Torchmark Corporation

LETTER TO SHAREHOLDERS

2002 was a good year for Torchmark. Our net operating income increased 5% to $424 million. On a per share basis, our net operating income increased 9% to $3.51.

Although our underwriting income declined 2% for the year, our excess investment income increased 15%. We managed our capital effectively, including the repurchasing of our stock, which enhances the current and future value of the investment of our shareholders.

FINANCIAL REVIEW

KEY COMPONENTS OF NET OPERATING INCOME

	$ MILLIONS			PER DILUTED SHARE		
	2002	2001	%	2002	2001	%
INSURANCE UNDERWRITING INCOME	$359.4	$367.9	(2)	$2.98	$2.92	2
EXCESS INVESTMENT INCOME	295.0	255.5	15	2.44	2.03	20
OTHER*	(14.2)	(14.5)	(2)	(.12)	(.12)	—
INCOME TAX	(216.6)	(204.4)	6	(1.79)	(1.62)	10
NET OPERATING INCOME	**$423.6**	**$404.6**	**5%**	**$3.51**	**$3.21**	**9%**

* In compliance with the Financial Accounting Standards Board, Goodwill was not amortized in 2002. For the sake of comparison, amortization of Goodwill has been removed from the 2001 financial data.

Life insurance annualized premium issued increased 13% to $334 million. Premium income increased 7% to $1,221 million. Underwriting margin, which is the premium income less the amounts required to (1) fund current and future benefits and (2) amortize acquisition expenses, increased 5% to $299 million.

Health insurance annualized premium issued declined 5% to $202 million. Premium income increased 1% to $1,019 million. Underwriting margin declined 3% to $167 million.

Annuity premiums declined 35% to $39 million, and the underwriting margin declined 46% to $13 million.

Insurance underwriting income, which is the sum of the underwriting margins plus other income and less administrative expenses, declined 2% to $359 million.

Net investment income increased 5% to $522 million. The required interest on our net policy liabilities increased 2% to $193 million, and our financing costs declined 33% to $35 million. Therefore, excess investment income increased 15% to $295 million.

Assuming that our fixed maturity assets are reported at amortized costs instead of market, book value per share was $22.46, net operating income as a return on equity was 16.5% and our debt to capital ratio was 25.2% (including our preferred securities as debt).