

TO OUR STOCKHOLDERS



“Each year brings new challenges and 2003 was no exception, but as we continue to evolve with each season, we are able to report our many successes and our new beginnings with a view toward a bright future.”

The year 2003 served as a reminder of how the seasons of life are intertwined with the financial needs we are fulfilling for our policyholders. Fundamental to what we do as a company is to assist individuals and families implement and secure a financial plan as they move through the various stages of their lifetime. Early on this financial plan typically focuses on protection with a longer term perspective and strategy of providing for a better future. This focus eventually transitions to a period where accumulation and wealth savings begin to take on greater importance as thoughts and plans about how the latter years of life will be lived become the primary concern. Then the time arrives where the benefits of carefully planning for the future are enjoyed and financial needs are amply provided for. Finally, benefits to heirs and future generations become a consideration as the financial plan developed over many decades transforms into a lasting legacy to family and loved ones. Throughout the weaving of a lifetime of financial coverage, National Western is there each step of the way.

Likewise, we as a company continue to go through stages of development as we evolve and grow. While certain aspects of our operations are mature promoting stability and a solid footing, other parts undergo a necessary rebirth in order to start another life cycle of growth and energy ensuring successes well into the future.

Each year brings new challenges and 2003 was no exception, but as we continue to evolve with each season, we are able to report our many successes and our new beginnings with a view toward a bright future.



The year witnessed the rebirth of one of our product lines of business. The ending months of 2002 presaged a renewed interest in annuity products but not to the level that ultimately occurred. Disappointing equity market performance the past several years and historically low interest rate levels combined to create an environment in which annuity products fulfilled the financial planning objectives of many individuals. With this source of rejuvenation annuity sales propelled to new record levels.

Annuity Contracts Issued

2003	21,400
2002	8,000
2001	5,600
2000	6,700

This tremendous resurgence translated into approximately \$1.2 billion of annuity deposits with National Western during 2003, nearly tripling the \$434 million company record set the year before. The rebirth in annuity products was nurtured with the same financial disciplines that are consistently applied throughout our operations. Specifically, we managed annuity sales within the parameters of our product pricing, not sacrificing our investment spread or targeted product profitability; we invested prudently, not taking on investment risk in chase of incremental yields nor mismatching the duration of our investments with our contract obligations; and we mitigated other potential risk exposures



through surrender charge penalties, market value adjustment features and lower minimum guaranteed interest rates.

This past year also presented us with residents of several countries from which the company had previously never accepted applications. New to our active block of insurance policies are residents of Jamaica, Russia, and several of the former republics of the Soviet Union. The addition of these countries demonstrates the maturity of National Western's business presenting new opportunities for growth and diversification. Our longstanding reputation for providing value through dollar-denominated life insurance coverage to residents of countries other than the United States is a strategic core competency for us.

We mentioned in previous reports our initiative of migrating various legacy systems toward state-of-the-art platforms using leading edge programming languages and technology. While this is a several-year initiative, we successfully released several phases and related applications of this venture for use by our employees this past year and enjoyed immediate benefits in processing efficiencies and access to information. We believe that the continual evolution of our technology is critical to our business model and goals for future growth and profits.

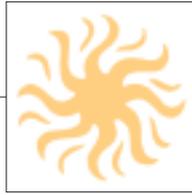


While operations were warming up considerably with the expansion of our annuity sales, National Western continued to attract substantial attention from the community of independent contractor broker-agents. The Company's success in adequately preparing and planning for the challenges of a low interest rate environment uniquely positioned us to offer a product portfolio attractive not only to policyholders but also to the agents that market these types of products. The result was an explosion in the number of independent broker-agents desiring a contract to sell our products. At the end of 2003, we maintained active contracts with 15,380 independent broker-agents.

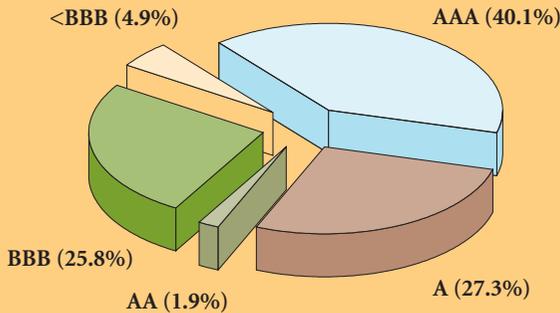
New Agents Contracted



The past couple of years have been extremely challenging to the life insurance industry on many different fronts but in particular with respect to credit quality exposure within fixed income security portfolios. While we have never invested in below investment grade securities, we were not immune from certain sectors, the airline industry for example, whose credit ratings took significant downturns due to an overall negative sentiment concerning the sector. High profile incidents involving several companies and mismanagement of assets and/or



BOND PORTFOLIO QUALITY



fraudulent financial reporting practices compounded the poor credit quality environment.

Our investment strategy has emphasized a buy-and-hold approach with stated objectives of maintaining security of principal and providing ample liquidity to meet our operational needs. Consequently, we maintained our positions in sectors that had fallen out of favor believing in our detailed credit evaluation process rather than the waves of market emotion and sentiment. Our persistence was rewarded during 2003 as the market values of these downtrodden sectors recovered more in line with the underlying fundamentals of the corporate entities. Accordingly, investment losses did not repeat the levels of the past three years and the overall quality of our portfolio improved substantially, as evidenced by the fact that the total market value of our portfolio exceeded the cost basis in the securities as of the end of 2003.



As we moved into the latter half of the year, it was becoming abundantly clear that 2003 was destined to become a record year for the company. We were transacting more business than ever, servicing a larger contingent of independent agents and policyholders, and transforming our



back office with new technology and other organizational changes. Indeed, our business volumes were such that space planning and reorganization of our home office facilities were required in order to adequately staff for the work and create a physical layout facilitating the efficient processing of business. We issued nearly \$3 billion in new life insurance coverage during 2003 and our level of life insurance in force at the end of the year approached \$13 billion.

Life Insurance In Force (\$ Billions)

2003	12.9
2002	11.6
2001	10.0
2000	9.7

The steady, and sometimes rapid, growth of our block of business is the lifeblood of future profits and value. We have operated the company based upon the underlying premise that the intrinsic value of the company is maximized through the careful management of the economics of our business and the reinvestment of earnings back into the operations to fund growth and future profits. The evidence demonstrating the effectiveness of this approach is found in our book value per share. At the end of 2003, the company's book value per share had reached \$191.69 increasing over 11% from the year before.

The management of profitability is a dynamic process entrusted to the hands of company management whose day-to-day decisions are critical to protecting the embedded value of the business. During 2003, many difficult decisions were made along the line of safeguarding profitability. These decisions included discontinuing



the availability of certain products for sale, cutting agent commission levels on various products, terminating unproductive or unprofitable sources of independent agent distribution, repricing products to reflect more recent experience in certain geographic areas, reducing rates credited to policyholders, and holding the line on home office staff additions in the face of increased business activity levels. While never pleasant, these decisions were made knowing that they would serve to enhance or protect the value for all of our stakeholders.

As the year progressed, the prudence of these decisions and our approach to building value began to be rewarded by market observers. Positive trends in top line sales and revenue growth along with bottom line earnings translated to appreciation in the market value of the company's shares. While the market clearly vacillates based upon a multitude of related and unrelated factors, 2003 was clearly a year in which investors viewed the company's progress much more favorably.



With the close of the year, the strong operating outcome that was anticipated emerged with the closing of the accounts. When the numbers were finalized, they revealed the many successes of 2003. Among these successes were total assets exceeding \$5 billion, record total revenues of nearly \$400 million, and total market capitalization in excess of \$500 million.

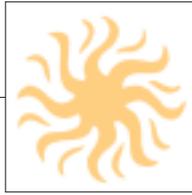
Surpassing these various financial milestones translated into a strong operating performance. Net earnings increased 33% to \$55.8 million from \$42.1 million in 2002 and diluted earnings per share increased 32% from \$11.84 per share to \$15.64 per share. We feel very good about our outcome for 2003 and the prospect of continued success in the future.

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



We met recently with independent rating agencies to recount the performance of 2003 and the ongoing maturation of the company. While the life insurance industry continues to have many challenges to overcome, the rating agencies agree that National Western enjoyed particularly encouraging results given the current environment. With this in mind, the rating agencies have again affirmed their high financial ratings reflecting their confidence in our operating performance and strategy.

While confident about the future, we recognize that we still have much work ahead and the structure in which we operate will impose additional requirements upon us. As a public company listed on the NASDAQ exchange, we are subject to the many incremental regulations



emerging from the Sarbanes-Oxley Act of 2002 as enforced by the Securities and Exchange Commission (SEC). With accelerated time frames for disclosure of events and information and added levels of corporate governance controls and restrictions, compliance with the various aspects of the Act will be costly and burdensome from a resources standpoint. However, these requirements are necessary to help restore public confidence in the integrity of company management and financial accountability. We intend to utilize the process of compliance with the Act as an opportunity to look afresh at our processes and procedures with an eye on creating enhanced operating efficiencies and potential cost savings.

Additional information regarding our performance, business and operating structure are included in the SEC Form 10-K filing for 2003 included as part of this Annual Report. We encourage our stakeholders to review the information provided as well as other information available on our website (www.national-westernlife.com). Recent enhancements to our website provide more access and information regarding the company than ever before. As always, feel free to contact our Investors Relation area regarding any other need for information and assistance.

We extend thanks and appreciation to our Board of Directors for their ongoing commitment and oversight contributing to the success of National Western. In particular, we wish to extend our most sincere gratitude to Art Dummer who is concluding his time on the Company's Board of Directors after 24 years of loyal and valuable service. We have appreciated Art's insight and insurance industry expertise and are deeply indebted for his many contributions over the years.

Finally, we offer our congratulations and thanks to our employees for their dedication and hard work in providing quality products and service to our agency force and policyholders. Their efforts are key to the success of National Western and the building of value for our shareholders.

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

Ross R. Moody
President and Chief Operating Officer

