Risk Factors Comparison 2024-02-29 to 2023-03-15 Form: 10-K

Legend: New Text ~~Removed Text~~ Unchanged Text Moved Text Section

Company performance is subject to varying risk factors including operational and strategic, financial, and regulatory and legal risk. Any or all of these risks could have a material adverse effect on the business, financial condition or results of the Company or cause the trading price of shares of the Company' s Class A Common Stock (ticker symbol" NWLI") to decline materially. This section provides an overview of possible risk exposures at this point in time that could impact Company performance in the future. Many of these risks are inter- related, ongoing, and endemic to the industry. Consequently, they could occur under similar business and economic conditions, and in turn prompt the emergence or amplify the effect of others. In addition, other risks that the Company is not presently aware of or that are currently considered immaterial may also impair business operations. While these scenarios do not represent expectations of future experience, they are intended to illustrate the potential impacts if any of the following risks were to manifest into actual occurrences. Operational and Strategic Risks **The Company is subject to risks and uncertainties which may affect the timing and ultimate completion of the proposed merger contemplated by the Company' s October 8, 2023 merger agreement with S. USA Life Insurance Company, Inc. The timing and completion of the proposed merger (the" Proposed Transaction") contemplated by the Company' s October 8, 2023 merger agreement (the" Merger Agreement") with S. USA Life Insurance Company, Inc. (" S. USA") and its direct wholly owned subsidiary, PGH Merger Inc., is subject to risks and certainties. Not intended as an exhaustive listing, these risks and uncertainties include, (1) the risk that conditions to the closing of the Proposed Transaction not ultimately being satisfied; (2) the risk of regulatory approvals required for the Proposed Transaction not being obtained, or the required regulatory approvals delaying the Proposed Transaction or resulting in the imposition of conditions that have a material adverse effect on the Company or S. USA or otherwise causing certain conditions to the closing to not be satisfied, resulting in the termination of the Merger Agreement; (3) the risk that the business and operations of the Company or S. USA may suffer as a result of uncertainty surrounding the Proposed Transaction; (4) the risk that events, changes or other circumstances could occur that could give rise to the termination of the Merger Agreement; (5) the risk that operating results may be impaired by the disruption of management' s attention from the ongoing business operations of the Company or S. USA due to the Proposed Transaction; (6) the risk that the pendency of the Proposed Transaction could affect existing relationships of the Company or S. USA with its clients, and operating results and business generally, including the ability to retain and attract employees; (7) the risk that the outcome of any legal proceedings initiated against the Company or S. USA with respect to the announcement of the Proposed Transaction could adversely affect the Company or S. USA, including their ability to consummate the Proposed Transaction; and (8) the risk that the Company or S. USA mat be adversely affected by other economic, business, and / or competitive factors as well as management' s response to any of the factors described in this paragraph.** Difficult conditions globally and in the U. S. economy may materially adversely affect our business and results of operations. The Company' s results from operations can be materially affected by economic conditions both in the U. S. and elsewhere around the world. Even under relatively beneficial market conditions, demand for our insurance and products, as well as our investment returns, are sensitive to fixed income, equity, real estate and other fluctuations and overall economic and political conditions. General factors such as credit availability, willingness of business to invest, consumer spending, financial market conditions and inflation affect the Company' s business. Demand for our products and ultimately the profitability of our business may be adversely affected by anemic activity in any or all of these areas. Our current policyholders may opt to defer or stop paying insurance premiums. High interest rates or inflation could induce those holding interest- sensitive life insurance and annuity products of the Company to begin an elevated level of discretionary withdrawals of policy funds. Conversely, low interest rates and inflation could cause persistency of our products to vary from that anticipated and adversely affect profitability. In addition, changing economic conditions may serve to create unfavorable public perception of financial institutions and influence policyholder behavior. Changes as detailed above could negatively affect our net income and have a material effect on our business, results of operations and financial condition. The Company cannot foretell the occurrence of economic trends or the timing of changes in such trends. 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. The Company' s operations in Texas during the past several years have been impacted by winter storms which resulted in statewide power outages, lack of water service, food and supply shortages, property damage, and the inability to travel safely for an extended period of time. Disasters or a pandemic outbreak could disrupt public and private infrastructure, including communications and financial services, which could disrupt the Company' s normal business operations. The COVID-19 pandemic caused significant disruption in global and U. S. economies and financial markets via illness, quarantines, business and school shutdowns, supply chain interruptions, decline in business activity, and cancellation of events and travel. These conditions manifested in relocation of employees working from home; business disruption to independent agents, brokers, and other distribution partners that market and sell the Company' s insurance products; increased credit risk; historically low interest rate levels; and significant volatility in financial markets that affected investment portfolio valuations and returns. ~~While the Company was able to provide uninterrupted service to its policyholders, additional and significant precautions were taken, and continue to be in place, to protect the safety and well- being of employees.~~ The COVID- 19 pandemic increased morbidity risk for the Company in 2020 and 2021 ~~. For example, on a consolidated basis, the Company incurred approximately $ 32 million in net death claims, after reinsurance, during the year ended December 31, 2021, which were incremental to the Company' s claim experience~~ . The extent of the lingering impact of the COVID- 19 pandemic and that of other tangential effects is uncertain and cannot be predicted. A terrorist attack affecting financial institutions could negatively impact the financial services industry as a whole and our business operations, investment portfolio and our profitability. In addition, such events and conditions could result in a decrease or halt in economic activity in large geographic regions, adversely impacting the marketing of the Company' s business within such geographic areas which in turn could have an adverse effect on the Company. In addition, there can be no assurance that our business continuity plans and insurance coverages would be effective in mitigating any negative effects on our operations or profitability in the event of a terrorist attack or other disaster. The effects of natural and man- made disasters and catastrophes on the Company' s business include, but are not limited to: an acceleration of the timing in which benefits are paid under the Company' s insurance policies due to catastrophic loss of life, unexpected changes in persistency rates as policyholders affected by disaster may be unable to meet their contractual obligations, harm to the financial condition of the Company' s reinsurers due to an increase in claims thereby impacting the cost and availability of reinsurance and possibly increasing the probability of default on reinsurance recoveries, and heightened volatility, loss of liquidity and credit impairment in the financial markets resulting in harm to the Company' s financial condition. We are subject to incurring difficulties in marketing and distributing our products through our current and future distribution channels. National Western **primarily** distributes its life and annuity products through independent broker- agents. These product distributors are not captive and may sell products of competitors of the Company. There is substantial competition 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 **financial** strength ratings. Competitiveness for such individuals and organizations also depends upon the relationships the Company develops with them. An interruption in key relationships could materially affect our ability to market products. Distributors may also elect to reduce or terminate their distribution relationships with the Company at any time. We are further at risk that key distribution partners may change their mode of conducting business that affects how our products are sold. The Company' s future sales and financial condition are dependent upon avoiding significant interruptions in attracting and retaining independent broker- agents and consultants. Ozark National' s selling and marketing is heavily dependent upon continual recruitment of new agents. Its distribution model targets individuals currently not in the insurance business who either desire a new career opportunity or a means of supplementing their current sources of income. Ozark National' s success is correlated to not only recruiting these individuals but also providing the training and resources for them to obtain the required insurance and securities licenses in order to market Ozark National' s coordinated sale of a traditional life insurance product with a mutual fund investment offered through NIS. Ozark National' s future sales and financial condition are dependent upon successfully recruiting new individuals who are able to obtain the necessary licenses to sell its products. There can be no assurance that our initiative to distribute products through financial institutions will be successful. In addition to marketing products through independent broker- agents, National Western has recently begun marketing insurance products through financial institutions such as banks and wire houses. National Western has spent considerable time, effort, and finances in recent years to begin developing this distribution channel. In order to successfully access this distribution channel **,** it is necessary to have competitively priced products and commission structures, technology and back office service capabilities, strong financial ratings from independent rating agencies, and brand recognition. This distribution channel is less relationship dependent than the independent agent distribution channel. It is possible that the Company may not be successful in gaining **sufficient** access to this platform in order to generate the level of sales needed to justify the costs incurred. We are subject to competition from new sources as well as companies having substantially greater financial resources, higher ratings, and more expansive product offerings which could have an adverse impact upon our business levels and profitability. Life insurance is a mature and highly competitive industry. Our ability to compete is based upon a variety of factors including financial strength ratings, competitive products, quality of service, scale, and distribution capacity. There has been considerable consolidation among companies in the insurance and financial sectors resulting in large, well- capitalized entities that offer products comparable to the Company who have greater market share or breadth of distribution, higher financial strength ratings, and offer a broader range of products and services. Frequently, these larger organizations are not domiciled in the United States or are financial services entities attempting to establish a position in the insurance industry. More recently, larger investment firms in the U. S. have entered the life insurance industry either through direct acquisitions or reinsurance transactions in order to access low- yielding investment portfolios of traditional insurers who are grappling with reduced profit margins. These larger competitors often enjoy extensive investment expertise in certain markets, better name recognition and economies of scale, and 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 the Company' s 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. **Recently, National Western has entered into funds withheld coinsurance arrangements to access the investment capabilities and expertise of larger investment firms in order to obtain investment yields that allow the Company to competitively price and market its product offerings (" flow reinsurance"). Accordingly, we are dependent upon third parties to provide the requisite investment returns to be able to**

compete in the marketplace. Due to these competitive forces, the Company may not be able to effectively compete without negative effects on our financial position and results of operations ~~. A single stockholder has significant influence in the election and removal of directors. As of December 31, 2022, the Robert L. Moody Revocable Trust, of which Robert L. Moody, Sr. is the grantor (the " Moody Revocable Trust "), controls 99. 0 % of the 200, 000 aggregate outstanding shares of the Company' s Class B Common Stock. The shares of Class B Common Stock owned by the revocable trust represent 5. 45 % of the total number of outstanding shares of the Company. Holders of the Company' s Class A Common Stock elect one- third of the Board of Directors of the Company (rounded up to the nearest whole number if not evenly divisible by three), and holders of the Class B Common Stock elect the remainder. As a result, subject to applicable legal and regulatory requirements, the Moody Revocable Trust has the ability to exercise significant influence over matters submitted for stockholder approval, and the directors elected by the holders of the Class B Common Stock have the ability to exercise significant influence regarding the Company' s business direction and policies. In addition, Mr. Moody' s children, three of whom serve on the Board of Directors (including Ross R. Moody, the Company' s CEO and Chairman of the Board), collectively own shares of Class A Common Stock representing 32. 44 % of the total number of outstanding shares of the Company. This concentration of voting power could deter a change of control or other business combination that might be beneficial or preferable to other stockholders. It may also adversely affect the trading price of the Company' s Class A Common Stock if investors perceive disadvantages in owning stock in a company in which a single stockholder has such significant ownership~~. Our enterprise risk management practices and procedures may prove to be ineffective exposing us to unidentified or unanticipated risks. The Company maintains an enterprise-wide risk management framework to mitigate risk and loss to the Company. Under this framework we maintain policies, procedures and controls intended to identify, measure, monitor, report and analyze the risks to which the Company is exposed. There are, however, inherent limitations to risk management strategies because there may exist, or develop in the future, risks that we have not appropriately anticipated or identified. If our risk management framework bears out as to being ineffective, the Company may suffer unexpected losses and could be materially adversely affected. As our business changes and the markets in which we operate evolve, our risk management framework may not advance at the same pace as those changes. As a result, there is a risk that new products or new business strategies may present risks that are not appropriately identified, monitored or managed. Many of our risk management strategies or techniques are based upon historical customer and market behavior and all such strategies and techniques are based to some degree on management' s subjective judgment. We cannot provide assurance that our risk management framework, including the underlying assumptions or strategies, will be accurate and effective. Management of operational, legal and regulatory risks requires, among other things, policies, procedures and controls to record properly and verify a large number of transactions and events, and these policies, procedures and controls may not be fully effective. In addition, there can be no assurance that controls and procedures that we employ, which are designed to monitor associates' business decisions and prevent us from taking excessive or inappropriate risks, will be effective. We are dependent upon effective information technology systems and the development and implementation of new technologies. The Company' s business operations are technology dependent for maintaining accurate records, administering complex contract provisions, and complying with increasingly demanding regulation. While systems developments can streamline many processes and in the long term reduce the cost of doing business, these initiatives can present short- term cost and implementation risks. Projections of expenses, implementation time frames and the ultimate enhancement values may be different from expectations and escalate over time. The Company also faces rising costs and time constraints in meeting data security compliance requirements of new and proposed regulations. These increased risks and expanding requirements expose the Company to potential data loss and damages and significant increases in compliance and litigation costs. The Company' 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. ~~More recently, competition~~ **Competition** for information technology trained individuals who have the experience or expertise in implementing and maintaining necessary technology systems has become intense. Obtaining individuals with the requisite skills and expertise either through employment or consulting arrangements has become challenging and costly. 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. Cyber attacks, data protection breaches, and other technology failures could adversely affect our business. The Company relies heavily on its telecommunication and computer systems to conduct business, service customers, and produce financial statements. These systems may fail to operate properly or become disabled as a result of events wholly or in part beyond our control. For example, as described in Item 3. Legal Proceedings in this report, we experienced such a cyber attack in 2020 and were subject to litigation proceedings as a result. Further, we are at risk of third party vendors and parties which the Company utilizes for services, or to which we outsource the provision of services, incurring operational or technology failures. While policies, procedures and back- up plans designed to prevent or minimize the effect of incapacity or failure are maintained, the Company' s computer systems may be vulnerable to disruptions or breaches which cause operational difficulties, increased costs, or other adverse effects on our business. The Company' s computer systems may be inaccessible to its employees, business partners, and customers for an extended period of time. Even if employees of the Company are able to report to work, they may be unable to perform their duties if the Company' s data or systems are disabled or destroyed. The failure or incapacity of any of the Company' s computer systems could potentially disrupt operations, damage our reputation and adversely impact our profitability. Unanticipated problems with our disaster recovery or business continuity plans and systems could have a material adverse impact on our ability to resume and conduct business. Despite implementation of a program of preventative security measures, our information technology and other systems could be subject to physical or electronic break- ins, unauthorized tampering or other security breaches. The Company retains confidential information on its systems, including customer information and proprietary business information, and relies on sophisticated commercial technologies and third parties to maintain the security of those systems and information. The increasing volume and sophistication of computer viruses, hackers and other external threats may increase the vulnerability of the Company' s systems to data breaches. Even with our efforts to ensure the integrity of our systems, it is possible that we may not be able to anticipate all types of security breaches, especially in light of the ever- evolving techniques used by hackers, the inability to recognize invasive attacks until launched, and the capability of cyber attacks originating from a wide variety of sources. Anyone who is able to circumvent the Company' s security measures could access, view, misappropriate, alter, or delete any information in the systems, including personally identifiable customer information, customer financial information, and proprietary business information. The increased use of" phishing" attempts through email systems is subject to employees being sufficiently trained and aware of phishing techniques in order to identify such attempts before inadvertently exposing the Company' s systems and data to unauthorized access. Security breaches or other technological failures may also produce regulatory inquiries, proceedings, litigation costs, and reputational damage. An increasing number of states require customers to be notified of any unauthorized access, use, or disclosure of their information. We may incur reimbursement and other expenses, including litigation settlements and other additional compliance costs. Refer to Item 3. Legal Proceedings for further discussion of a previously reported security incident involving National Western. Interruption in telecommunication, information technology and other operational systems, or a failure to maintain the security, confidentiality or privacy of sensitive data residing on such systems, whether due to actions by us or others, could delay or disrupt our ability to do business and service our customers, harm our reputation, result in a violation of applicable privacy and other laws, subject us to substantial regulatory sanctions and other claims, lead to a loss of customers and revenues or financial loss to our customers and otherwise adversely affect our business. We and the third parties who distribute our products are subject to U. S. federal and state privacy laws and regulations. As noted above, in the course of our business, we and our distributors collect and maintain customer data, including personally identifiable nonpublic financial and health information. We also collect and handle the personal information of our employees and certain third parties who distribute our products. As a result, we and the third parties who distribute our products are subject to U. S. federal and state privacy laws and regulations, including the laws described below. These laws require that we institute and maintain certain policies and procedures to safeguard this information from improper use or disclosure and that we provide notice of our practices related to the collection and disclosure of such information. Other laws and regulations require us to notify affected individuals and regulators of security breaches. Congress and many states have enacted privacy and information security laws and regulations that impose compliance obligations applicable to our business, including obligations to protect sensitive personal and creditworthiness information, as well as limitations on the use and sharing of such information. For example, the California Consumer Privacy Act of 2018 (the" CCPA"), which became effective in January 2020, affords California residents expanded privacy protections and control over the collection, use and sharing of their personal information. The CCPA requires companies to make certain disclosures to California consumers regarding personal information, among other privacy protective measures. The CCPA' s definition of" personal information" is more expansive than those found in other privacy laws in the United States applicable to us. Failure to comply with the CCPA risks regulatory fines, and the CCPA grants a private right of action and statutory damages for an unauthorized access and exfiltration, theft, or disclosure of certain types of personal information resulting from the Company' s violation of a duty to maintain reasonable security procedures and practices. The CCPA, amended by the California Privacy Rights Act (the" CPRA"), effective as of January 1, 2023, requires additional investment in compliance programs and potential modifications to business processes. Further, the amended CCPA creates a California data protection agency to enforce the statute and will impose new requirements relating to additional consumer rights, data minimization, and other obligations. The California legislature did not extend certain exemptions under the amended CCPA, specifically information collected in employment or business- to- business contexts, and such information therefore is now covered by the CCPA. Enforcement of the CCPA, as amended by the CPRA, ~~will begin~~ **began** on July 1, 2023. In 2017, the NAIC adopted the Insurance Data Security Model Law, which established standards for data security and for the investigation and notification of insurance commissioners of cybersecurity events involving unauthorized access to, or the misuse of, certain nonpublic information. A number of states have enacted the Insurance Data Security Model Law or similar laws, and we expect more states to follow. All U. S. states, the District of Columbia, and U. S. territories also require entities to provide notification to affected residents and, in certain instances, state regulators, such as state attorneys general or state insurance commissions, in the event of certain security breaches affecting personal information. Also, as noted above, state governments, Congress, and agencies may consider and enact additional legislation or promulgate regulations governing privacy, cybersecurity, and data breach reporting requirements. We cannot predict whether such legislation will be enacted, or what impact, if any, such legislation may have on our business practices, results of operations or financial condition. Competition for employees is intense and the Company may not be able to attract and retain highly skilled people needed to support its business. 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 has been exceptionally competitive since the COVID- 19 pandemic. The well- publicized phenomenon referred to as the" Great Resignation" in which individuals either chose to leave the work force or remain employed only under certain conditions, such as an ongoing remote work environment, has resulted in ~~more~~ unfilled positions and ~~costlier~~ **more expensive** Human Resource efforts to identify and hire for Company personnel needs. **The** ~~An additional outcome of the~~ COVID- 19 pandemic has **also** ~~been a shift~~ **shifted** ~~in~~ individuals' work / life priorities, largely the result of working remotely from home during the quarantine and lockdown mandates ~~, which~~ **. This** has **subsequently** led to" quiet quitting" or the decline in productivity efforts of employees to the minimum expected. This **situation** serves only to exacerbate the impact of unfilled positions and lack of requisite qualified personnel. For the Company, certain skills particularly in demand include those in the areas of information technology, actuarial science, and accounting which are providing additional challenges in securing appropriate resources. Taken together, 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 and cumulative knowledge of our business, years of industry experience and the potential difficulty of quickly finding qualified replacements. The Company has historically managed to sustain lower than average employee turnover and retained valued employees with decades of experience in the Company' s products, business and systems. However, as these individuals attain retirement age, the Company is exposed to the loss of proprietary knowledge in its operations. The Company' s 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. Financial Risks Our investment portfolio is subject to several risks which may lessen the value of invested assets and the amounts credited to policyholders. The Company has historically invested monies received primarily in investment grade, fixed income investment securities in order to meet its obligations to policyholders and provide a return on its deployed capital. Accordingly, our business is exposed to customary risks of debt markets including credit defaults and changes in fair value. Adverse market conditions can affect the liquidity and value of our investments and we are subject to the credit risk that issuers of these securities may default on principal and interest payments, particularly in the event of an ongoing downturn in the economic and / or business climate. A ratings downgrade affecting issuers of particular securities could worsen the credit quality of our investments and could increase the amount of capital we must hold to maintain our risk- based capital levels which are monitored by regulators and rating agencies. At December 31, ~~2022~~ **2023** , approximately 1. ~~2~~ **3** % of the Company’ s $ 7. ~~6~~ **1** billion fixed income available- for- sale securities portfolio was comprised of issuers who were investment grade at the time the Company acquired them but have been subsequently downgraded for various reasons. Although this is an extremely low percentage compared to industry averages, a substantial increase in defaults from these or other issuers could negatively impact the Company’ s financial position and results of operations. For the Company’ s fixed- index products, ~~over the counter~~ derivative instruments (index options) are purchased from a number of highly- rated counterparties to fund the index credit provided to policyholders. These index options consist primarily of one- year call options. Market conditions could cause these instruments to not perform as intended or expected and result in higher realized losses and unforeseen stresses on liquidity. The counterparties may also limit the availability of these hedging instruments or further increase the cost of executing product related hedges which may be difficult to recover in the pricing of our underlying products. Amounts that the Company expects to collect under derivative contracts are subject to counterparty risk. In the event that any of these counterparties fails to meet their contractual obligations under these derivative instruments, the Company would be financially at risk for providing the credits due that the counterparty reneged on. The Company attempts to offset this risk through careful credit evaluation of counterparties, diversification of holdings among numerous institutions, and use of credit support agreements requiring counterparties to provide collateral at specified threshold levels. Although the Company has never had a counterparty default on its obligations, the failure of counterparties to perform could negatively impact the Company’ s financial strength and reduce the Company’ s profitability. The concentration of the Company' s portfolio in any particular issuer, asset classes, industries, or geographic areas could have an adverse effect on our investment portfolios and, therefore, the Company' s results of operations and financial position. In order to minimize this risk, the Company' s investment guidelines contain maximum exposure thresholds to concentrations of risk in order to promote a broadly diversified portfolio. Disruptions in individual market sectors within our investment portfolio could result in significant realized and unrealized losses. More recently, the Company has increased its involvement in other investment ~~areas~~ **instruments** such as commercial mortgage loans, private debt, and alternative investments funds, as a way to diversify its portfolio and obtain incremental investment yield. While not a significant portion of the Company' s overall investment portfolio, these investment areas present additional types and levels of risk not formerly encountered. These investment vehicles are subject to the Company' s investment guidelines and stringent underwriting guidelines in order to mitigate risk factors but remain subject to decreases in valuation or loss. Significant financial and credit market volatility, changes in interest rates and credit spread margins, credit defaults, market liquidity, 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 credit losses include estimations and assumptions that are subjective and prone to differing interpretations and could materially impact our results of operations or financial condition. The Company makes assumptions regarding the fair value and expected performance of its investments. During periods of market disruption and volatility, it becomes more difficult to evaluate securities, particularly if trading becomes less frequent or market data becomes less observable. Fair value of certain securities may be based upon one or more significant unobservable inputs even in typical market conditions. As a result, valuations may include inputs and assumptions that are less observable or require greater estimation and judgment as well as valuation methods which are more complex. These values may not be ultimately realizable in a market transaction and may change rapidly as market conditions change and assumptions are modified. We also consider a wide range of factors about security issuers in evaluating the cause of a decline in the estimated fair value of a security and in assessing the prospects for recovery. Inherent in this evaluation are assumptions about the operations of the issuer and its future earnings potential. Such evaluations are revised as conditions change and new information becomes available. The decision on whether to record a current expected credit loss allowance on debt securities 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 credit loss allowances in our financial statements or that additional allowances 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. Other investment vehicles such as commercial mortgage loans, private debt, and alternative investments present additional challenges in making valuation assessments and estimates of future credit losses. These types of investments typically have less readily available market observable inputs with which to assess the potential for credit or valuation loss and rely more on proprietary valuation techniques and models. Consequently, there may be a lower degree of confidence in such values being ultimately realizable in market transactions. 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, as occurred in 2022, 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 **may prompt** more policyholders than assumed in the product pricing assumptions ~~may~~ **to** surrender their contracts or make early withdrawals in order to increase their returns, potentially 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 an unexpected increase in the level of withdrawal or surrender activity, it could exhaust liquid assets and be forced to liquidate other assets at a loss or on other unfavorable terms. For fixed income security investments maintained in the Company' s " Available- for- Sale " category that are reported at fair values, 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 in the Consolidated Balance Sheets. For trading debt securities that are also reported at fair value, the market value decline in these securities from higher interest rate levels is charged against net investment income in the Company' s Consolidated Statements of Earnings. 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. 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 its products by regulation. When interest rates decline or remain low, as has been the case in recent years, the Company will have to reinvest investment portfolio cash proceeds in lower- yielding instruments, further reducing investment income. As a key component of profitability, a narrowing of investment spreads (" spread compression ") could negatively affect operating results. Although the Company has the ability to adjust the rates credited on products in order to maintain our required investment spread, a significant decline in interest rate levels could affect investment yields to the point where the investment spread is compromised due to minimum interest rate guarantees. In addition, the potential for increased policy surrenders and cash withdrawals, competitor activities, and other factors could further limit the Company' s ability to maintain crediting rates on its products at levels necessary to avoid sacrificing investment spread. When interest rates rise, the Company may not be able to replenish assets in its investment portfolio as rapidly with higher- yielding investments needed to fund / support the higher interest rates necessary to have its product offerings for sale remain competitive. Conversely, a prolonged period during which interest rates remain at lower levels may cause policies to remain in force for longer periods than anticipated in our pricing exposing the Company to additional spread compression and potentially greater claim costs than expected. Due to regulatory and information system support considerations, delays may occur between the time the Company analyzes the need to make changes in the rates it credits on its products and other assumptions used for product pricing and the time the Company is able to reflect these changes in its products available for sale. These delays could negatively impact the long- term profitability of product sales during the interim period. Changes in interest rates may also impact the Company' s business in other ways. ~~The Company' s expectation for future interest earnings and spreads is an important component in determining the amortization of deferred policy acquisition costs (" DPAC") and deferred sales inducements (" DSI"). Significantly lower than expected interest earnings or spreads may cause the Company to accelerate its amortization of DPAC and DSI thereby reducing net income in a reporting period. Additionally, during~~ **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, whose crediting rate mechanism is 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 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. For example, Standard & Poor' s downgraded National Western' s financial strength rating several years ago primarily due to the Company' s strategic decision to cease accepting applications for its international products from foreign nationals outside the U. S. We cannot predict with any certainty what future actions rating agencies may take. A downgrade in our financial strength rating, or an announced negative outlook and potential downgrade, could affect our competitive position making it more difficult to market our products vis- à- vis competitors with higher financial strength ratings, and / or hurt our relationships with distributors, reinsurers and other business partners. In extreme situations, a significant downgrade action by one or more rating agencies could cause a decrease in the sale of our products, prompt defections within our independent sales force, and induce existing policyholders to cancel their policies and withdraw funds from the Company. Currently, the major rating agencies, including A. M. Best and Standard & Poor’ s, maintain stable outlooks on the U. S. life insurance industry. Regardless of their current view, these rating agencies could revise their benchmarks regarding levels of capital, earnings, and other metrics that align with particular rating levels and impact their rating assessments of U. S. life insurance companies. These events could have a material adverse effect on our financial position and liquidity. We 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 traditional indemnity reinsurance agreements. Accordingly, 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. New sales of life products are reinsured by the Company within prescribed limits and do not require the reinsurer' s prior approval within certain guidelines. National Western' s maximum retention limit on an insured life is $ 500, 000 while Ozark National' s maximum retention limit is $ 200, 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. Although subject to the same reinsurance risks described above, the Company has entered into a different type of reinsurance structure twice in the past couple of years. National Western executed a coinsurance with funds withheld agreement effective December 31, 2020 ceding a 100 % quota share of fixed rate and payout annuity policy contractual obligations to a third party reinsurer. Effective July 27, 2022, National Western entered into a second funds withheld coinsurance agreement with a different third party reinsurer ceding a 80 % quota share on certain annuity policies in force as well as agreeing to cede a specific quota share of certain annuity contracts issued subsequently and going forward, also on a funds withheld basis. Unlike traditional indemnity reinsurance agreements, the Company maintains on its Consolidated Balance Sheets invested assets (funds withheld) supporting the policy obligations ceded which also remain on the Company' s Consolidated Balance Sheets. As additional security, comfort trusts have been established for the ~~Company' s~~ benefit **of the Company** in which the reinsurers are required to maintain ~~certain~~ **incremental** assets at a minimum threshold level specified in the reinsurance agreements, which the Company has a first priority security interest in. Similar to traditional indemnity reinsurance, the Company remains contingently liable if these reinsurers fail to perform or meet their obligations. We are subject to policy claims experience which can fluctuate and vary from past results or expectations. The Company’ s earnings are significantly influenced by policy claims received **which** ~~and will~~ vary from period to period depending upon the **number and dollar** 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. For example, the Company incurred incremental claims for death benefits in the years ended December 31, 2021 and 2020 associated with the COVID- 19 pandemic. These COVID- 19 claims significantly declined **subsequent to** ~~in the year ended December 31, 2022~~ **2021** . Meaningful deviations in actual experience from pricing assumptions could have an adverse effect on the profitability of our products. Some of the Company' s products permit premium increases or adjustment of other charges or credits during the life of a policy, but the adjustments permitted under the terms of the policies may not be sufficient to maintain profitability or may induce policies to lapse. Many of our products do not permit us to increase premiums or adjust other charges and credits or otherwise limit the adjustments we can make during the life of a policy. There may be instances in which we may not be able or willing to raise premiums or adjust other charges sufficiently for competitive reasons. Consequently, in the event our future claim experience does not match our past results or pricing assumptions, our operating results could be materially and adversely affected ~~. We are subject to assumption and estimate inaccuracies used in determining deferred policy acquisition costs (" DPAC"), deferred sales inducements (" DSI"), and value of business acquired (" VOBA") balances which may require us to accelerate our amortization. Amortization of our DPAC, DSI, and VOBA balances depends on the actual and expected profits generated by the respective~~

~~lines of businesses. In the course of business, the Company makes certain assumptions regarding expected profits that are dependent upon investment returns, mortality, policy persistency, expenses, interest rates, business mix, and other factors concerning the type of business experience expected in future periods. DPAC, DSI and VOBA amounts are calculated using a number of these assumptions. Amortization is dependent upon actual and estimated future gross profits (" EGP") generated by the lines of business that produced the balances 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 contract holders. DPAC, DSI and VOBA amounts recorded on the Consolidated Balance Sheets are tested to determine if they are recoverable under current assumptions. The estimates and assumptions used to amortize these balances proportional to expected gross profits are also regularly reviewed. Due to the uncertainty associated with establishing these assumptions, the Company cannot, with precision, determine the exact pattern of profit emergence. Updates to these assumptions (commonly referred to as" unlocking") could result in an acceleration of amortization of these balances. 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~~ . The Company may be required to establish a valuation allowance against its deferred tax assets which could materially affect the Company' s results of operations and financial condition. Differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases give rise to deferred tax assets. These deferred tax assets represent future tax savings that would otherwise be paid in cash. GAAP requires that such deferred tax assets be analyzed for their future realizability which is dependent upon the generation of sufficient future taxable income with which to utilize the deferred tax assets. If it is determined that it is more likely than not all or a portion of the deferred tax assets cannot be realized, then an offsetting valuation allowance must be established with a corresponding charge to net income. The Company' s ~~current~~ assessment of future taxable income in combination with the consideration of available tax planning opportunities has **historically** 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 top marginal corporate income tax rate of 21 % prescribed by the 2017 Tax Act. Any future reduction in this rate would cause a further write- down of our deferred tax assets.~~ Regulatory and Legal Risks We are subject to regulation, changes to existing laws, and investigations, domestic and international, 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, individual state insurance regulators (who adopt model laws and regulations of the NAIC, the SEC, state attorneys general, 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 federal level pertaining to insurance products and practices is subject to ongoing debate and could affect not only the design of our products but our ability to continue to sell certain products. The Company' s financial and operational results could be impacted by emerging risk and changes to the regulatory landscape in areas like ESG (environmental, social, and regulatory) requirements. Policies and regulations promulgated in U. S. legislation pertaining to climate risk management and other ESG practices may result in higher compliance costs and potentially increased capital expenditures. Risks in transitioning to new regulatory requirements could increase the Company' s cost of doing business. Failure to adequately address ESG expectations, actual or perceived, could tarnish the Company' s image and reputation and lead to a loss of customers and business partners. 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 these could have a material adverse effect on the Company' s financial condition or results of operations. Other NAIC or state insurance regulator actions, such as ~~the adoption of principles- based reserving or~~ changes to RBC calculations, may adversely impact our business from time to time ~~. The NAIC has been pursuing a variety of changes to its RBC framework which could increase capital requirements for insurers~~ . As described in more detail below in the risk factor titled" 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," most of the life insurance and annuity products that the Company offers receive favorable tax treatment under current U. S. federal income tax laws. These 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. 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. 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 revise accounting standards or guidance that has been integrated into the FASB ASC. ~~Recently~~ **For example** , the FASB issued as ASU 2018- 12, Targeted Improvements to the Accounting for Long- Duration Contracts (" LDTI") **which** ~~. The changes to GAAP from ASU 2018- 12~~ became effective as of January 1, 2023, ~~which means such changes are effective~~ **and has been adopted in the Company' s Consolidated Financial Statements** for the ~~Company with its~~ **three years ended December 31,** 2023 ~~financial statements~~ . The adoption of this new standard ~~presents~~ **presented** significant accounting changes **that** ~~which have~~ required companies **, at substantial cost,** to develop new systems and infrastructure in order to comply. In addition ~~to substantial cost~~ , ~~the standard' s complexity and reliance on having accessible data available~~ **LDTI introduced a new liability concept for certain contracts or contract features (" Market risk benefits") that required measurement at fair values** in **the Consolidated Financial Statements. An outcome of this accounting basis change has been significant volatility in reported earnings as the changes in fair values, primarily interest rate driven, are reported in the Consolidated Statements of Earnings. In addition, changes in the discount rate used for determining the liability for future** policy ~~administration systems has put a heavy compliance burden on insurers~~ **benefits under LDTI creates variability in amounts reported for Other Comprehensive Income (Loss)** . Refer to the discussion on Accounting Standards and Changes in Accounting in Note (1) Summary of Significant Accounting Policies, in the accompanying Notes to Consolidated Financial Statements in this report **for further information** . Future accounting standards required to be adopted could possibly further 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 as well as causing significant incremental costs for initial implementation and ongoing compliance. The Company is also required to comply with statutory accounting principles (" SAP") which are subject to constant review by the NAIC and related task forces and committees. Various proposals either are currently or have been previously pending before the NAIC. The Company cannot predict whether or in what form reforms will be enacted by state legislatures and whether the enacted reforms will positively or negatively affect the Company. We may be subject to unfavorable judicial developments, including the time and expense of litigation, which potentially could affect our financial position and results of operations. Financial services companies are frequently targets of legal proceedings, including class action litigation. In the ordinary course of business, we are involved in various legal actions common to the life insurance industry, some of which may occasionally assert claims for large amounts. Companies in the life insurance and annuity lines of business have encountered litigation pertaining to allegations of improper sales practices in connection with the sale of life insurance, improper product design and disclosures, marketing unsuitable products to customers especially in the senior market, bad faith in the handling of insurance claims, and other similar pleas. Some of these proceedings have been brought on behalf of various alleged classes of complainants. In addition, life insurance companies are subject to risk of errors and misconduct of the agents selling their products for fraud, non- compliance with policies and recommending products or transactions that are not suitable in a particular situation. Often these legal proceedings have involved plaintiffs seeking large and / or indeterminate amounts and resulted in the award of substantial amounts disproportionate to the actual damages including material amounts of punitive compensatory or exemplary damages. In some states, judges and juries have substantial discretion in awarding punitive and compensatory damages which creates the potential for material adverse judgments or awards. In the event of an unfavorable outcome in one or more matters, the ultimate liability may be in excess of the liabilities established in the Company' s accounts. Legal liability or adverse publicity emanating from current or future legal actions, whether or not they actually involve the Company, could have an adverse effect on us or cause us reputational harm, which could, in turn, impair our prospective business. Given the inherent unpredictability of litigation, and the potential complexity and scope of such actions, there can be no assurance that such litigation, current or in the future, will not have a material adverse effect on the Company' s results of operations or cash flows in any particular reporting period. In addition, such matters may become more frequent and / or severe in the event that general economic conditions deteriorate. The Company could be adversely affected by changes to tax law or interpretations of existing tax law which could reduce the demand for certain insurance products. The Internal Revenue Code (the" IRC") provides that income tax payable on investment earnings of certain life insurance and annuity products is deferred during the accumulation period of the policies / contracts until payments are made to the policyholder or other beneficiary giving certain of the Company' s products a competitive advantage over other non- insurance products. In addition, life insurance death benefits paid under terms of the policy are generally exempt from income tax. If the IRC were amended to reduce or eliminate the tax- deferred status of life insurance and annuity products, all life insurance companies, including the Company, would be adversely affected with respect to the ability to sell these products. Such changes in tax law could make the tax advantages of investing in certain life insurance and annuity products less attractive and adversely affect our financial position and results of operations. In addition, the Company is subject to federal corporate income taxes but receives the benefit of certain tax provisions, including but not limited to, dividends- received deductions, tax- exempt bond interest, 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 to time Congress and various state legislatures entertain revenue- raising proposals contrary to the life insurance industry, either by raising rates or otherwise changing tax rules, and there is a risk that federal tax legislation could be enacted lessening or eliminating some or all of the tax advantages currently benefiting the Company and result in higher taxes. The Tax Cuts and Job Act (" Tax Act"), which was passed in December 2017, reduced the federal corporate income tax rate from 35 % to 21 %, but also amended certain tax items unique to the life insurance industry which served to increase the Company' s federal taxable income. Chief among these in the Tax Act were the capping of the amount of tax reserves that the Company could currently deduct below previous thresholds and increasing the amount of acquisition expenses the Company is required to defer for deduction to future periods. The level of profitability of the Company' s products is significantly dependent upon current tax law and the Company' s ability to generate taxable income, which is incorporated into our product design and pricing. Consequently, changes in tax law could impact product pricing and returns or require the Company to reduce sales of certain products or otherwise implement other courses of action that could be disruptive to our business. The Company cannot predict what other changes to tax laws or interpretations of existing tax law may ultimately be enacted or adopted, or whether such changes will adversely affect the Company.