Torchmark Corporation

2002 Annual Report

Torchmark Corporation

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CORPORATE HEADQUARTERS

Torchmark Corporation
2001 Third Avenue South
Birmingham, Alabama 35233
(205) 325-4200
www.torchmarkcorp.com

ANNUAL MEETING OF SHAREHOLDERS

10:00 a.m, Thursday, April 24, 2003
Corporate Headquarters
Birmingham, Alabama

The proceedings will be webcast live and in replay on the Investor Relations page of the Torchmark website. The Company's Annual Meeting will be conducted in accordance with its Shareholder Rights Policy. A copy of this policy can be obtained on the company's website, or by contacting the corporate secretary at the Torchmark headquarters address.

INVESTOR RELATIONS

Contact: Joyce L. Lane
Phone: (972) 569-3627
Fax: (972) 569-3696
E-Mail: jlane@torchmarkcorp.com
General stock ownership information:
(205) 325-4270
Toll-Free Stock Transfer Number:
(866) 557-8699

TORCHMARK CORPORATION WEBSITE

Shareholders will find press releases, quarterly and annual financial reports, management presentations, SEC Filings and calendar of events on the Investor Relations page of the Torchmark Corporation website.
www.torchmarkcorp.com

INDEPENDENT AUDITORS

Deloitte & Touche, LLP
2200 Ross Avenue
Suite 1600
Dallas, TX 75201

STOCK EXCHANGE LISTINGS

New York Stock Exchange
Symbol: TMK

The International Stock Exchange, London, England

INDENTURE TRUSTEE FOR SENIOR DEBENTURES AND 7 7/8% AND 7 3/8% NOTES

Bank One N.A.
1 BankOne Plaza
Mail Code IL1-0134
Chicago, Illinois 60670-0134
Toll-Free Number: (800) 524-9472

INDENTURE TRUSTEE FOR 6 1/4% NOTES

The Bank of New York
101 Barclay Street, 21W
New York, NY, 10286
Attention: Corporate Trust Administration
Toll-Free Number: (800) 254-2826
www.bankofny.com/corptrust

TORCHMARK CAPITAL TRUST PREFERRED SECURITIES

Torchmark Capital Trust I and II, Delaware business trust subsidiaries of Torchmark, have issued a total of 5,000,000 7 3/4% Trust Preferred Securities (liquidation amount $25 per Trust Preferred Security). The Trust Preferred Securities trade through Depository Trust Company under global certificates listed on the New York Stock Exchange (Torchmark Capital Trust I NYSE symbol: TMKPRT; Torchmark Capital Trust II NYSE symbol: TMKPRS).

STOCK TRANSFER AGENT AND SHAREHOLDER ASSISTANCE

The Bank of New York
Shareholder Relations, Dept. 11F
P.O. Box 11258
Church Street Station
New York, NY 10286
Toll-Free Number: (866) 557-8699
Toll-Free Hearing Impaired Number:
(888) 269-5221
E-Mail: shareowner-svcs@bankofny.com
www.stockbny.com

DIVIDEND REINVESTMENT

Torchmark maintains a dividend reinvestment plan for all holders of its common stock. Under the plan, shareholders may reinvest all or part of their dividends in additional shares of common stock and may also make periodic additional cash payments of up to $3,000 toward the purchase of Torchmark stock. Participation is voluntary. More information on the plan may be obtained from the Stock Transfer Agent by calling: toll-free (866) 557-8699 or by writing: The Bank of New York, 101 Barclay Street, 21W, New York, NY, 10286.

AUTOMATIC DEPOSIT OF DIVIDENDS

Automatic deposit of dividends is available to shareholders who wish to have their dividends directly deposited into the financial institution of their choice. Authorization forms may be obtained from the Stock Transfer Agent by calling toll-free (866) 557-8699. Participation is voluntary.

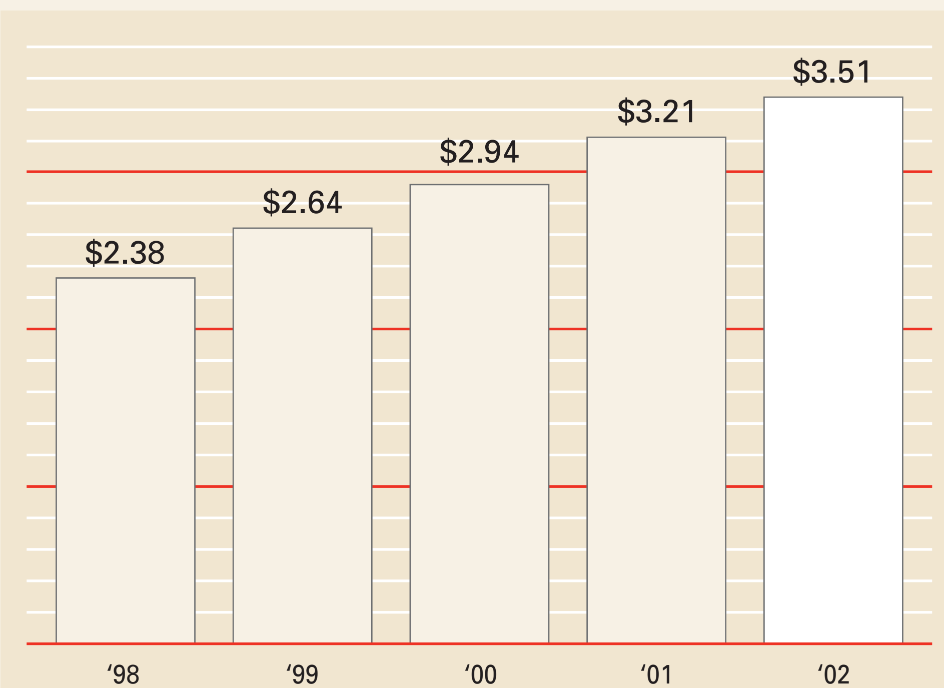
Torchmark Corporation

FINANCIAL HIGHLIGHTS

(In thousands except percent and per share amounts)

	2002	2001	% CHANGE
OPERATIONS:			
Total Premium	$2,279,033	$2,215,169	2.9
Total Revenue	2,737,966	2,707,042	1.1
Net Operating Income *	423,609	404,585	4.7
Annualized Life Premium in Force	1,343,156	1,257,413	6.8
Annualized Health Premium in Force	1,030,482	1,042,643	(1.2)
Diluted Average Shares Outstanding	120,669	125,861	(4.1)
Net Operating Income as a Return On Average Common Equity **	16.5%	16.6%	
PER COMMON SHARE:			
Net Operating Income *	$3.51	$3.21	9.3
Shareholders' Equity at Year End **	22.46	20.25	10.9

NET OPERATING INCOME PER COMMON SHARE*



* Excludes realized gains and losses, the loss on redemption of debt and preferred securities, discontinued operations, required changes in accounting principles in 1999 and 2001, and other nonrecurring items. All prior periods exclude amortization of goodwill.

**Includes fixed maturity investments at amortized cost.

About Torchmark Corporation

A life and supplemental health insurer specializing in the middle-income market through premier niche distribution systems . . .

Torchmark provides protection-oriented life and supplemental health insurance to middle-income Americans through its premier niche distribution organizations. We succeed in this market while many life insurers have moved up-scale seeking the smaller high-income market focused on asset accumulation. To understand our successful strategy and how we have used it to build a profitable, predictable, stable, cash-generating company, is to understand our market and products, as well as our expertise and discipline necessary to execute our strategy.

OUR MARKETS

We market to financially under-served "middle-income" households, those with annual incomes of $25 thousand to $75 thousand. These 50 million households comprise 46% of all U.S. households (U.S. Census Bureau, 2001 Income Statistics) and Torchmark has policies in force in 4 million of those households. In the last few decades, many other life insurers have followed other financial institutions by targeting the smaller, more affluent sector of the population with a focus on selling highly competitive, lower profit margin insurance products with asset accumulation features. The more affluent sector with household incomes exceeding $75 thousand comprises only 25% of total households (U.S. Census Bureau, 2001 Income Statistics). Fewer insurers target potential customers who need a basic "protection" insurance program, those who are the largest segment of the population. We believe the exodus by many insurers from the middle-income market stems from lack of expertise in profitably marketing protection-type insurance, as well as lack of the necessary expense control discipline. Torchmark capitalizes on its expertise in these areas.

We further exploit our understanding of the middle-income market by segmenting our marketing efforts by various niche distribution methods, including direct response and various types of agencies, as well as affinity groups within the broader market, for example, senior-age customers, the military and labor union members.

Torchmark is well known in the industry as one of the most cost-efficient providers of life and health insurance.

Torchmark is well known in the industry as one of the most cost-efficient providers of life and health insurance, in part because of efficiencies gained from integrating administrative functions of its operating subsidiaries and focusing on protection life and health products. Lesser known is our corporate commitment to minimizing acquisition costs. But the public image of which we are most proud is the reputation of our subsidiaries and agencies in their niche markets. As a result, we market our products under the names of each subsidiary rather than the Torchmark name to take advantage of the strong market niche recognition that each of our subsidiaries already had developed before joining the Torchmark group. It would be difficult to overstate the value of the positive name recognition that our leading subsidiaries have as stable, high quality organizations.

OUR PRODUCTS

LIFE INSURANCE

The life insurance we write is designed to provide a basic financial benefit in the event of the death of the insured person, which is the foundation of all life insurance programs. For many of the customers we serve, it may well be the first and only life insurance they own. The policies are either simple, individual whole life policies which will over time build modest cash surrender amounts, or simple term policies. In 2002, the face amount of our average agent-sold life insurance policy was $32 thousand and $12 thousand for our average direct-response sold life policy.

protection life insurance

Very few of our life insurance products contain additional savings, or asset accumulation features that are dependent on outside financial market growth for their financial success. As a result, the reserves that we are required to put aside for paying future life insurance benefits are very stable and not subject to swings in financial markets. These features of protection life insurance not only insulate the customer from swings in the market value of their insurance purchase, but also result in very predictable profits for us with little influence from outside financial market swings for which we have no control.

HEALTH INSURANCE

The health insurance that we market is individual supplemental health insurance. The term "supplemental" means that the insured person has a primary health insurance program that pays most of the insured's expenses, such as the federal Medicare program for individuals age 65 and over. Medicare supplement policies, for which Torchmark's United American Insurance Company is best known, are designed to coordinate with traditional, fee-for-service Medicare by paying the deductibles and coinsurance required under Medicare.

We also sell other types of limited-benefit supplemental policies that are popular with those who choose to self fund much of their day-to-day routine health care. They can reduce the risks of self funding by buying a limited-benefit supplemental policy that helps pay for hospitalization and surgical costs only. We also sell supplemental policies that pay benefits only when the insured person contracts a dread disease such as cancer. Almost all of our health insurance policies are underwritten before issue for health risks on an individual basis. Torchmark does not sell any comprehensive, major medical health insurance.

individual supplemental health insurance

About 69% of the health insurance premium that we collected in 2002 was from Medicare supplement insurance. Health insurance, especially Medicare supplement insurance, is highly regulated at both the state and federal level. As a result, it is characterized by lower profit margins than life insurance and requires strict administrative discipline and economies of scale for success. In recent decades spiraling health care costs have caused somewhat unpredictable results for primary health insurers. But for supplemental health insurance with its caps on benefits, and in the case of Medicare supplements that benefit from the strict cost controls in the federal Medicare program, results are more controllable and predictable.

Because Medicare supplement policies coordinate with the federal Medicare program which experiences health care inflation every year, annual premium rate increases for the Medicare supplement policies are necessary. While federal law controls some of the terms under which premiums may be increased, state laws and politics also affect the approvals required from state regulators. Obtaining timely rate increases is of critical importance to success in this market and we have both the discipline and experience to successfully get our necessary rate approvals.

In managing this product line we are dedicated to preserving our profit margins, even at the expense of top-line sales growth, if necessary.

Our expertise and discipline to execute our strategy resides in our niche distribution systems . . .

AMERICAN INCOME LIFE

Waco, Texas

American Income Life Insurance Company, one of Torchmark's wholly owned subsidiaries, is a great example of a life insurance distribution organization that has a strong niche culture within the "middle-income America" demographic. AIL is a "union label" company that has endorsements at the local union level which support our sales representatives' focus on selling to union members.

One of our fastest growing sales organizations, AIL was acquired by Torchmark in 1994. The company was founded in the early '50s by one of the more colorful insurance entrepreneurs of the time, Bernard Rapoport, well known as a philanthropist and as an activist in Democratic politics. The company began marketing to labor union members in the early '60s, a clear affinity given Mr. Rapoport's social and political orientation.

While Mr. Rapoport is no longer involved in day-to-day activities, the culture he established still pervades the organization and since that time, union members have remained AIL's primary market focus. Those forty years of experience in the union market coupled with the cultural support from the home office give us a level of expertise in this niche that would be difficult for competitors to match. This market strategy takes full advantage of the close affinity union members have for their organizations which translates into a strong tendency that a union endorsement will greatly increase the likelihood that members will purchase one of our policies. Among all the niche markets in which Torchmark operates, we find the affinity of union members to be one of the strongest. Further, there really are no competitors attempting to sell life insurance to union members. Our success is governed by our discipline to efficiently market our products by growing and motivating our sales force while maintaining our profit margins on our sales. Currently, AIL has the highest profit margin of all Torchmark companies.

We find the affinity of union members to be one of the strongest among our niche markets.

Looking to the future, AIL is disciplined to develop the most modern and efficient methods of reaching labor union members and other similar market niches while maintaining the culture that gives us our advantage. In recent years we have begun marketing to credit union members using similar techniques and products which have been successful in the labor union market. We have also implemented more streamlined administrative procedures, ones that we perfected at sister

"A Excellent"
A.M. Best Rating

"AA Excellent"
Standard & Poor's Rating
for Financial Strength

Torchmark companies, such as more cost-efficient direct response procedures used to initially contact potential customers.

We are frequently asked why we continue to pursue the labor union market when conventional wisdom says that labor union membership is declining. In fact, that assumption is erroneous. Actually, union membership in 2001 grew to 16.27 million workers from 16.11 million in 1997 and remained a stable 13.5 percent of American workers (U. S. Bureau of Labor Statistics). With policyholders in about 900 thousand households, the labor union market is far from being maximized by AIL.

GLOBE LIFE AND ACCIDENT

Oklahoma City, Oklahoma

Globe Life, Torchmark's premier direct response insurance company, began in 1951 much like our other operating companies, on a financial "shoestring" as the dream of local entrepreneurs. The company started as an agency operation that in 12 years was marketing life insurance to "middle-income" Americans in 36 states. In 1964, the company began marketing life insurance by direct mail, tapping into the emerging juvenile life insurance market and setting the stage for the future of the company.

GLOBE LIFE AND ACCIDENT INSURANCE CO.®

Today, Globe Life is the largest direct response marketer of life insurance in the United States, accounting for over 20% of all direct mail life insurance. Globe specializes in direct response marketing of juvenile life insurance to the parents and grandparents of children. These same parents and grandparents who have purchased a "Young American" policy are a valued secondary market because of their greater likelihood to buy an adult life insurance policy with the Globe Life name. This market continues to grow with 4 million babies born each year and the number of adults over age 45 expected to increase by over 20% between 2000 and 2010.

Our primary marketing vehicle is demographically targeted individual mailings to potential customers. We obtain mailing lists of households that meet selection criteria for specific products, subscribers to ***Parents Magazine***, for example. Data is also modeled from previously compiled lists for specific products. We also use a variety of other direct response marketing vehicles including: co-op mailers, newspaper inserts, internet sites, television and other consumer publications.

Globe Life is the largest direct response marketer of life insurance in the United States.

With policies in 1.6 million households, and 160 million mailings per year, as well as television and other consumer publication advertising, Globe Life has high name recognition among the general population, especially for its "Young American" juvenile product.

The sale of insurance by direct response is an opportunistic sale, meaning that generally the recipients of a direct response solicitation were not contemplating the purchase of insurance. As a result, only a limited number of recipients of the solicitation will respond. Success in this market requires: strict control of acquisition expenses, i.e., the cost of the initial mailings; cost control through economies of scale; financial strength to fund the initial mailings because all the acquisition expenses are incurred before one policy is issued; and demographic expertise to obtain the highest possible response rates at an acceptable cost.

"A+ Superior"
A.M. Best Rating

"AA Excellent"
Standard & Poor's Rating for Financial Strength

Globe Life is an industry leader in all these aspects of the direct response business. Its competitive advantages include an experienced management team, a vast customer base and knowledge of demographics of the middle-income market, as well as its low cost, highly efficient production facilities. Globe has been marketing by direct response for over 40 years. Most of the management team has been with Globe for almost 20 years. In a business where gains are made by extensive, on-going testing and where solutions to challenges are often counter-intuitive, the importance of the collective experience of management cannot be overstated.

Our extensive database of demographic information about prospective, existing and former policyholders provides opportunities for new "add on" sales. For example, we have learned that prospects who responded to a solicitation, but did not buy a policy, are much more likely to buy in the future. Using these kinds of data has led to our success with follow-up mailings, one of our more profitable secondary markets.

The primary direct response production shop is in Oklahoma City with a union shop in Waco, Texas. Many direct response companies outsource most of their production, as did Globe at one time. But over a decade ago, we begin to bring all our operations in house, from making envelopes to trucking our mailings to post offices around the country. Since that time, our total cost per thousand of pieces mailed has grown only ten percent, in spite of massive increases in postage costs, because we have been able to bring down the non-postage costs of the packages by 34%. We also benefit from the advantage of economies of scale as our growing mail volume provides for increased price advantages in purchasing paper and other supplies, as well as increased postage savings as we presort our mailings for the post office.

LIBERTY NATIONAL LIFE

Birmingham, Alabama

Founded in Alabama in 1900, the company now known as Liberty National Life Insurance Company grew to become one of the best known traditional life and health insurers in the southeastern United States and the largest domestic life insurer in Alabama today. In its early years the company grew by first selling burial policies and later traditional life insurance to "lower middle-income" customers.

As was the practice at the time, each week agents collected premiums in cash from their customers, known as "debit collections." In the 1960s the company expanded into supplemental health policies, primarily cancer coverages, that also had market appeal to the company's customer base. In the late 1970s, the formation of an up-stream holding company and the acquisition of Globe Life And Accident led to the incorporation of Torchmark Corporation. By the early '90s, debit collection was no longer efficient and was replaced by modern premium billing and collection methods. Liberty National emerged as a cost-efficient, career-agent based life and health insurer whose "middle-income" target market is in seven southeastern states, with almost one-half of its business in Alabama.

The Liberty success story is about the hometown culture in the southeast.

The Liberty National Agency success story is about the hometown culture in the southeast, the same hometowns where our agents and their families live and are active in the community. The 2001 median annual income per household in Alabama was just over $35 thousand, which fits our target market of "middle-income" America.

Operating from over 100 local district offices, Liberty agents sit down with their laptop computers at their neighbors' kitchen tables to plan for their life and supplemental health insurance needs. Working with a trusted, hometown agent keeps Liberty's customers loyal, which translates into stable and predictable financial results.

"A+ Superior"
A.M. Best Rating

"AA Excellent"
Standard & Poor's Rating
for Financial Strength

Our Liberty National Agency has about 2,200 active agents of which 1,000 reside in Alabama, the highest concentration of agents Torchmark has in any state. This concentration emphasizes the importance of community visibility by Liberty agents. As a result, Liberty agents rely on their personal and community contacts to generate sales opportunities rather than rely on "cold call" leads. But Liberty National has not maximized its market penetration even in Alabama, where it also has its highest policyholder concentration, as less than 20% of Alabama households own a Liberty policy.

MILITARY AGENCY

Fort Worth, Texas

Another of Torchmark's major niche distribution systems is an independent agency, not owned by Torchmark. First Command is the country's leading independent agency specializing in financial planning for active and retired commissioned and non-commissioned military officers and their families. While this agency produces business for several life insurance companies, over the last decade, the amount written through Torchmark has increased to 65% of the agency's life insurance production.

Similar to Torchmark's other successful niche distributors, First Command is highly focused on serving its target, underserved market. Also similar to other Torchmark distributors, the company was started in the late 1950s by a former Air Force officer who saw a need for financial planning designed specifically for military officers, and had the discipline and a strategy to succeed in building a financial services agency to service that niche market.

Today, the company's agents and management, all former military officers, still adhere to the company's founding principle of educating their clients to avoid debt, live on less than they make and pay themselves first, which requires a commitment to a long term financial plan. By developing plans that are geared to the financial circumstances of military life and by providing a high level of customer service and support, the agency writes very high quality life insurance business with the highest persistency of all of Torchmark's distribution systems. First Command has further strengthened their ties to their customers by offering mutual funds, and more recently, by establishing a full-service bank offering internet banking, loans, credit cards and mortgage lending.

This agency is highly focused on serving its target, underserved military market.

First Command has more than 1,000 agents in over 200 offices on or near over 400 military installations throughout the United States, Europe and the Pacific Rim. It serves about 279 thousand client families. Its 140 thousand client members on active duty comprise almost one quarter of the company's target market of active military professionals in pay grades E-6 and above, a percentage First Command intends to grow.

Torchmark policies written by First Command are underwritten by Liberty National and Globe Life.

UNITED AMERICAN

McKinney, Texas

United American, our health insurance company, is another excellent example of a company that has capitalized on a niche market, that of selling supplemental health insurance to individuals. It too was started mid-twentieth century by an opportunistic, young entrepreneur, Casey Dunlap, just returned from WWII. The company began selling health insurance to individuals using a megaphone to attract customers on the squares of Texas towns. When Medicare was signed into law in 1966, the company made a decision to focus its attention on the senior market, and the Medicare supplement policy was born. By 1981, the company was nationally recognized as a preeminent writer of Medicare supplements. In 1982, United American was acquired by Torchmark.

New management from Torchmark recognized the strength of UA's marketing expertise, and immediately focused on bringing the company into the computer age. They knew that continued growth would require cost cutting and streamlined procedures if economies of scale were to be realized and the company's hard won reputation of top-notch customer service was to be maintained. By the mid '80s, the company had implemented the first national computer-to-computer claims system that brought Medicare claims directly from Medicare administrators to UA, thus eliminating the onerous paper claim filing by policyholders required by most health insurers.

Today, United American is known to be one of the most cost-efficient Medicare supplement insurers. Annually, we process over 9 million claim transactions that result in over 3 million claim checks being issued. We receive about 1.4 million telephone calls from customers of which 98% are answered within the first 30 seconds. We provide websites for both our customers and their health care providers to get pertinent information about claims status and other data. We have arranged for a prescription drug discount service that gives our policyholders discounts, on average, of over 25% on most of their prescriptions. Most remarkably, we provide state-of-the-art customer service at the cost of only 5% of premium, about half that of other companies.

United American's senior-age niche market is defined less by affinity and more by regulation. Because of the widely held perception that senior-aged consumers require higher levels of consumer protections than other customers, regulation by both federal and state governments is higher than for other life or health insurance. For example, Medicare supplement insurance is limited to several standardized benefit plans, and premium rates must meet a 65% loss ratio minimum, meaning that out of every $1.00 of premium collected, $.65 must be paid out in claims benefits.

> We have remained one of the leaders in the individual Medicare supplement market for over 30 years.

In addition, there are stringent limits on commissions paid to agents as well as exhaustive reporting to regulators. Further, as with many other types of health insurance, annual rate increases, which are required to keep pace with changes in the Medicare program and with inflation, require regulatory approval. As a result, all of these regulatory requirements have inhibited many insurers from entering, or staying in the business. Without strong financial underpinnings, strict expense control to maintain an underwriting profit and a discipline to obtain timely rate increases, insurers are not long successful in the Medicare supplement market. We have profitably remained one of the leaders in the individual Medicare supplement market for over 30 years, while many other companies have entered and left the market, some by bankruptcy. Companies have attempted to enter this market by initially underpricing their policies, but we price to meet our underwriting profit goals and do not succumb to marketing pressures to cut prices in order to gain market share. According to regulatory statistics for premiums collected in 2000, of the companies that collected premiums on policies issued prior to 1998, over one-third were not collecting premiums on any policies issued after 1997, indicating that many companies have left the market over time (National Association of Insurance Commissioners, Medicare Supplement Loss Ratios in 2000).

As is well known, the number of Medicare beneficiaries will grow substantially in the near future when the "Baby Boomers," first born in 1946, begin to turn 65. The future market for traditional Medicare supplements is strong and growing given the recent failure of the federal government to devise a successful new health care model for senior age citizens that could, in part, replace the traditional "fee-for-service" original Medicare program, as well as the demise of Health Maintenance Organizations as a solution. Most recently, new talks on the subject have been introduced by the Bush administration, but they have acknowledged that implementation, if a solution is devised, could be years away.

United American also writes various types of limited benefit supplemental health insurance

United American also writes various types of limited benefit supplemental health insurance. These include dread disease coverage, long term care and hospital-surgical indemnity policies, the latter which pays a daily amount up to $500 per day for a hospital confinement, a limited percentage of hospital miscellaneous charges, and has a prescribed schedule of payments for surgical procedures. These policies do not pay for routine doctors' office visits or maternity care. Hospital indemnity policies were once sold primarily to customers who wanted to supplement an employer's plan, or were in sole proprietor businesses with no group plan options. Today, growth in sales from these products comes in part from customers whose employers have either terminated their group health coverage, or from customers who previously would have purchased an individual full-coverage (major medical) policy.

"A+ Superior"
A.M. Best Rating

"AA Excellent"
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United American markets nationally through two distribution channels: 35 thousand independent agencies and brokers known as the UA General Agency, and 1,300 exclusive agents operating out of 77 branch offices, known as the UA Branch Office. We have learned over the years that supporting both types of agencies gives us the best access to distribute our niche market products. While many of the independent agents write only a few of our Medicare supplement or limited benefit policies each year, they will choose to write these policies with UA over other companies because of our superior customer service and our long history of financial strength. The Branch Office Agency gives us the ability to direct its agents' full-time efforts to market specific products, plus their full-time involvement in their communities under the UA logo further enhances our "brand" recognition.

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).

AMERICAN INCOME AGENCY OPERATION

(In millions, except %)

	LIFE				HEALTH			
	2002		2001		2002		2001	
	$	%*	$	%*	$	%*	$	%*
ANNUALIZED PREMIUM ISSUED	**92**		**66**		**11**		**10**	
UNDERWRITING MARGIN:								
PREMIUM	277		247		52		50	
POLICY OBLIGATIONS	94	34%	84	34%	20	38%	18	37%
ACQUISITION EXPENSES	100	36%	92	37%	13	25%	12	25%
UNDERWRITING MARGIN	**83**	**30%**	**71**	**29%**	**19**	**37%**	**19**	**38%**

* PERCENT OF PREMIUM

Annualized premium issued increased 35% to $103 million. Premium income increased 11% to $329 million, and underwriting margin increased 13% to $102 million.

American Income is a "union label" company. Our sales force, with the endorsement of unions at the local level, markets insurance products to union members. At year end, our sales force included 1,975 producing agents, over 200 more agents than a year earlier.

Of our life distribution systems, American Income is not only our fastest growing, but also produces the highest underwriting margin, both in dollars and as a percentage of premium income. Going forward into 2003, expectations are for continued impressive growth in life insurance sales, premium, and underwriting margin.

DIRECT RESPONSE OPERATION

(In millions, except %)

	LIFE				HEALTH			
	2002		2001		2002		2001	
	$	%*	$	%*	$	%*	$	%*
ANNUALIZED PREMIUM ISSUED	**123**		**112**		**7**		**3**	
UNDERWRITING MARGIN:								
PREMIUM	316		289		22		18	
POLICY OBLIGATIONS	155	49%	135	47%	18	80%	15	82%
ACQUISITION EXPENSES	85	27%	82	29%	2	7%	1	8%
UNDERWRITING MARGIN	**76**	**24%**	**72**	**25%**	**3**	**13%**	**2**	**10%**

* PERCENT OF PREMIUM

Annualized premium issued increased 13% to $130 million. Premium income increased 10% to $337 million, and underwriting margin increased 7% to $79 million.

We grew our life insurance sales and reduced our packaging and postage expenses; life insurance sales increased 10% and the associated expenses declined 2%. Per dollar of annualized premium issued, we spent $.63 in 2002, compared to $.71 in 2001. For the business issued in the last two years, underwriting margin is greater than for business issued earlier. As we go forward, we expect the overall underwriting margin to grow at a rate equal to or greater than the growth rate of our premium income. Going forward into 2003, although we don't expect any further reductions in our per unit acquisition expenses, we do expect strong growth in sales, premium, and underwriting margin.

LIBERTY NATIONAL EXCLUSIVE AGENCY OPERATION

(In millions, except %)

	LIFE				HEALTH			
	2002		2001		2002		2001	
	$	%*	$	%*	$	%*	$	%*
ANNUALIZED PREMIUM ISSUED	**56**		**55**		**12**		**11**	
UNDERWRITING MARGIN								
PREMIUM INCOME	302		297		160		156	
POLICY OBLIGATIONS	141	47%	134	45%	118	74%	112	72%
ACQUISITION EXPENSES	90	30%	91	31%	28	18%	28	18%
UNDERWRITING MARGIN	**70**	**23%**	**72**	**24%**	**14**	**9%**	**16**	**10%**

* PERCENT OF PREMIUM

Annualized premium issued increased 4% to $68 million. Premium income increased 2% to $461 million, and underwriting margin declined 5% to $84 million.

Although we continued to experience modest growth in our sales force, up 2% to 2,203 agents, and in our sales, underwriting margin results were disappointing.

Health underwriting margin continues to be pressured by our cancer business subject to the 1994 class action settlement. This block of business represents about 50% of our health insurance premium income, and incurred claims are running just over 100% of premiums. Although we will continue to implement rate increases, it's unlikely the claims loss ratio will decline. Nonetheless, this block of business should gradually shrink as a percentage of our total health insurance business.

With respect to our life insurance business, our lapse rates in the early years after issue are too high. Although we are no longer in the "debit" business, we generate too much business in the lower-income market. The higher lapse rate in this market adversely impacts the underwriting margin and the survival rate of new agents that we recruit.

Going forward, we will concentrate our efforts in improving the quality of new business by focusing more on the middle-income market.

UNITED AMERICAN GENERAL AGENCY AND BRANCH OFFICE OPERATIONS

(In millions, except %)

	LIFE				HEALTH			
	2002		2001		2002		2001	
	$	%*	$	%*	$	%*	$	%*
ANNUALIZED PREMIUM ISSUED	**31**		**29**		**171**		**189**	
UNDERWRITING MARGIN:								
PREMIUM INCOME	70		67		786		787	
POLICY OBLIGATIONS	31	45%	27	40%	504	64%	504	64%
ACQUISITION EXPENSES	31	44%	30	44%	150	19%	147	19%
UNDERWRITING MARGIN	**8**	**12%**	**11**	**16%**	**132**	**17%**	**136**	**17%**

* PERCENT OF PREMIUM

Annualized premium issued declined 7% to $203 million. Premium income increased slightly to $856 million, and underwriting margin declined 5% to $140 million.

Medicare supplement sales declined 40% to $93 million. We implemented an overall rate increase of 16% in 2001, and over 10% in 2002. These increases were needed in order to maintain acceptable claims loss ratios and underwriting margins. However, the rate increases negatively impacted sales, particularly when other insurers were charging less. United American has been in this situation many times in the past, but we won't compromise acceptable profit margins in order to gain market share. For 2003, we expect our rate increase to be in the 7 – 8% range, and we expect competitors to have larger rate increases. As has been the case in the past, as the gap between our rates and their rates close, our sales increase.

There does exist the need for Medicare reform and Medicare supplement reform. The federally mandated Medicare supplement products of 1992 are becoming outmoded. They provide too much "first dollar" coverage and too little customer "cost sharing". As a result, the current mandated coverages are becoming pre-payment plans instead of insurance products. We are working at the federal level to develop new products that include greater "cost sharing" features which will result in reduced premiums and greater affordability to the senior market.

Our other health insurance sales, primarily to customers under the age of 65, increased 130% to $78 million. The need for supplemental health insurance has never been greater. The availability of major medical insurance has all but disappeared; for a number of reasons, it is a product that may never have been profitable throughout its existence...a reason that United American never sold it. In addition, the rising cost of group health insurance is driving employers to cut back on benefits, thereby creating the need for employees to purchase supplemental insurance to help fill the void.

Going forward into 2003, we expect growth in both Medicare supplement sales and other supplemental health insurance sales, but growth in premium income and underwriting margin will be modest.

OTHER INDEPENDENT AGENCY LIFE INSURANCE OPERATIONS

(In millions, except %)

	LIFE			
	2002		2001	
	$	%*	$	%*
ANNUALIZED PREMIUM ISSUED	**31**		**32**	
UNDERWRITING MARGIN:				
PREMIUM INCOME	256		245	
POLICY OBLIGATIONS	110	43%	106	43%
ACQUISITION EXPENSES	84	33%	80	33%
UNDERWRITING MARGIN	**62**	**24%**	**59**	**24%**

* PERCENT OF PREMIUM

Annualized premium issued decreased 2% to $31 million. Premium income increased 5% to $256 million, and underwriting margin increased 6% to $62 million.

Our primary independent agency relationship is our military operation which is comprised of a large agency of some 1,000 agents in over 200 offices on or near military installations both in the U.S. and abroad. The agency sells exclusively to commissioned and non-commissioned military officers and their families.

Military annualized premium sales increased 11% to $23 million. Premium income increased 11% to $149 million, and underwriting margin increased 12% to $35 million.

The military agency produces new business for several other insurers, but over the past decade we have consistently earned an increasingly larger portion of their total life production. Going forward, we will strive to earn more of their production and more of the production of our other independent partners.

ANNUITY OPERATIONS

(In millions, except %)

	ANNUITIES 2002	ANNUITIES 2001
	$	$
YEAR END RESERVES		
FIXED	628	610
VARIABLE	1,538	2,356
UNDERWRITING MARGIN	**13**	**25**

Our annuity margins declined 46% to $13 million. The decline in our annuity margin occurred in our variable annuity business. Three factors contributed: (1) the continued replacement of the business by Waddell & Reed, a former subsidiary of Torchmark, (2) the decline in the stock market and the underlying securities that comprise the variable annuity accounts has resulted in lower fees/income to our operations, and (3) greater death benefits as a result of variable annuity account values falling below the minimum death benefit levels provided in our contracts.

With respect to the replacement activity, an Alabama Circuit Court jury awarded $50 million compensatory damages to our subsidiary, United Investors, in March of 2002; Waddell & Reed has appealed this verdict. Nonetheless, the replacement activity continues, and the probability of additional litigation remains high.

As for the declining stock market and the resulting detrimental effect on fee income and guaranteed minimum death benefits, we can only hope that the stock market at least stabilizes; otherwise, the underwriting margin will experience further decline.

For the year, fixed annuity contributions were $65 million and our variable annuity contributions were $26 million. We intend to be active in these businesses by developing relationships with independent agencies.

ADMINISTRATIVE EXPENSES

Insurance administrative expenses increased 5% to $125 million. As a percentage of premium, administrative expenses were 5.5% compared to 5.4% in the prior year. Included in our administrative expenses were our litigation expenses which increased 107% to $6.4 million, including just over $4 million associated with the Waddell & Reed litigation.

INVESTMENTS

Our investment portfolio is concentrated in high quality fixed-maturity assets, and fixed-maturity assets represented 92% of our invested assets. For a variety of reasons, not the least of which is our discomfort with alternatives, fixed-maturity assets will likely become an increasing percentage of our invested assets. The average credit rating quality of the fixed-maturity portfolio was A- as rated by Standard & Poor's and A3 as rated by Moody's.

On a tax-equivalent basis (i.e., recognizing that certain bonds are subject to lower federal taxes), our net investment income was $522 million. Excess investment income is the difference between our net investment income and the interest required on our net interest-bearing liabilities. Required investment income was $227 million, resulting in excess investment income of $295 million.

Because of our stock repurchase program, comparing the yearly change in excess investment income is misleading. A better comparison is on a per-share basis; as such, our excess investment income increased 20% for the year.

As noted in the chart, we have entered into derivative agreements known as "interest rate swaps". These agreements produced $23 million of excess investment income for the year. Should interest rates rise dramatically over time, the current positive excess investment income from the "swaps" could become negative; we have concluded that the risk/reward is in our favor. Furthermore, if interest rates do rise dramatically, the substantial cash generated within our insurance and investment operations would also be invested at higher interest rates, and the net effect would be beneficial to our operating earnings.

2002 INVESTMENT INCOME

(In millions, except percent and per share amounts)

	TOTAL*	REQUIRED	EXCESS
1) INVESTED ASSETS SUPPORTING:			
NET INTEREST-BEARING POLICY LIABILITIES:			
LIFE AND HEALTH INSURANCE	$211	$164	$47
ANNUITIES	34	29	5
DEBT	62	57**	5
INTEREST RATE SWAPS	0	(23)	23
2) REMAINING INVESTED ASSETS	215	0	215
	$522	**$227**	**$295**
PER DILUTED SHARE	$4.33	$1.88	$2.44
INCREASE OVER 2001	10%	(2%)	20%

* For illustrative purposes only, total investment income has been allocated pro rata based upon the net liabilities. Torchmark does not specifically allocate assets to liabilities.

** Consists of interest on debt and dividends on trust preferred securities.

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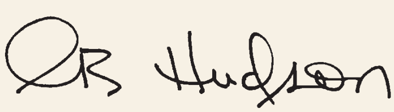
SHARE REPURCHASE PROGRAM

During the year we repurchased 4.8 million shares of our outstanding stock at a cost of $182 million. Since 1986, we have repurchased our outstanding stock in all years except one, and the cumulative effect has been that we have repurchased 51% of the outstanding stock. We expect to continue this program as long as we believe that our stock is undervalued, since repurchasing our stock is a means of increasing shareholder intrinsic value.

OUTLOOK

In 2003, we expect growth in sales, premium income and underwriting margins. We expect our investment operations to continue to perform well. And, as stated above, we expect further repurchases of our stock. We expect 2003 to be a good year for Torchmark.



C. B. HUDSON
Chairman and Chief Executive Officer

Torchmark cautions you that this Letter to Shareholders may contain forward-looking statements within the meaning of the federal securities law. These prospective statements reflect management's current expectations, but are not guarantees of future performance. Accordingly, please refer to Torchmark's cautionary statement regarding forward-looking statements, and the business environment in which the Company operates, contained in the Company's Form 10K for the period ended December 31, 2002, found on the following pages and on file with the Securities and Exchange Commission. Torchmark specifically disclaims any obligation to update or revise any forward-looking statement because of new information, future developments or otherwise.

CONDENSED CONSOLIDATED STATEMENT OF NET OPERATING INCOME

(Unaudited and in thousands except per share amounts)

	Twelve months ended December 31, 2002	2001	% Inc (Decr)
Revenue:			
Life premium	$1,220,995	$1,144,955	7 %
Health premium	1,019,120	1,010,753	1
Other premium	38,918	59,461	(35)
Total	**2,279,033**	**2,215,169**	**3**
Investment income:			
Taxable equivalent basis	522,319	496,207	5
Taxable equivalent adjustment	(3,701)	(4,377)	
Other income	3,906	4,391	
Total operating revenue	**2,801,557**	**2,711,390**	**3**
Benefits and expenses:			
Benefits:			
Life	531,889	485,277	
Health	658,560	648,997	
Other	1,867	(901)	
Commissions and acquisition expenses:			
Life	389,885	375,349	
Health	193,073	188,298	
Other	23,630	35,603	
Interest on net policy liabilities:			
Life	190,797	185,567	
Health	(3,936)	(2,427)	
Other	5,946	6,043	
Insurance administrative expenses	124,605	119,038	
Corporate expenses	10,523	10,104	
Interest on debt and dividends on MIPS/Trust Preferred	34,513	51,479	
Income taxes	216,596	204,378	
Total benefits and expenses	**2,377,948**	**2,306,805**	**3%**
Net operating income	**$423,609**	**$404,585**	**5%**
Net operating income per diluted share	**$3.51**	**$3.21**	**9%**
Diluted average shares outstanding	**120,669**	**125,861**	
Net operating income	$423,609	$404,585	
Non operating items, net of tax:			
Realized gains/(losses)	(51,728)	(4,764)	
Realized gains/(losses) - Interest Rate Swap	11,554	3,184	
Amortization of goodwill	0	(12,075)	
Gain/(loss) on redemption of debt	(2)	(4,553)	
Discontinued operations	0	(3,280)	
Change in accounting principle	0	(26,584)	
Net income	**$383,433**	**$356,513**	

The Condensed Consolidated Statement of Net Operating Income has been prepared in the manner Torchmark management uses to evaluate the operating results of the company. It differs from the Consolidated Statement of Operations found in the attached SEC Form 10-K primarily by the reclassification of interest on net policy liabilities and the exclusion of the nonoperating items listed above.

CONDENSED CONSOLIDATED BALANCE SHEET

(Unaudited and amounts in thousands)

	At December 31, 2002	2001
Assets:		
Fixed maturities at fair value *	$7,194,392	$6,526,429
Cash and short term investments	79,993	137,870
Mortgages and real estate	131,156	126,268
Other investments	385,391	317,521
Deferred acquisition costs *	2,286,225	2,182,362
Goodwill	378,436	378,436
Other assets	248,334	256,983
Separate account assets	1,656,795	2,502,284
Total assets	**$12,360,722**	**$12,428,153**
Liabilities and Shareholders' Equity:		
Policy liabilities	$6,130,954	$5,771,815
Accrued income taxes *	720,176	580,287
Short-term debt	201,479	204,037
Long-term debt	551,564	536,152
Other liabilities	103,874	191,894
Separate account liabilities	1,656,795	2,502,284
Trust preferred securities	144,427	144,557
Shareholders' equity *	2,851,453	2,497,127
Total liabilities and shareholders' equity	**$12,360,722**	**$12,428,153**
Actual shares outstanding:		
Basic	118,267	122,888
Diluted	118,598	123,354
* Excluding the fair value adjustment under accounting standard FAS 115:		
Fixed maturities	$6,888,830	$6,528,244
Deferred acquisition costs	2,303,830	2,181,012
Accrued income taxes	619,391	580,450
Shareholders' equity	2,664,281	2,497,429
Book value per diluted share	$22.46	$20.25
Return on equity	16.5%	16.6%
Debt to capital ratio (treating preferred stock as debt)	25.2%	26.2%
Annualized Life and Health Premium In Force:		
Life	$1,343,156	$1,257,413
Health	1,030,482	1,042,643
Total	**$2,373,638**	**$2,300,056**

The complete financial statements are found in the attached SEC Form 10-K with additional schedules and footnotes thereto.

DIRECTORS

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President of the University of Oklahoma, Norman, OK

JOSEPH M. FARLEY
Of Counsel in the Birmingham, AL law firm of Balch & Bingham LLP

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Chairman and Chief Executive Officer of Torchmark

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Chairman of the Board and Chief Executive Officer of Dan River Incorporated, Danville, VA

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Chairman of Insurance Operations of Torchmark

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Chairman and Chief Executive Officer of Bay Point Yacht and Country Club, Panama City, FL

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Chairman of the Executive Committee of the Board of Directors of Torchmark

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Chairman and Chief Executive Officer of First Command Financial Services, Inc., Fort Worth, TX

PAUL J. ZUCCONI
Retired Partner of KPMG LLP, Plano, TX

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Chairman of Insurance Operations

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Executive Vice President and Chief Actuary

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Vice President, Investor Relations

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Vice President, Associate Counsel and Secretary

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Controller

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Vice President

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ROGER SMITH
President of Marketing Division

GLOBE LIFE

MARK S. MCANDREW
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UNITED INVESTORS LIFE

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President and Chief Executive Officer

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