation of net income:						
Dividends	$1,237	36	1,237	36	1,237	36
Allocation of undistributed income	101,365	2,950	92,287	2,687	88,703	2,582
Net income	$102,602	2,986	93,524	2,723	89,940	2,618
Denominator:						
Basic earnings per share - weighted-average shares	3,436	200	3,435	200	3,435	200
Effect of dilutive stock options	1	—	4	—	—	—
Diluted earnings per share - adjusted weighted-average shares for assumed conversions	3,437	200	3,439	200	3,435	200
Basic earnings per share	$29.87	14.93	27.23	13.61	26.19	13.09
Diluted earnings per share	$29.85	14.93	27.19	13.61	26.19	13.09

Stock options that were outstanding during the years ended December 31, 2014 and 2013, but were not included in the computation of diluted earnings per share because the effect was anti-dilutive were approximately 22,200 and 27,400 respectively.

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(12) COMPREHENSIVE INCOME

GAAP guidance requires that all items recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. This guidance requires that an enterprise (a) classify items of other comprehensive income by their nature in a financial statement and (b) display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position.

This guidance affects the Company's reporting presentation of certain items such as foreign currency translation adjustments, unrealized gains and losses on investment securities, and pension liabilities. These items are reflected as components of other comprehensive income (loss), as reported in the accompanying consolidated financial statements. Components of other comprehensive income (loss) for 2014, 2013 and 2012 and the related tax effect are detailed below.

	Amounts Before Taxes	Tax (Expense)Benefit	Amounts Net of Taxes
	(In thousands)		
2014:			
Unrealized gains on securities, net of effects of deferred costs of $(10,927)			
Net unrealized holding gains (losses) arising during the period	$19,287	(6,751)	12,536
Unrealized liquidity losses	40	(14)	26
Reclassification adjustment for net gains included in net earnings	(7,693)	2,693	(5,000)
Amortization of net unrealized gains (losses) and related to transferred securities	—	—	—
Net unrealized gains (losses) on securities	11,634	(4,072)	7,562
Foreign currency translation adjustments	(913)	357	(556)
Pension liability adjustment	(5,077)	1,777	(3,300)
Other comprehensive income	$5,644	(1,938)	3,706

	Amounts Before Taxes	Tax (Expense)Benefit	Amounts Net of Taxes
	(In thousands)		
2013:			
Unrealized gains on securities, net of effects of deferred costs of $70,870:			
Net unrealized holding gains (losses) arising during the period	$(64,951)	22,733	(42,218)
Unrealized liquidity losses	512	(179)	333
Reclassification adjustment for net gains included in net earnings	(4,709)	1,648	(3,061)
	—	—	—

Amortization of net unrealized gains (losses) related to transferred securities			
Net unrealized gains (losses) on securities	(69,148)	24,202	(44,946)
Foreign currency translation adjustments	246	406	652
Pension liability adjustment	8,592	(3,004)	5,588
Other comprehensive income	$(60,310)	21,604	(38,706)

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	Amounts Before Taxes (In thousands)	Tax (Expense)Benefit	Amounts Net of Taxes
2012:			
Unrealized gains on securities, net of effects of deferred costs of $30,677:			
Net unrealized holding gains (losses) arising during the period	$41,863	(14,652)	27,211
Unrealized liquidity losses	2,011	(704)	1,307
Reclassification adjustment for net gains included in net earnings	(6,929)	2,425	(4,504)
Amortization of net unrealized gains (losses) related to transferred securities	227	(79)	148
Net unrealized gains (losses) on securities	37,172	(13,010)	24,162
Foreign currency translation adjustments	64	157	221
Pension liability adjustment	(1,183)	410	(773)
Other comprehensive income	$36,053	(12,443)	23,610

(13) SEGMENT AND OTHER OPERATING INFORMATION

(A) Operating Segment Information

The Company defines its reportable operating segments as domestic life insurance, international life insurance, and annuities. The Company's segments are organized based on product types and geographic marketing areas. In addition, the Company regularly evaluates operating performance using non-GAAP financial measures which exclude or segregate realized investment gains and losses from operating revenues and earnings. The Company believes that the presentation of these non-GAAP financial measures enhances the understanding of the Company's results of operations by highlighting the results from ongoing operations and the underlying profitability factors of the Company's business. The Company excludes or segregates realized investment gains and losses because such items are often the result of events which may or may not be at the Company's discretion and the fluctuating effects of these items could distort trends in the underlying profitability of the Company's business.

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A summary of segment information, prepared in accordance with GAAP guidance, is provided below.

	Domestic Life Insurance	International Life Insurance	Annuities	All Others	Totals
	(In thousands)				
2014:					
Selected Balance Sheet Items:					
Deferred policy acquisition costs and sales inducements	$64,279	245,353	653,053	—	962,685
Total segment assets	746,051	1,250,629	8,933,274	257,568	11,187,522
Future policy benefits	648,865	953,076	7,920,582	—	9,522,523
Other policyholder liabilities	12,159	11,898	115,165	—	139,222
Condensed Income Statements:					
Premiums and contract charges	$28,801	118,838	22,476	—	170,115
Net investment income	34,695	51,539	398,163	21,033	505,430
Other revenues	55	372	68	21,135	21,630
Total revenues	63,551	170,749	420,707	42,168	697,175
Life and other policy benefits	11,856	24,034	18,405	—	54,295
Amortization of deferred policy acquisition costs	6,913	21,807	86,434	—	115,154
Universal life and annuity contract interest	27,050	46,255	224,954	—	298,259
Other operating expenses	13,547	23,449	27,015	19,540	83,551
Federal income taxes (benefit)	1,373	18,112	20,964	7,424	47,873
Total expenses	60,739	133,657	377,772	26,964	599,132
Segment earnings (loss)	$2,812	37,092	42,935	15,204	98,043

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	Domestic Life Insurance (In thousands)	International Life Insurance	Annuities	All Others	Totals
2013:					
Selected Balance Sheet Items:					
Deferred policy acquisition costs and sales inducements	$53,540	240,468	661,268	—	955,276
Total segment assets	610,570	1,200,347	8,586,871	260,007	10,657,795
Future policy benefits	535,710	913,339	7,676,085	—	9,125,134
Other policyholder liabilities	11,450	14,618	116,519	—	142,587
Condensed Income Statements:					
Premiums and contract charges	$29,567	117,668	20,231	—	167,466
Net investment income	33,818	63,504	543,077	20,033	660,432
Other revenues	29	299	45	23,343	23,716
Total revenues	63,414	181,471	563,353	43,376	851,614
Life and other policy benefits	11,660	25,706	22,684	—	60,050
Amortization of deferred policy acquisition costs	6,738	18,946	82,549	—	108,233
Universal life and annuity contract interest	26,427	58,757	369,410	—	454,594
Other operating expenses	15,515	25,624	33,325	21,229	95,693
Federal income taxes (benefit)	980	16,720	17,660	7,062	42,422
Total expenses	61,320	145,753	525,628	28,291	760,992
Segment earnings (loss)	$2,094	35,718	37,725	15,085	90,622

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	Domestic Life Insurance (In thousands)	International Life Insurance	Annuities	All Others	Totals
2012:					
Selected Balance Sheet Items:					
Deferred policy acquisition costs and sales inducements	$40,810	226,899	590,532	—	858,241
Total segment assets	463,569	1,105,862	8,269,445	242,404	10,081,280
Future policy benefits	398,202	846,028	7,324,624	—	8,568,854
Other policyholder liabilities	10,468	13,074	125,019	—	148,561
Condensed Income Statements:					
Premiums and contract charges	$31,143	114,605	22,196	—	167,944
Net investment income	21,194	43,469	375,431	19,954	460,048
Other revenues	62	485	80	22,843	23,470
Total revenues	52,399	158,559	397,707	42,797	651,462
Life and other policy benefits	10,633	20,877	20,332	—	51,842
Amortization of deferred policy acquisition costs	7,461	18,103	96,358	—	121,922
Universal life and annuity contract interest	17,507	39,639	205,193	—	262,339
Other operating expenses	14,895	26,007	25,456	21,620	87,978
Federal income taxes (benefit)	648	18,377	17,162	7,216	43,403
Total expenses	51,144	123,003	364,501	28,836	567,484
Segment earnings (loss)	$1,255	35,556	33,206	13,961	83,978

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

	Years Ended December 31, 2014 (In thousands)	2013	2012
Premiums and Other Revenue:			
Premiums and contract charges	$170,115	167,466	167,944
Net investment income	505,430	660,432	460,048
Other revenues	21,630	23,716	23,470
Realized gains (losses) on investments	11,605	8,653	13,200
Total consolidated premiums and other revenue	$708,780	860,267	664,662

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	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Federal Income Taxes:			
Total segment Federal income taxes	$47,873	42,422	43,403
Taxes on realized gains (losses) on investments	4,060	3,028	4,620
Total taxes on consolidated net earnings	$51,933	45,450	48,023

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Net Earnings:			
Total segment earnings	$98,043	90,622	83,978
Realized gains (losses) on investments, net of taxes	7,545	5,625	8,580
Total consolidated net earnings	$105,588	96,247	92,558

	December 31,		
	2014	2013	2012
	(In thousands)		
Assets:			
Total segment assets	$11,187,522	10,657,795	10,081,280
Other unallocated assets	164,370	172,621	182,578
Total consolidated assets	$11,351,892	10,830,416	10,263,858

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(B) Geographic Information

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

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
United States	$65,078	64,267	67,924
Brazil	38,563	38,205	38,605
Venezuela	14,931	14,017	12,223
Taiwan	14,166	14,047	13,958
Peru	10,327	9,366	8,691
Argentina	9,324	9,102	9,818
Other foreign countries	36,775	37,203	36,509
Revenues, excluding reinsurance premiums	189,164	186,207	187,728
Reinsurance premiums	(19,049)	(18,741)	(19,784)
Total premiums and contract revenues	$170,115	167,466	167,944

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

(C) Major Agency Relationships

A portion exceeding 10% of the Company's annuity sales was sold through one of its top independent marketing agencies in recent years. Business from this top agency accounted for approximately 16% of annuity sales in 2014.

(14) FAIR VALUES OF FINANCIAL INSTRUMENTS

Effective January 1, 2008, the Company adopted FASB guidance which defines fair value, establishes a framework for measuring fair value under GAAP, and requires additional disclosures about fair value measurements. In compliance with this GAAP guidance, the Company has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three level hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded at fair value on the consolidated balance sheets are categorized as follows:

Level 1: Fair value is based on unadjusted quoted prices in active markets that are accessible to the Company for identical assets or liabilities. Active markets are those in which transactions for the asset or liability occur in sufficient

frequency and volume to provide pricing information on an ongoing basis. These generally provide the most reliable evidence and are used to measure fair value whenever available. The Company's Level 1 assets are equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets.

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

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

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

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

	December 31, 2013			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Debt securities, available for sale	$2,636,666	—	2,636,666	—
Equity securities, available for sale	14,878	13,802	1,076	—
Derivatives, index options	169,314	—	—	169,314
Total assets	$2,820,858	13,802	2,637,742	169,314
Policyholder account balances (a)	$187,399	—	—	187,399
Other liabilities (b)	5,939	—	—	5,939

Total liabilities	$193,338	—	—	193,338

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

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

	Twelve Months Ended December 31, 2014				
	Debt Securities, Available For Sale	Equity Securities, Available For Sale	Derivatives, Index Options	Total Assets	Other Liabilities
	(In thousands)				
Beginning balance, January 1, 2014	$—	—	169,314	169,314	193,338
Total realized and unrealized gains (losses):					
Included in net income	—	—	68,616	68,616	73,851
Included in other comprehensive income (loss)	—	—	—	—	—
Purchases, sales, issuances and settlements, net:					
Purchases	—	—	73,937	73,937	73,937
Sales	—	—	—	—	—
Issuances	—	—	—	—	—
Settlements	—	—	(197,580)	(197,580)	(198,634)
Transfers into (out of) Level 3	—	—	—	—	—
Balance at end of period	$—	—	114,287	114,287	142,492
Change in unrealized gains or losses for the period included in earnings (or changes in net assets) for assets held at the end of the reporting period:					
Net investment income	$—	—	40,350	40,350	—
Benefits and expenses	—	—	—	—	44,722
Total	$—	—	40,350	40,350	44,722

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	Twelve Months Ended December 31, 2013				
	Debt Securities, Available For Sale (In thousands)	Equity Securities, Available For Sale	Derivatives, Index Options	Total Assets	Other Liabilities
Beginning balance, January 1, 2013	$—	—	—	—	2,718
Total realized and unrealized gains (losses):					
Included in net income	—	—	—	—	5,725
Included in other comprehensive income (loss)	—	—	—	—	—
Purchases, sales, issuances and settlements, net:					
Purchases	—	—	—	—	—
Sales	—	—	—	—	—
Issuances	—	—	—	—	—
Settlements	—	—	—	—	(2,504)
Transfers into (out of) Level 3	—	—	169,314	169,314	187,399
Balance at end of period	$—	—	169,314	169,314	193,338
Change in unrealized gains or losses for the period included in earnings (or changes in net assets) for assets held at the end of the reporting period:					
Net investment income	$—	—	107,897	107,897	5,725
Benefits and expenses	—	—	—	—	—
Total	$—	—	107,897	107,897	5,725

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During the year ended December 31, 2013, the Company transferred its index option holdings from level 2 to level 3. Although these securities contain significant inputs which are directly or indirectly observable, the pricing of these derivative instruments involves judgment regarding assumptions market participants would use. Consequently, the Company determined that these assets did not meet the criteria for Level 2 classification. The Company correspondingly transferred the policyholder account balance liability with the associated embedded derivatives from level 2 to level 3. The following tables show the quantitative information about the Company's level 3 assets and liabilities.

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

	December 31, 2013 Fair Value (In thousands)	Valuation Technique	Unobservable Input
Derivatives, index options	$169,314	Broker prices	Implied volatility Inputs from broker proprietary models
Total assets	$169,314		
Policyholder account balances	$187,399	Deterministic cash flow model	Projected option cost
Other liabilities	$5,939	Black Scholes	Expected term Forfeiture assumptions
Total liabilities	$193,338		

Realized gains (losses) on Level 3 assets are reported in the consolidated statements of earnings as net investment gains (losses) with liabilities reported as expenses. Unrealized gains (losses) on debt and equity securities are reported as other comprehensive income (loss) within stockholders’ equity.

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

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GAAP defines fair value, establishes a framework for measuring fair value and requires additional disclosures about fair value measurements. Fair value is based on an exit price, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The objective of a fair value measurement is to determine that price for each financial instrument at each measurement date. GAAP also establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring financial instruments at fair value. Market price observability is affected by a variety of factors including the type of instrument and the characteristics of instruments. Financial instruments with readily available active quoted prices or those for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is the Company's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measures.

The following methods and assumptions were used in estimating the fair value of financial instruments and liabilities during the periods presented in the consolidated financial statements.

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

Equity securities. Fair values for equity securities are based upon quoted market prices, where available. For equity securities that are not actively traded, estimated values are based on values of comparable issues or audited financial statements of the issuer.

Cash and cash equivalents. The carrying amounts reported in the balance sheet for these instruments approximate their fair values due to the relatively short time between the purchase of the instrument and its expected repayment or maturity.

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

Policy Loans. Policy loans with fixed interest rates are classified within Level 3. The estimated fair values for these loans are determined using a discounted cash flow model applied to groups of similar policy loans determined by the nature of the underlying insurance liabilities. Cash flow estimates are developed by applying a weighted-average interest rate to the outstanding principal balance of the respective group of policy loans and an estimated average maturity. These cash flows are discounted using current risk-free interest rates with no adjustment for borrower credit risk as these loans are collateralized by the cash surrender value of the underlying insurance policy.

Derivatives. Fair values for index (call) options are based on counterparty market prices. The counterparties use market standard valuation methodologies incorporating market inputs for volatility and risk free interest rates in

arriving at a fair value for each option contract. Prices are monitored for reasonableness by the Company using analytical tools. There are no performance obligations related to the call options purchased to hedge the Company’s fixed-index life and annuity policy liabilities.

Life interest in Libbie Shearn Moody Trust. The fair value of the life interest was estimated based on assumptions as to future distributions from the Trust over the life expectancy of Mr. Robert L. Moody, Chairman of the Board and Chief Executive Officer. These estimated cash flows were discounted at a rate consistent with uncertainties relating to the amount and timing of future cash distributions subject to the maximum amount to be received from insurance proceeds in the event of Mr. Moody's death. The carrying value or cost basis of the life interest asset was amortized ratably over the expected life of Mr. Moody.

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Annuity and supplemental contracts. Fair values for the Company's insurance contracts other than annuity contracts are not required to be disclosed. This includes the Company's traditional and universal life products. Fair values for immediate annuities without mortality features are based on the discounted future estimated cash flows using current market interest rates for similar maturities. Fair values for deferred annuities, including fixed-indexed annuities, are determined using estimated projected future cash flows discounted at the rate that would be required to transfer the liability in an orderly transaction. The fair values of liabilities under all insurance contracts are taken into consideration in the Company's overall management of interest rate risk, which minimizes exposure to changing interest rates through the matching of investment maturities with amounts due under insurance and annuity contracts.

The Company utilizes independent third-party pricing services to determine the majority of its fair values of investment securities. The independent pricing services provide quoted market prices when available or otherwise incorporate a variety of observable market data in their valuation techniques including reported trading prices, broker-dealer quotes, bids and offers, benchmark securities, benchmark yields, credit ratings, and other reference data. The Company reviews prices received from service providers for unusual fluctuations to ensure that the prices represent a reasonable estimate of fair value but generally accepts the price identified from the primary pricing service.

When quoted market prices in active markets are unavailable, the Company determines fair values using various valuation techniques and models based on a range of observable market inputs including pricing models, quoted market price of publicly traded securities with similar duration and yield, time value, yield curve, prepayment speeds, default rates and discounted cash flow. In most cases, these estimates are determined based on independent third party valuation information, and the amounts are disclosed in Level 2 of the fair value hierarchy. Generally, the Company obtains a single price or quote per instrument from independent third parties to assist in establishing the fair value of these investments.

Fair value measurements for investment securities where there exists limited or no observable data are calculated using the Company’s own estimates based on current interest rates, credit spreads, liquidity premium or discount, the economic and competitive environment, unique characteristics of the security and other pertinent factors. These estimates are derived a number of ways including, but not limited to, pricing provided by brokers where the price indicates reliability as to value, fair values of comparable securities incorporating a spread adjustment (for maturity differences, credit quality, liquidity, collateralization), discounted cash flow models and margin spreads, bond yield curves, and observable market prices and exchange transaction information not provided by external pricing services. The resulting prices may not be realized in an actual sale or immediate settlement and there may be inherent weaknesses in any calculation technique. In addition, changes in underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results of current or future values.

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

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

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

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

	December 31, 2013				
			Fair Value Hierarchy Level		
	Carrying Values (In thousands)	Fair Values	Level 1	Level 2	Level 3
ASSETS					
Investments in debt and equity securities:					
Securities held to maturity	$6,510,320	6,656,144	—	6,656,144	—
Securities available for sale	2,651,544	2,651,544	13,802	2,637,742	—
Cash and cash equivalents	120,859	120,859	120,859	—	—
Mortgage loans	132,765	138,159	—	—	138,159
Policy loans	65,969	98,010	—	—	98,010
Other loans	2,986	3,143	—	—	3,143
Derivatives, index options	169,314	169,314	—	—	169,314
Life interest in Libbie Shearn Moody Trust	—	12,775	—	—	12,775
LIABILITIES					
Deferred annuity contracts	$7,288,861	6,941,902	—	—	6,941,902
Immediate annuity and supplemental contracts	463,276	483,690	—	—	483,690

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

(15) DERIVATIVE INVESTMENTS

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

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

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

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

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

The tables below present the fair value of derivative instruments.

	December 31, 2014 Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
		(In thousands)		(In thousands)
Derivatives not designated as hedging instruments				
Equity index options	Derivatives, Index Options	$114,287		
Fixed-indexed products			Universal Life and Annuity Contracts	$133,236
Total		$114,287		$133,236

	December 31, 2013 Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
		(In thousands)		(In thousands)
Derivatives not designated as hedging instruments				
Equity index options	Derivatives, Index Options	$169,314		
Fixed-indexed products			Universal Life and Annuity Contracts	$187,399
Total		$169,314		$187,399

The table below presents the effect of derivative instruments in the consolidated statements of earnings for the years ended December 31, 2014 and 2013.

Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized In Income on Derivatives	Amount of Gain or (Loss) Recognized In Income on Derivatives		
		2014	2013	2012
		(In thousands)		
Equity index options	Net investment income	$68,616	225,899	27,147

Fixed-indexed products	Universal life and annuity contract interest	(69,480)	(229,404)	(28,852)
		$(864)	(3,505)	(1,705)

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(16) RELATED PARTY TRANSACTIONS

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

Mr. Moody, Jr. wholly owns an insurance marketing organization that maintains agency contracts with National Western pursuant to which agency commissions are paid in accordance with the Company's standard commission schedules. Mr. Moody, Jr. also maintains an independent agent contract with National Western for policies personally sold under which commissions are paid in accordance with standard commission schedules. In 2014, commissions paid under these agency contracts aggregated approximately $426,445. In his capacity as an insurance marketing organization with the Company, Mr. Moody, Jr. also received fees of $48,000 in 2014 under a marketing consultant agreement.

Mr. Moody, Jr. further serves as the agent of record for several of the Company's benefit plans including the self-insured health plan for which Mr. Moody, Jr. provides utilization review services through a wholly-owned utilization review company. In 2014, amounts paid to Mr. Moody, Jr. as commissions and service fees pertaining to the Company's benefit plans approximated $89,253.

Mr. Moody, Jr. is an Advisory Director of a wholly owned subsidiary of the Company. As an Advisory Director, Mr. Moody, Jr. received director fees and other perquisites during 2014 of $50,681.

During 2014, management fees totaling $819,085 were paid to Regent Management Services, Limited Partnership ("RMS") for services provided to downstream nursing home subsidiaries of National Western. RMS is 1% owned by general partner RCC Management Services, Inc. ("RCC"), and 99% owned by limited partner, Three R Trusts. RCC is 100% owned by the Three R Trusts. The Three R Trusts are four Texas trusts for the benefit of the children of Robert L. Moody (Robert L. Moody, Jr., Ross R. Moody, Russell S. Moody, and Frances A. Moody-Dahlberg). Charles D. Milos, Senior Vice President-Mortgage Loans and Real Estate, and a director of the Company, is a director and President of RCC.

The Company holds a common stock investment totaling approximately 6.8% of the issued and outstanding shares of Moody Bancshares, Inc. at December 31, 2014. Moody Bancshares, Inc. owns 100% of the outstanding shares of Moody Bank Holding Company, Inc., which owns approximately 98% of the outstanding shares of The Moody National Bank of Galveston ("MNB"). The Company utilizes MNB for certain bank custodian services as well as for certain administrative services with respect to the Company's defined benefit and contribution plans. During 2014, fees totaling $663,132 were paid to MNB with respect to these services. Effective November 1, 2011, the Company amended a 36 month sublease on one of the Company’s leased office locations for $6,363 per month with Moody National Bank. The sublease with Moody National Bank expires April 30, 2015 and will not be renewed. Robert L. Moody, the Company’s Chairman and Chief Executive Officer, serves as Chairman of the Board and Chief Executive Officer of MNB. The ultimate controlling person of MNB is the Three R Trusts.

During 2014, the Company paid American National Insurance Company (“ANICO”) $265,602 in premiums for certain company sponsored benefit plans and $1,800,770 in reimbursements for claim costs for which ANICO provides third

party administrative services. ANICO paid the Company $1,875,873 in premiums for its company sponsored benefit plans. The Company maintains an investment agreement with American National Registered Investment Advisory, Inc., a subsidiary of ANICO, under which $42,164 was paid for services. Robert L. Moody, the Company's Chairman and Chief Executive Officer is also ANICO's Chairman and Chief Executive Officer. The Company executed a 2 year agreement in April, 2014 with ANICO for a disaster recovery site with total incurred expenses of $12,197 during 2014.

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(17) UNAUDITED QUARTERLY FINANCIAL DATA

Quarterly results of operations for 2014 are summarized as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands except per share data)			
2014:				
Revenues	$158,003	206,841	159,620	184,315
Earnings (loss)	$19,826	29,183	28,466	28,113
Basic earnings (loss) per share:				
Class A	$5.61	8.26	8.05	7.95
Class B	$2.80	4.13	4.03	3.98
Diluted earnings (loss) per share:				
Class A	$5.61	8.25	8.05	7.94
Class B	$2.80	4.13	4.03	3.98

Quarterly results of operations for 2013 are summarized as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands except per share data)			
2013:				
Revenues	$231,032	182,859	188,192	258,184
Earnings (loss)	$16,632	26,991	24,782	27,842
Basic earnings (loss) per share:				
Class A	$4.71	7.64	7.01	7.88
Class B	$2.35	3.82	3.51	3.94
Diluted earnings (loss) per share:				
Class A	$4.70	7.62	7.00	7.87
Class B	$2.35	3.82	3.51	3.94

(18) SUBSEQUENT EVENTS

Subsequent events have been evaluated and no reportable items were identified.

NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
SCHEDULE I
SUMMARY OF INVESTMENTS
OTHER THAN INVESTMENTS IN RELATED PARTIES
December 31, 2014
(In thousands)

Type of Investment	(1) Cost	Fair Value	Balance Sheet Amount
Fixed maturity bonds:			
Securities held to maturity:			
United States government and government agencies and authorities	$11,981	13,095	11,981
States, municipalities, and political subdivisions	432,186	463,267	432,186
Foreign governments	—	—	—
Public utilities	978,847	1,045,926	978,847
Corporate	3,754,222	3,919,281	3,754,222
Mortgage-backed	1,640,582	1,705,144	1,640,582
Asset-backed	23,725	28,730	23,725
Total securities held to maturity	6,841,543	7,175,443	6,841,543
Securities available for sale:			
United States government and government agencies and authorities	—	—	—
States, municipalities, and political subdivisions	589	553	553
Foreign governments	9,939	10,325	10,325
Public utilities	169,179	179,216	179,216
Corporate	2,334,700	2,454,019	2,454,019
Mortgage-backed	48,674	52,790	52,790
Asset-backed	14,194	14,474	14,474
Total securities available for sale	2,577,275	2,711,377	2,711,377
Total fixed maturity bonds	9,418,818	9,886,820	9,552,920
Equity securities:			
Securities available for sale:			
Common stocks:			
Public utilities	755	1,343	1,343
Banks, trust and insurance companies	1,379	2,475	2,475
Corporate	3,549	6,064	6,064
Preferred stocks	7,116	7,421	7,421
Total equity securities	12,799	17,303	17,303
Derivatives, index options	114,287	—	114,287
Mortgage loans	149,503	—	149,503
Policy loans	63,645	—	63,645
Other long-term investments (2)	28,774	—	28,774
Total investments other than investments in related parties	$356,209	—	356,209

Notes:
(1) Bonds are shown at amortized cost, mortgage loans are shown at unpaid principal balances before allowances for possible losses, derivatives are shown at fair value, and real estate is stated at cost before allowances for possible losses.
(2) There was no real estate acquired by foreclosure included in other long-term investments.

See accompanying report of Independent Registered Public Accounting Firm.

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NATIONAL WESTERN LIFE INSURANCE COMPANY AND SUBSIDIARIES
SCHEDULE V
VALUATION AND QUALIFYING ACCOUNTS
For the Years Ended December 31, 2014, 2013 and 2012
(In thousands)

Description	Balance at Beginning of Period	(1) Charged to Costs and Expenses	Reductions	Transfers	Balance at End of Period
Valuation accounts deducted from applicable assets:					
Allowance for possible losses on mortgage loans:					
December 31, 2014	$650	—	—	—	650
December 31, 2013	$650	—	—	—	650
December 31, 2012	$4,571	650	(4,571)	—	650
Allowance for possible losses on real estate:					
December 31, 2014	$1,735	—	(106)	—	1,629
December 31, 2013	$1,813	—	(78)	—	1,735
December 31, 2012	$1,758	55	—	—	1,813

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

See accompanying report of Independent Registered Public Accounting Firm.

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SIGNATURES

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

NATIONAL WESTERN LIFE INSURANCE COMPANY
(Registrant)

Date: March 13, 2015

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

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

Signature	Title (Capacity)	Date
/S/Robert L. Moody Robert L. Moody	Chairman of the Board and Chief Executive Officer, and Director (Principal Executive Officer)	March 13, 2015
/S/Ross R. Moody Ross R. Moody	President and Chief Operating Officer, and Director	March 13, 2015
/S/Brian M. Pribyl Brian M. Pribyl	Senior Vice President - Chief Financial Officer, and Treasurer (Principal Financial Officer)	March 13, 2015
/S/Bruce E. Wood Bruce E. Wood	Vice President, Controller & Assistant Treasurer (Principal Accounting Officer)	March 13, 2015
/S/Stephen E. Glasgow Stephen E. Glasgow	Director	March 13, 2015
/S/E. Douglas McLeod E. Douglas McLeod	Director	March 13, 2015
/S/Charles D. Milos Charles D. Milos	Director	March 13, 2015
/S/Ann M. Moody Ann M. Moody	Director	March 13, 2015
/S/Frances A. Moody-Dahlberg Frances A. Moody-Dahlberg	Director	March 13, 2015

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/S/Russell S. Moody Russell S. Moody	Director	March 13, 2015
/S/Louis E. Pauls, Jr. Louis E. Pauls, Jr.	Director	March 13, 2015
/S/E.J. Pederson E.J. Pederson	Director	March 13, 2015