



TO OUR STOCKHOLDERS

*National Western's
Core Foundation
Centered Upon
Financial Strength
and Stability
Has Proven
Highly Successful.*

A year ago at this time, we were providing you, our stockholders, with a report on the results of the 50th year of operations for National Western Life Insurance Company. Who could have predicted back then the subsequent turbulence in the financial markets that played out during the remainder of 2007 and continued on into 2008? We have witnessed unprecedented interventions into capital markets by regulators and policymakers to stave off financial crises, credit concerns, and an overall loss of confidence in the economic infrastructure.

If fifty plus years of experience has taught us anything it is that the most difficult of times also present some of the most opportune moments for success. Especially during periods of uncertainty, National Western's core foundation centered upon financial strength and stability has proven highly successful. Our performance in 2007 reinforced this business model as several significant landmarks were achieved. These landmarks are included among the following highlights:

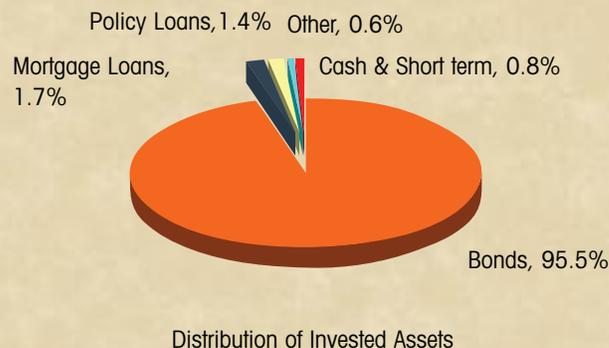
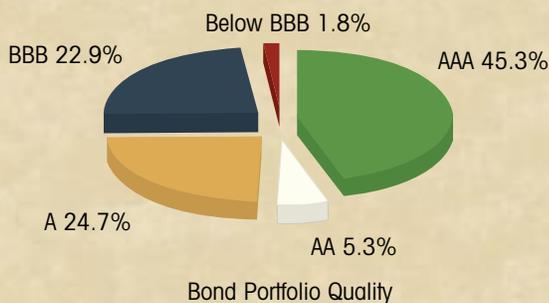
- Stockholders' equity surpassed \$1 billion.
- Net operating earnings exceeded \$80 million for the first time in Company history.
- Life insurance sales measured in terms of net annualized placed target premium grew by 36% over the prior year.

- The face amount of new life insurance issued approached \$3.7 billion, outdistancing the prior year record by 21%.
- The book value per share continued its consistent growth pattern increasing over 8% to \$279.29.
- A.M. Best raised its rating outlook on National Western from stable to positive.

Over the years, various economic cycles have challenged our business model and the events witnessed the past twelve months have presented yet another round of challenges. The credit markets have been buffeted with issues arising from the freefall in the housing industry. Revelations of lax underwriting standards in the mortgage finance arena fueled the fast downward spiral involving securities tied to this sector. Recently, the estimate of total financial writedowns that will be incurred by all those involved with these securities has been increased to nearly one trillion dollars. Not surprisingly, these developments have again put a spotlight upon the investment philosophy and holdings of financial service companies.

Our well-tested investment philosophy has been predicated upon building a high quality investment portfolio while avoiding credit risk. We take tremendous pride in our internally managed investment portfolio that is competently diversified by all relevant measures such as issuer, industry, and asset class. Over 98% of our fixed





maturity portfolio is investment grade which is significantly better than the overall industry average.

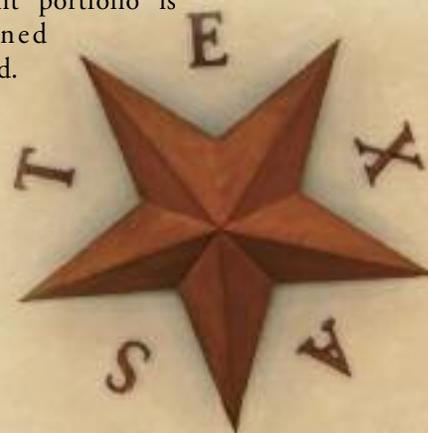
During 2007, we purchased approximately \$438 million of fixed maturity debt securities. The weighted average credit quality (Standard and Poor's ratings) of these purchases was "A+" and the gross yield to maturity was just under 6%. Within the framework of asset/liability matching, the average duration of these purchases was less than seven years, which along with the duration of the existing investment portfolio, matched closely the estimated duration of our policy and contract liabilities.

Of course, the story during 2007 was centered upon a particular group of securities most frequently referred to as "subprime mortgages". The uniqueness of these securities involves loans to borrowers who generally do not qualify for prime interest borrowing rates due to poor or insufficient credit history. During the tail-end of the housing boom in 2005 and 2006, the lending to these borrowers became acutely aggressive. This activity subsequently became apparent to investors when a slowing housing market combined with rising interest levels manifested itself by the way of higher delinquency rates. This in turn caused illiquidity in the marketplace for these securities

and tremendous volatility in the market prices. As more information became publicly available as to the extent of holdings in this sector, the seriousness of the situation was amplified producing further deterioration in these investments.

At the end of 2007, our holdings in subprime mortgages (including a subsector referred to as "Alt-A" securities) was limited to less than \$60 million dollars representing under 1% of our invested assets. In addition, all of our investments in these types of securities were made prior to 2005 when the financial underwriting of the underlying borrowers was held to a more stringent standard. Accordingly, all of our holdings in this sector were rated "AAA" as of December 31, 2007 and more than half of the holdings were wrapped by bond insurers for additional credit enhancement.

Given the ongoing issues in the marketplace, we are diligently monitoring our investment holdings. However, with the guidelines imbedded in our long-standing investment philosophy emphasizing credit quality and preservation of principal, we believe that our investment portfolio is well-positioned moving forward.



We were particularly pleased after holding our annual review with representatives from A.M. Best last spring that their rating review committee not only confirmed our current “A- (excellent)” rating but also elected to raise our rating outlook from “stable” to “positive”. The significance of this move is that it reveals the likelihood in the next one or two rating cycles of an increase in our rating. We have worked hard to demonstrate to the rating agencies the soundness of our business model, the high quality level of our balance sheet, and the stability provided by our ever increasing capital base. It was especially satisfying to receive positive affirmation in 2007 that the direction we are headed as an organization meets with approval when held under the microscope of nonpartisan evaluation.

Naturally, none of the above would be relevant without delivering results, and we are pleased to be able to once again report on a very successful year. A valid measure of progress, operating earnings, again produced record results, for a fifth consecutive year. Earnings from operations, which exclude variations

caused from changes in realized investment gains and losses, increased over 11% to \$83.1 million, the first time in Company history that we surpassed the \$80 million threshold. Translated to a per share basis, operating earnings in 2007 increased to \$23.31 per diluted Class A share from \$20.97 the year before.

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In our prior letters to you, we have pointed out that our primary emphasis has been upon life insurance sales reflecting our long-term focus upon growth and profitability. The strategic course of action being followed is to consistently build and grow a profitable book of business over an expansive time horizon thereby cultivating year over year gains in the intrinsic value of the Company.

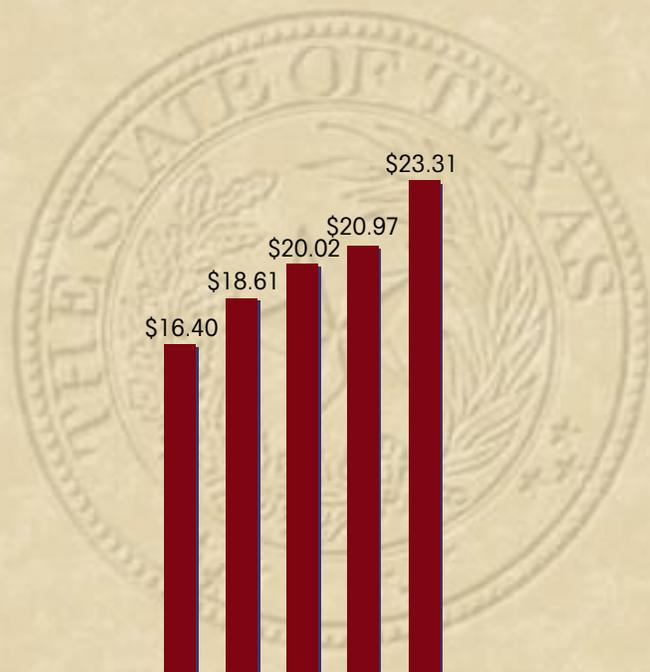
These gains in intrinsic value are perhaps best captured in the book value per share metric. We consistently report this figure in our quarterly earnings releases in order to reinforce this strategy of building intrinsic value. Over the past five years, our book value per share has grown at a compound annual rate in excess of 10% and rests at approximately \$279 per share at the end of 2007.



New Life Insurance Issued (\$ millions)



Diluted Operating Earnings per Class A Share



The development of the book value per share is predicated not only upon the business on the books performing in line with the expectations framed in our product pricing assumptions, but adding incrementally more of the same profitable layers of policies each year. Generally, we would anticipate that life insurance sales annually would show growth in the 7 to 10% range in order to produce the steady upward trend in profitability that is desired.

However, we occasionally experience those years where our efforts are rewarded beyond normal expectations. This past year was just one of those times when we witnessed a “growth spurt” in our business. Both our domestic and international markets enjoyed tremendous success growing 39% and 34%, respectively, in terms of new placed annualized target premium. Together these two markets generated over 21% more in new life insurance face amount of coverage in 2007 than in the preceding year.

Since our inception over fifty years ago, we have followed a path of profitable growth. The promises contained in our insurance contracts must be backed by the financial ability and wherewithal to

perform in accordance with those promises in order to allow our policyholders in the forty-nine states of America in which we are licensed to do business, as well as residents in approximately forty other countries around the globe, to sleep soundly at night. Our results this past year reflect our commitment to the solid financial principles and prudent business practices needed to keep the faith and trust of those choosing to do business with us and those choosing to place part of their financial security in our care.

We take pride in building a strong capital base from which to meet our ongoing obligations, provide the resources to fund ongoing growth and promote the financial solidity that is appreciated by all of our stakeholders. National Western finished 2007 with stockholders’ equity in excess of \$1 billion for the first time ever. Our risk-based capital levels are multiples above the amount regulators want to see from an insurer with our business profile. In a period of financial uncertainty, we are well-situated to take advantage of opportunities that challenging times present.

Visitors to our home office in Austin, Texas are always amazed that resident in our four story



facility is the unique ability to provide personalized service to individuals around the world in dialects ranging from Spanish to Portuguese to Mandarin Chinese and to Russian. Our website, www.nationalwesternlife.com, is maintained in each of these languages offering access to information for individuals around the globe. Providing this level of service to such a vast array of people requires a highly trained and competent core of individuals who share in the Company's commitment to provide world class service. Our home office employees, many of whom are bilingual, take pride in the success of National Western and the role that each of them plays to meet the expectations of those who do business with us. This commitment can take on many levels but is perhaps no better represented than by two individuals, Doris Kruse, our Vice President of Policy Benefits, and Jo Morris, our Vice President of Domestic Client Services, who each attained forty years of dedicated service to National Western in 2007. Our Board of Directors formally recognized each of them for their commitment and contributions over the past four decades.

We are ever diligent in maintaining the appropriate level of corporate governance, not only to satisfy the many regulations which we are subject to by the Securities and Exchange Commission, the NASDAQ exchange, and state insurance departments, but also to promote honest and ethical conduct in our activities and service to customers.

We have adopted a number of compliance, auditing and underwriting procedures which are designed to curtail illegal activity and directed toward ensuring that our business behavior complies with the ethical standards established by our Board of Directors and management.

As annually required, our Chief Executive Officer and Chief Financial Officer each signed certifications attesting to the effectiveness of the Company's internal controls surrounding financial reporting and disclosure and filed these with the Securities and Exchange Commission in conjunction with its annual filing requirements with this agency. Our independent external auditors again audited not only the Company's financial statements but also its

NATIONAL WESTERN AT A GLANCE

Company Profile	Domestic Operations	International Operations
Founded in 1956	Licensed in 49 states and several other U.S. Territories	Policies in force with residents in over forty countries
291 Home Office Employees	5,610 licensed independent agents/brokers	5,240 licensed independent agents/brokers
\$6.8 billion in total assets	120,240 annuity contracts and \$2.9 billion of life insurance in force	\$14.8 billion of life insurance in force
Standard & Poors Rating of A (Strong) and A.M. Best Rating of A- (Excellent)	Fixed indexed annuities, traditional fixed annuities, immediate annuities, universal life, term insurance, equity-indexed universal life	Universal life, term insurance, endowments, equity-indexed universal life, traditional fixed annuities

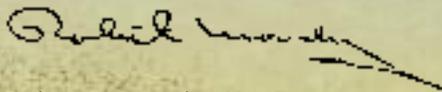
internal control over financial reporting and issued their unqualified opinions over both. These exercises not only demonstrate our ongoing compliance with our corporate duties and responsibilities but our focus on doing what is right for the benefit of everyone with a vested interest in National Western.

For your benefit, included in this Annual Report is a complete set of our audited financial statements as filed with the SEC. Along with the other information available on our website (www.nationalwesternlife.com), we attempt to report our financial results and business operations in the most straightforward manner possible to facilitate your understanding of the Company. You are encouraged to review the information provided in this Annual Report and contact us if you have any questions.

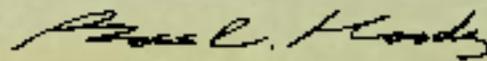
Hopefully, this discussion of our 2007 results reinforces your confidence in the direction National Western is headed. The conservative financial principles and sound business practices by which we have managed the Company for over fifty years have proved to be the right framework in both good times as well as in less desirable conditions. As we continue to strive to meet the needs of our policyholders and independent distributors, we will persist in delivering results for you, our stockholders.

Annually, we express our appreciation and thanks to the Company's Board of Directors for another year of faithful service. The changes in our world in the past decade alone have heightened the demands placed upon board directors enormously. National Western's directors have served admirably under these conditions to uphold their fiduciary responsibility for leading and setting the overall direction of the Company. Within this scheme our dedicated group of employees has the freedom to execute their duties and responsibilities to the best of their individual and collective abilities. The successful outcomes in 2007 bear witness to the ability of our people to deliver in a timely and effective manner towards our goals and objectives. Without their efforts, National Western would not be able to report the pattern of achievements from year to year. The independent contractors who represent National Western with their clients have recognized our commitment to be a long-term business partner and have made their decision to do business with us based upon our ability to help them be successful. We appreciate their confidence and trust and know that our future successes are dependent upon one another.

Finally, we thank you, our shareholders, for your continued trust and confidence as we look forward to a promising future.



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



Ross R. Moody
President and
Chief Operating Officer

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