

To Our Stockholders

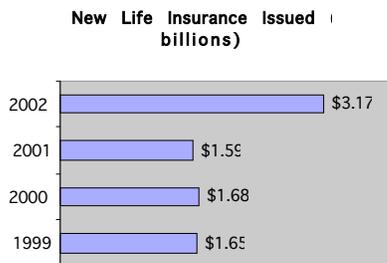
The environment of 2002 continued with a backdrop of uncertainty as the threat of terrorism from outside our borders persisted and moved the nation nearer to the prospect of war. The year produced additional uncertainty within our borders as well with revelations involving incidents of executive mismanagement of assets, fraudulent financial reporting, and the sudden demise of previously respected mega-corporations. These factors created an environment in which public confidence dropped to levels not seen in decades and left many wondering what the future held for them.

In periods of uncertainty like this, the focus of individuals returns to safety by seeking security and protection for their families and their hard-earned financial assets. During 2002, a record number of individuals concluded that National Western's strength, stability, and reliability met their needs when it came to security and protection. We issued more policies meeting the insurance protection and asset accumulation needs of policyholders than at any other time in the Company's forty-six year history. This expression of confidence from over 254,000 individuals owning a policy with National Western reaffirms our commitment to a strategy of conservative and fiscally responsible management in order to meet the needs of those placing their trust in us.

Despite the many challenges presented by the social and economic environment of 2002, National Western enjoyed a year that saw a substantial growth in business and further development of a framework for additional growth in 2003 and beyond. In our report to you last year, we spoke of the steps being taken to effect advancement of the company and generation of incremental value. We are pleased to report that in 2002 we began to witness the favorable outcome from these initiatives.

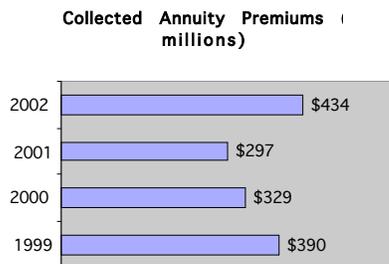
Our Accomplishments

Perhaps no other indicator demonstrates the dramatic growth in our business than the amount of new life insurance coverage issued during 2002 which doubled from the levels of prior years. Not only did we surpass \$2 billion of new life insurance business issued for the first time in the Company's history, we surpassed \$3 billion. As a result, the Company's block of insurance in force grew to approximately \$11.6 billion by the end of 2002.



A pivotal contributor to the growth in life insurance sales in 2002 was the development of our first equity-indexed universal life insurance product which we made available for residents of countries other than the United States. This product, which provides interest earnings linked to the performance of the S&P 500 Index®, was introduced in February of 2002 and by the conclusion of the year represented over 20% of our life insurance business sold.

Likewise, our annuity products enjoyed a strong sales year. The declining interest rate environment during 2002 resulted in lower rate levels which positioned fixed annuities as an attractive accumulation vehicle compared to other fixed income instruments such as money market funds and bank certificates of deposit. Our collected premiums in excess of \$434 million surpassed the previous company record set in 1998 during the immense popularity of equity-indexed annuity products. The weakening economic and interest rate environments precipitated the demand for our fixed annuity products, with over 60% of the year's sales occurring in the second half of the year and continuing to gain momentum heading into 2003.



There is no question that lower interest rates, while increasing demand for our fixed annuity products, also present a challenge in maintaining product profitability. However, we have proactively managed our product features in terms of minimum guaranteed interest rates, surrender charge penalties, and market value adjustment mechanisms to manage crediting rates in step with the earned rates on investments backing the products to maintain our pricing margins without encountering persistency problems with the block of business.

The growth of our product lines reflects our commitment to supporting the independent marketing organizations, agents and brokers who have selected National Western as a product carrier of their choice. We believe that our policyholders receive the benefit of the experience and product knowledge of our independent field force who can offer them expertise in creating financial solutions for their particular situation using the products that we provide and support. In 2002, over 5,000 seasoned insurance agents and brokers opted to enlist National Western as their business partner in providing their clients with valuable financial products.



The year 2002 will be remembered as a year in which financial services companies confronted challenges from a variety of sources. The decline in interest rate levels, combined with a weakening economy and battered credit and equity markets, created an unenviable arena for insurance companies. As has been our practice, we met with independent rating agencies during the year to discuss our strategy and performance in light of these many challenges. The rating agencies were frank in conveying their outlook on the industry, the obstacles confronting life insurers, and what they viewed as key elements for success going forward. In a year the life insurance industry as a whole was viewed negatively and many companies were downgraded, the rating agencies affirmed their high financial ratings for National Western. We are extremely proud in the context of this environment for this affirmation from the independent rating experts that we are doing the right things to be successful in the financial services world.

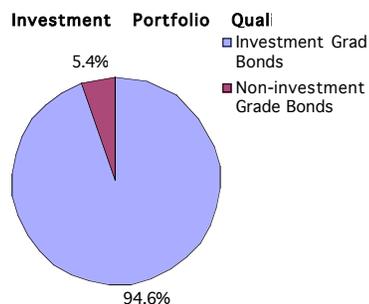
<u>Rating Agency</u>	<u>Rating</u>
Standard & Poor's	A+ (Strong)
A.M. Best Company	A- (Excellent)

Although not visible outside of our home office in Austin, the year 2002 was significant for National Western in terms of technology initiatives undertaken or continued from the prior year. We expanded our utilization of automated workflow processes into additional areas of our back office services moving closer to a "paperless" environment. We commenced what we believe will be a four-year project in transforming legacy systems to a proprietary, state-of-the-art insurance administration network using technologies that will process information faster and more efficiently. In conjunction with this project, we began migrating various support applications, most notably in the investment area, toward platforms compatible with these newer technologies. Each of these initiatives has in mind the goal of enhancing services for our policyholders and distribution system, providing us with the information and tools to expertly manage our business for profitable growth and increasing our operating efficiencies to create intrinsic value for our stakeholders.

Our Results

As an outcome of these accomplishments, the Company generated net earnings of \$42.1 million or \$11.84 per diluted share. Book value increased over 8% to \$172.26 per share. Significant milestones were achieved by the end of 2002 with total assets crossing over \$4 billion and stockholders' equity surpassing \$600 million.

Not unlike many financial services companies, 2002 was a difficult year in terms of investment portfolio management. Volatile credit markets caught off-guard by what seemed to be an endless string of corporate fraud incidents resulted in many insurance companies incurring significant investment portfolio losses, some reaching into the hundreds of millions of dollars on single issuer holdings. We were not immune to these credit and market issues, although our losses were significantly less in scope than those of most others. For the year, our net realized investment losses were approximately \$16.1 million, after-tax, with the majority of the losses relating to credit losses on holdings such as WorldCom and United Airlines. While these losses represented only one half of one percent on our portfolio, we nonetheless continue to carefully monitor our portfolio to ensure that we are managing our risks appropriately. Our investment portfolio is of an overall high quality with a Standard & Poor's rating averaging "A+" and is well diversified in all respects. An aspect of our investment philosophy which mitigates against significant losses is the practice of avoiding heavy concentrations in any single credit issuer or sector while investing solely in investment grade securities.



Although we will likely see additional investment losses in 2003 with entire sectors such as energy, telecommunications, and airlines entering the year weakened, we expect that our minimization of single credit exposure along with active monitoring of our credit positions will continue to serve us well in keeping such losses to a minimum.

While our 2002 performance demonstrates the success of achieving record top line growth, our operational focus has consistently centered on building the underlying value of the Company by reinvesting earnings back into the business to fund growth and future profits. It is a focus that has been recognized by rating agencies, an independent distribution system, and by our policyholders and shareholders. Stockholders' equity has increased from \$186.1 million at the end of 1992 to \$607.2 million at the end of 2002.

This represents an annual compounded rate of growth during this ten-year period of over 12.5%. Not surprisingly, the book value per share during this same time period has increased at a 12.4% annual compounded rate of growth. We believe that this focus of building the embedded value of the Company amply rewards all of our stakeholders over the long term.

Our Future

Independent rating agencies have commented that National Western's diversification of business risk positions us well for success. We will continue to build upon our strengths with international residents who have financial goals that are satisfied with our products. In addition to a multi-lingual home office staff supporting Spanish, Portuguese, and Chinese languages, we anticipate adding to our expertise with other non-English dialects. The international aspect of our products and services provides additional diversification for our business risks and helps to minimize exposure that comes with concentrating a disproportionate share of revenue source from one area of operation. We will continue to attract independent distribution to build up a distribution system to support our growth targets for the future. We will strive to become product innovators in offering value-added products to our customers which amply reward our business partners, our agents, for their efforts while meeting our profit objectives and protecting from risks posed by a low interest rate environment.

The headlines of the past year involving accounting irregularities and business failures damaged investor confidence and ushered in a new era of public company disclosure requirements and regulation. The changes implemented and being proposed by listing exchanges and regulatory agencies will cause publicly held companies to exhaustively review their corporate governance procedures. National Western, as a licensed insurer in forty-eight states, and as a public company listed on the NASDAQ exchange, is already subject to regulation by each insurance department in the states we do business, as well as to the requirements of the Securities and Exchange Commission (SEC), and has promoted an operational environment placing an emphasis on honesty and integrity. We encourage our stakeholders to review our annual Form 10-K filing, which contains extensive discussion and disclosure of the Company's business, either by visiting the websites provided in the Corporate Information section of this Annual Report or by contacting our Investor Relations area for a copy free of charge.

Finally, our thanks and appreciation go to our Board of Directors for their commitment and oversight, to our management and staff for their tremendous efforts in supporting our growth and executing our strategy, and to our independent marketing organizations, agents and brokers for their loyalty and continued support behind the success of National Western. We are confident that the successes of 2002 will be continued in the future because of the talents of these individuals and that we will continue to build value for our shareholders.

Robert L. Moody
Chairman of the Board and
Chief Executive Officer

Ross R. Moody
President and
Chief Operating Officer