Yours For Life

AMERICAN NATIONAL INSURANCE COMPANY

2001 ANNUAL REPORT

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Yours for growth
for family
for strength


for life


for life

KEY RESULTS IN

2001

Assets reached $11,258,137,000 an increase of 21.4%.

Life insurance in force totaled $54,413,638,000 at year-end 2001, an increase of 11.6% over year-end 2000.

Dividends are currently paid by American National at a rate of $2.96 per share. The year 2001 was the 91st consecutive year in which dividends have been paid to stockholders, and the 28th consecutive year in which the dividend per share has been increased.

The American National family has seen its share of growth and change. But no matter what today holds, or tomorrow brings, we want to be there with you, and there for you. We want to be part of your present and part of your future. We're yours for life.

MANAGEMENT MESSAGE

ROBERT L. MOODY
Chairman of the Board
Chief Executive Officer

G. RICHARD FERDINANDTSEN
President
Chief Operating Officer

The year 2001 will forever be distinguished by events that adversely affected financial

results throughout the U.S. economy, and within the financial services sector in particular.

While the impact of these events cannot be ignored, this management message will shed light on results that demonstrate a strong, sound future for American National and its family of companies.

Net income for 2001 was $64,931,000 ($2.45 per share), compared with $140,174,000 ($5.29 per share) in 2000. There were several significant factors that accounted for a large portion of this reduction.

In response to the September 11, 2001 terrorist attacks, a reserve for anticipated policy benefit claims of $21,100,000 was established. This reserve was before tax and net of reinsurance. Many of these benefits are expected to be paid during 2002. While there will be benefits payable in future years, the reserve established in 2001 is expected to cover all such future policy benefits.

Difficulties in achieving appropriate rate increases for long-term care products and certain individual medical insurance products necessitated a before-tax increase in reserves of $23,436,000 for these product lines.

The experience of older blocks of business in these lines, and the uncertainty of receiving regulatory approval of adequate rate increases, are of great concern. As a result, the company decided at the end of 2001 to discontinue the sale of a number of individual medical insurance products as well as the entire long-term care product line.

During 2001, a variety of investment securities declined significantly in value as a result of concerns related to the creditworthiness of the issuers. These problem investments included debt securities issued by a company affected by asbestos litigation; debt securities issued by public utilities in California; and debt and equity securities issued by Enron Corporation. Pre-tax realized investment losses of $25,850,000 were recorded for other-than-temporary declines in the market value of these investment securities.

SEGMENT ACTIVITIES

The acquisition of the Farm Family Group of Companies was completed during 2001. The strategic opportunities created by this acquisition include expanded geographic markets and product lines for both American National and Farm Family.

The property and casualty insurance industry experienced one of its worst years ever in 2001. However, American National's property and casualty operations in the Multiple Line segment performed significantly better than the industry. The company is aggressively pursuing a number of initiatives that are expected to further improve property and casualty results in 2002.

The Home Service segment includes both the historically strong domestic operation and also the recent international expansion into Mexico. Increased efficiencies, higher retention of agents, and concentration on sound management principles will ensure that this segment maintains its strength in the domestic marketplace. The Mexican company is still in the early years of operation, and thus will require continuing investment in the future. Management is pleased with the progress of this operation, and believes it will contribute to future growth and profit in the Home Service segment.

The Independent Marketing segment exceeded its sales goals through the rapid expansion of its distribution base. The 2001 sales growth occurred primarily in the annuity line. While continued growth in annuity sales is expected, there will be a focus on increasing life sales as a key part of the 2002 plan.

Direct Marketing experienced substantial sales increases through its use of a variety of marketing initiatives. This segment will continue to add new direct marketing initiatives each year to maintain growth in sales.

Through a growing agent base, the Senior Age Marketing segment experienced significant increases in its sale of Medicare supplement policies. Life and annuity sales began to increase as well. Discontinuing the sale of the company's long-term care products is expected to produce an acceleration of sales of the segment's remaining products.

The focus of the Credit Insurance segment in 2001 was both the expansion of markets and products. An expanded product portfolio and an enhanced presence in credit insurance markets, other than the auto market, are expected to return this segment to its historical pattern of growth.

Excellent progress was made toward profitability in the Health Division by continuing a disciplined approach to new business in the Health markets. Unfortunately, the events of September 11 negatively impacted the profitability of this segment. The progress made toward profitability in 2001 is expected to continue in 2002.

STRENGTHS

A significant measure of a company's strength is its ratio of assets to liabilities. At year-end 2001, American National had more than $135 in GAAP consolidated assets for every $100 in liabilities, one of the highest such ratios among the nation's largest life insurers.

The wide margin of assets over liabilities inspires confidence among policyholders and agents in American National's ability to meet its obligations, and also allows the company a greater degree of flexibility as it pursues other avenues of profitable growth.

RATINGS

Rating agencies continue to view American National Insurance Company very favorably.

A.M. Best Company, an independent analyst of the insurance industry since 1899, rates American National A+ (Superior), the second out of 16 ratings. Best's ratings are assigned after an extensive analysis, using a series of profitability, leverage and liquidity tests that measure performance in such vital areas as competency of underwriting, control of expenses, adequacy of reserves, soundness of investments, capital sufficiency and asset management programs.

Standard and Poor's has assigned its AA+ rating to American National. In its rating analysis, Standard and Poor's makes reference to the company's superior capitalization, solid earnings performance, excellent market position, above-average investment performance and excellent liquidity.

Moreover, American National has a low cost structure, and its policy persistency and agent retention rates have been very favorable. The company's ability to attain critical mass to have the necessary economy of scale and a strong sales distribution network is its major competitive advantage. While exposure to equities is higher than the industry average, it is mitigated by the company's superior capitalization.

Additional information concerning ratings appears on page 62 of this report.

INFORMATION TECHNOLOGY

The emphasis on upgrading the technology infrastructure will continue in 2002. The implementation of major system components has already begun. As more systems enter production, the dividends to the company of these investments will steadily grow.

LOOKING AHEAD

Sustainable, profitable growth is key to the future vitality of any organization. American National continues to implement its comprehensive corporate plan at every level, thereby ensuring that the activities in all areas of the company are aligned with the corporate objectives. Management is confident that aggressive sales goals will continue to be met, and that the ongoing corporate planning efforts will continue to play an integral role in delivering value to shareholders.

AMERICAN NATIONAL CONSOLIDATED OPERATIONS

The American National family of companies offers a broad line of insurance coverages, including individual and group life, health and annuities, personal lines property and casualty, and credit insurance. It also offers a variety of other financial products, including mutual funds, variable life insurance and variable annuities.

The American National family of companies includes life insurers, property and casualty insurers and some significant non-insurance enterprises.

THE LIFE INSURERS INCLUDE:

- American National Insurance Company
- American National Life Insurance Company of Texas (ANTEX)
- Standard Life and Accident Insurance Company (Standard)
- Garden State Life Insurance Company (Garden State)
- American National Compañía de Seguros de Vida (ANMEX)
- Farm Family Life Insurance Company (Farm Family Life)

THE PROPERTY AND CASUALTY INSURERS INCLUDE:

- American National Property and Casualty Company (ANPAC)
- American National General Insurance Company (ANGIC)
- Pacific Property and Casualty Company
- ANPAC Louisiana Insurance Company
- American National Lloyds Insurance Company (ANPAC LLOYDS)
- Farm Family Casualty Insurance Company
- United Farm Family Insurance Company

OTHER OPERATIONS

The non-insurance enterprises include several real estate investment companies, a securities broker dealer and numerous joint ventures. The most significant non-insurance companies are:

- Securities Management and Research, Inc., (SM&R)
- Comprehensive Investment Services (CIS)

The American National family of companies conducts business in all 50 states, the District of Columbia, Puerto Rico, Guam and American Samoa. American National Insurance Company is authorized to sell its products to American military personnel in Western Europe. Through its subsidiary, American National Compañía de Seguros de Vida, American National is authorized to sell its products in Mexico.

American National's internal business units are organized by marketing segment. Each marketing segment represents a separate distribution channel that American National uses to sell its products. All results are presented by marketing segment.

TWO-YEAR FINANCIAL COMPARISON

2001
Gain before allocations
Life and health companies
American National
Other life and health companies
Property and casualty companies
Other non-insurance
Consolidating adjustments
Total gain before allocations
Allocated investment income on equity
Gain on sale of investments and equity in earnings of unconsolidated affiliates
Allocated federal income taxes
Net income
2000
Life and health companies
American National
Other life and health companies
Property and casualty companies
Other non-insurance and
Consolidating adjustments
Total gain before allocations
Allocated investment income on equity
Gain on sale of investments and equity in earnings of unconsolidated affiliates
Allocated federal income taxes
Net income

(In thousands)

	TOTAL	CAPITAL & SURPLUS	MULTIPLE LINE	HOME SERVICE DIVISION	INDEPENDENT MARKETING	HEALTH DIVISION	CREDIT INSURANCE DIVISION	SENIOR AGE MARKETING	DIRECT MARKETING	OTHER OPERATIONS
	$ 148,483	$ 149,853	$ (4,140)	$ 24,250	$ (3,059)	$ (25,434)	$ 234	$ —	$ —	$ 6,779
	11,168	23,809	3,435	(11,085)	—	3,764	—	(13,360)	4,357	248
	(2,626)	23,133	(25,759)	—	—	—	—	—	—	—
	(49,618)	(43,729)	—	—	—	—	—	—	—	(5,889)
	(2,779)	(1,765)	(391)	—	—	—	—	(447)	(53)	(123)
	104,628	151,301	(26,855)	13,165	(3,059)	(21,670)	234	(13,807)	4,304	1,015
	—	(99,188)	28,817	30,352	12,144	4,496	12,514	6,986	—	3,879
	(1,843)	(4,134)	—	—	—	—	—	—	—	2,291
	(37,854)	(19,768)	(647)	(14,361)	(2,998)	5,667	(4,207)	2,251	(1,420)	(2,371)
	$ 64,931	$ 28,211	$ 1,315	$ 29,156	$ 6,087	$ (11,507)	$ 8,541	$ (4,570)	$ 2,884	$ 4,814
	$ 205,137	$ 162,534	$ 13,769	$ 28,572	$ 946	$ (14,012)	$ 879	$ —	$ —	$ 12,449
	13,990	21,986	668	(4,408)	—	(10,496)	—	2,935	2,775	530
	(2,114)	17,173	(19,287)	—	—	—	—	—	—	—
	(32,093)	(33,093)	—	—	—	—	—	—	—	1,000
	(3,598)	212	(446)	—	—	—	—	(401)	(47)	(2,916)
	181,322	168,812	(5,296)	24,164	946	(24,508)	879	2,534	2,728	11,063
	—	(95,386)	23,098	31,644	12,201	5,270	11,077	7,353	576	4,167
	25,620	22,671	—	—	—	—	—	—	—	2,949
	(66,768)	(30,190)	(5,874)	(18,417)	(4,339)	6,349	(3,945)	(3,263)	(1,090)	(5,999)
	$ 140,174	$ 65,907	$ 11,928	$ 37,391	$ 8,808	$ (12,889)	$ 8,011	$ 6,624	$ 2,214	$ 12,180

INVESTMENTS

MICHAEL W. McCROSKEY
Executive Vice President
Investments

Credit quality concerns were a major factor affecting investment decisions in 2001. Repeat rating actions for the same issuer were significantly higher in 2001 than they were in 2000. These serial rating actions, and the resulting volatility in the bond market, made each investment decision for the year more challenging.

COMMON STOCK PORTFOLIO

The impact of the bear market on American National's investments in 2001 was somewhat mitigated by the decision to sell equity positions during the strong markets of 1999 and early 2000, which produced significant gains and reduced the company's exposure in those markets.

FIXED MATURITY SECURITIES

Within fixed-income markets, credit quality received increasing scrutiny in 2001. The most serious problem investments included debt securities issued by a company affected by asbestos litigation; debt securities issued by public utilities in California; and debt and equity securities issued by Enron Corporation. While American National was not immune to these problems, its portfolio of securities with fixed maturities remained of the highest quality. The majority (94%) of the portfolio was investment grade at year-end.

MORTGAGE LOANS

American National's investment in mortgage loans on real estate decreased slightly in 2001, and the yield continued to decline as new, lower market rate loans replaced older, higher market rate loans. Despite this, the portfolio yield remained an attractive 8.32%.

During 2001, mortgage loan delinquency rates were close to the historically low levels established during 1999 and 2000. At the end of 2001, delinquencies were 1% of the portfolio.

American National continues to meet the challenge of maintaining high underwriting standards in the face of increased competition for mortgage loan business.

ASSET/LIABILITY MANAGEMENT

Asset/liability management remains critical to management of today's complex insurance products. In order to ensure adequate liquidity under any reasonably foreseeable interest rate environment, American National has a program to balance the duration of assets and liabilities within the framework of desired return on investment. The program evaluates American National's investment position and each major product type, using cash flow testing, monthly adjustment of crediting rates (both new issue and renewal), and periodic review of product pricing assumptions and product design features. Portfolios of segregated assets are maintained to provide empirical support for testing purposes.

Credit quality concerns were a major factor affecting investment decisions in 2001.

MULTIPLE LINE

GREGORY V. OSTERGREN

Executive Vice President
Director of Multiple Line

Chairman of the Board, President and Chief Executive Officer
American National Property and Casualty Companies

Multiple Line is an agency field force that serves the client's need for insurance and financial services. Multiple Line emphasizes convenience, agent expertise and good value in its offerings to customers.

2001 RESULTS

Net income decreased in 2001. This was due in large part to the establishment of a premium deficiency reserve of $11 million for health insurance products. This reserve recognizes the difficulty of securing necessary rate changes for health insurance products that cover rising medical costs. Multiple Line also incurred a higher life benefit payout due to increased death claims during 2001.

On April 10, 2001 American National acquired Farm Family Casualty Company, Farm Family Life Insurance Company, and United Farm Family Insurance Company. Because of these acquisitions, life insurance in force, paid annualized premium from new sales, and earned premium income all realized increases over 2000 levels. Farm Family's combined loss ratio was 107.6%, while American National Property and Casualty Company's was 106.9%. Both of these results are considerably better than the projected 2001 industry average of 112.5% in personal lines and 118% in commercial lines. Sales, customer persistency and retention, and Multiple Line account penetration reached an all-time high in 2001.

LOOKING AHEAD

The acquisition of the Farm Family companies offers exciting opportunities for sales growth in 2002. Both American National and Farm Family will take advantage of the resulting cross-marketing opportunities, enhancing the product portfolios of both companies and enabling American National to expand its market reach in the Northeast.

TWO-YEAR FINANCIAL COMPARISON (In thousands)

	LIFE	ANNUITY	ACCIDENT & HEALTH	PROPERTY & CASUALTY	TOTAL
2001					
Life insurance in force	$ 18,021,700	$ —	$ —	$ —	$ 18,021,700
Paid annualized premium from new sales	18,874	34,013	686	768,137	821,710
Policy account deposits	90,777	39,450	—	—	130,227
Earned premium income	52,175	3,225	16,779	657,406	729,585
Other policy revenues	55,230	1,652	—	—	56,882
Gain before allocations	13,015	1,659	(15,379)	(26,150)	(26,855)
Allocated investment income on equity	9,982	1,226	262	17,347	28,817
Allocated federal income taxes	(7,589)	(952)	4,989	2,905	(647)
Net income	$ 15,408	$ 1,933	$ (10,128)	$ (5,898)	$ 1,315
2000					
Life insurance in force	$ 16,627,141	$ —	$ —	$ —	$ 16,627,141
Paid annualized premium from new sales	18,232	28,229	1,176	441,036	488,673
Policy account deposits	74,598	29,057	—	—	103,655
Earned premium income	32,420	3,632	16,346	417,842	470,240
Other policy revenues	46,697	1,372	—	—	48,069
Gain before allocations	17,367	1,137	(4,067)	(19,733)	(5,296)
Allocated investment income on equity	11,216	1,187	316	10,379	23,098
Allocated federal income taxes	(9,432)	(767)	1,238	3,087	(5,874)
Net income	$ 19,151	$ 1,557	$ (2,513)	$ (6,267)	$ 11,928

In 2002, initiatives are being introduced to increase life insurance sales. These include the new Multiple Line Assistance Center, a new field management system, and a sales training system that enhances the ability of agents to serve a client's asset accumulation and protection needs.

In addition, a number of actions are being taken to improve the health insurance and property and casualty insurance profitability results. Rate increases are being implemented to cover the increasing cost of car and home repair, as well as the escalating cost of medical care.

Underwriting actions are being taken to address unprofitable business. Policy changes have been implemented in a number of areas to address specific concerns, including the dramatic losses due to mold claims in the Texas homeowners line of business.

Overall, the Multiple Line segment expects strong premium growth in 2002, with a resulting improvement in profitability.

Multiple Line account penetration reached an all-time high in 2001.

HOME SERVICE DIVISION

BILL J. GARRISON

Executive Vice President
Director, Home Service Division

American National is one of the oldest, largest and best-known home service providers in the United States. Utilizing its resources and expertise in this market, American National has begun home service operations in Mexico.

2001 RESULTS

For combined operations in the United States and Mexico, net income in 2001 decreased from the results achieved in 2000. This was due in large part to the costs associated with the rapidly expanding Mexican operation. In addition, there were significant costs involved with defending the company in industry-wide litigation.

Life insurance in force, paid annualized premiums, and other policy revenues all increased in 2001. The positive results of 2001 were achieved despite slow economic conditions, a testament to the historic strength of American National's home service operations.

LOOKING AHEAD

Ongoing training and incentive programs aimed at reducing policy lapse rates and sales force turnover, are expected to increase agent productivity in Mexico. As the only home service provider serving Mexico, American National is committed to establishing a dominant market presence.

In domestic operations, the goal is to serve more efficiently the existing customer base. There will be further consolidation of existing district offices and the opening of new agencies in areas with high growth potential. Many technological innovations, such as electronic account collection, are currently being pursued. The result is expected to be significant cost savings and increased efficiency in the operations of district offices.

TWO-YEAR FINANCIAL COMPARISON (In thousands)

	LIFE	ANNUITY	ACCIDENT & HEALTH	TOTAL
2001				
Life insurance in force	$ 14,340,171	$ —	$ —	$ 14,340,171
Paid annualized premium from new sales	39,395	3,872	2,562	45,829
Policy account deposits	23,128	4,740	—	27,868
Earned premium income	182,753	306	9,463	192,522
Other policy revenues	19,640	159	—	19,799
Gain before allocations	13,388	(314)	91	13,165
Allocated investment income on equity	29,572	228	552	30,352
Allocated federal income taxes	(14,177)	28	(212)	(14,361)
Net income	$ 28,783	$ (58)	$ 431	$ 29,156
2000				
Life insurance in force	$ 14,311,417	$ —	$ —	$ 14,311,417
Paid annualized premium from new sales	35,775	3,521	2,938	42,234
Policy account deposits	23,661	4,278	—	27,939
Earned premium income	183,501	478	9,273	193,252
Other policy revenues	19,523	167	—	19,690
Gain before allocations	22,308	(291)	2,147	24,164
Allocated investment income on equity	30,874	233	537	31,644
Allocated federal income taxes	(17,550)	19	(886)	(18,417)
Net income	$ 35,632	$ (39)	$ 1,798	$ 37,391

American National is one of the oldest, largest and best-known home service providers in the United States.

INDEPENDENT MARKETING

DAVID A. BEHRENS
Executive Vice President
Independent Marketing

Independent Marketing meets the needs of the growing independent agent marketplace by distributing fixed and variable life insurance and annuity products and mutual funds through various channels. These channels include individual brokers, broker-dealers, national marketing agencies and employee benefit firms. Independent Marketing's success as a market leader is due to its commitment to superior marketing and administrative support.

2001 RESULTS

There was a decrease in net income in 2001. This decrease was due to several factors, the largest of which was an increase in marketing expenses resulting from the planned expansion of Independent Marketing. In addition, the decline in equity markets had a negative impact on variable product and mutual fund sales.

The growth within Independent Marketing is demonstrated by the increase in paid annualized premium, which rose sharply in 2001. Total collected premium reached $450 million in 2001, which included $400 million of annuity and $50 million of life premium. This compares with $230 million of total collected premium in 2000. This growth was fueled by a major hiring initiative in 2001, which added new field wholesalers. The activities of these wholesalers, in turn, increased awareness of American National's products and services in the independent agent marketplace, resulting in the almost 200% increase in paid premium during the year.

LOOKING AHEAD

Independent Marketing's strategy of providing innovative products, services and concepts will continue

TWO-YEAR FINANCIAL COMPARISON (In thousands)

	LIFE	ANNUITY	TOTAL
2001			
Life insurance in force	$ 1,837,929	$ —	$ 1,837,929
Paid annualized premium from new sales	10,267	388,850	399,117
Policy account deposits	56,300	364,422	420,722
Earned premium income	(107)	30,797	30,690
Other policy revenues	9,425	9,938	19,363
Gain before allocations	(6,433)	3,374	(3,059)
Allocated investment income on equity	2,933	9,211	12,144
Allocated federal income taxes	1,155	(4,153)	(2,998)
Net income	$ (2,345)	$ 8,432	$ 6,087
2000			
Life insurance in force	$ 1,512,520	$ —	$ 1,512,520
Paid annualized premium from new sales	11,729	167,162	178,891
Policy account deposits	58,761	123,067	181,828
Earned premium income	(174)	49,957	49,783
Other policy revenues	8,520	18,277	26,797
Gain before allocations	(1,705)	2,651	946
Allocated investment income on equity	1,990	10,211	12,201
Allocated federal income taxes	(94)	(4,245)	(4,339)
Net income	$ 191	$ 8,617	$ 8,808

to drive growth in 2002. Product lines will be enhanced as needed to meet market expectations. Relationships with partners in all distribution channels will continue to be strengthened. Opportunities generated by American National's unique products and services in small business retirement plans will be developed further. Supporting these strategies will be continued emphasis on brand awareness through aggressive use of technology, and through the use of print and electronic media.

Independent Marketing's goal is to exceed its distribution partners' expectations. Achievement of this goal depends on a two-pronged approach that uses information technology and field support. Independent Marketing's data warehouse initiative will generate enhanced customer profiles that will ultimately benefit both the distribution partners and the consumer. The Independent Marketing Field Support Center will continue to play a vital role as primary contact for the distribution partners, utilizing technology and a service-driven philosophy.

Independent Marketing's goal is to exceed its distribution partners' expectations.

HEALTH DIVISION

STEVEN H. SCHOUWEILER

Senior Vice President
Health Division

American National's Health Division markets a variety of products to employers, educational institutions, and individuals.

2001 RESULTS

Operating results were lowered by a reserve established for losses related to the September 11 terrorist attacks. The loss is a one-time event, with no negative financial impact expected on health operations in future years. Excluding the impact of the attacks, operating results improved significantly.

In 2001, the Health Division continued to redefine its product mix, focusing on markets that provide the opportunity for profitable growth. Because of the narrower product selection and marketing focus, premium levels declined, as planned, in 2001.

LOOKING AHEAD

An improved hospital/surgical plan product and a Preferred Provider Organization rider are among the products to be introduced in 2002. The emphasis during the coming year will be on identifying profitable core business niche market opportunities, and working outside of existing distribution channels. Rate increases are being filed and implemented on all lines of business. New product filings in 2002 offer the promise of building on the positive results of 2001.

New technology will be implemented to improve efficiency and provide better service to the customer. Also, a new quality control program will be instituted, with a goal of improved claim processing.

TWO-YEAR FINANCIAL COMPARISON (In thousands)

	LIFE	ACCIDENT & HEALTH	TOTAL
2001			
Life insurance in force	$ 828,544	$ —	$ 828,544
Earned premium income	3,376	222,183	225,559
Gain before allocations	227	(21,897)	(21,670)
Allocated investment income on equity	103	4,393	4,496
Allocated federal income taxes	(109)	5,776	5,667
Net income	$ 221	$ (11,728)	$ (11,507)
2000			
Life insurance in force	$ 1,158,265	$ —	$ 1,158,265
Earned premium income	3,592	232,478	236,070
Gain before allocations	379	(24,887)	(24,508)
Allocated investment income on equity	118	5,152	5,270
Allocated federal income taxes	(164)	6,513	6,349
Net income	$ 333	$ (13,222)	$ (12,889)

In 2001, the Health Division continued to redefine its product mix.

CREDIT INSURANCE DIVISION

J. RAY THOMASON

Senior Vice President
Credit Insurance Division

The Credit Insurance Division actively markets its products in all of the five major credit insurance markets: automobile dealers, banks, credit unions, finance companies and furniture dealers. Known for its excellent distribution network, industry expertise and superb customer service, American National ranks among the leaders in the credit insurance business.

2001 RESULTS

While overall sales of life insurance and written premium decreased slightly in 2001, written premiums in the bank, finance company and furniture dealer markets increased by more than 14%. In addition, life insurance in force and earned premium income both increased in 2001.

The Credit Insurance Division achieved a 41% growth in property and casualty premiums during 2001. Two key products in the property and casualty product portfolio, Guaranteed Auto Protection (GAP) and Involuntary Unemployment Insurance (IUI), were introduced in the Texas automobile market in 2001, and are expected to contribute to further growth in 2002.

Internet access to policy and claims status information by creditor clients was introduced during the first quarter of 2001. An increasing number of inquiries are being handled via the Internet, giving producers

TWO-YEAR FINANCIAL COMPARISON (In thousands)

	2001	2000
Sales of life insurance (face amount)	$ 4,150,068	$ 4,220,543
Life insurance in force	7,460,283	7,323,358
Written premium	158,499	161,210
Earned premium income	58,308	55,301
Gain before allocations	234	879
Allocated investment income on equity	12,514	11,077
Allocated federal income taxes	(4,207)	(3,945)
Net income	$ 8,541	$ 8,011

faster access to needed information and decreasing the division's administrative costs.

LOOKING AHEAD

In addition to continuing to support its strong distribution partner in the automobile dealer market, the division will focus in 2002 on increasing the company's share of the bank markets. This will be done primarily through the introduction of a monthly outstanding balance product, a debt cancellation product and the highly successful GAP product. Other priorities will include exploring opportunities to enhance business processing and customer service levels, and to improve employee productivity.

American National ranks among the leaders in the credit insurance business.

SENIOR AGE MARKETING

E. HARRISON MARTIN

Senior Vice President
Standard Life and Accident Insurance Company

Senior Age Marketing offers life, annuity and health products to the senior age market through independent agents. This segment has excellent brand recognition, and is known for its specialization in serving this market.

2001 RESULTS

Net income declined in 2001, due largely to investments in administrative and marketing infrastructure. Paid annualized life premium from new business increased 4% and collected annuity premium increased 89%.

Health new business annualized premiums increased 148%. Health operating results were heavily influenced by the establishment of a $12 million premium deficiency reserve related to long-term care and limited-benefit nursing home products.

LOOKING AHEAD

A number of rate increases, including increases for the Standardized Medicare Supplement plans, have been filed and approved. These rate increases should have a positive affect on operating results in 2002.

Growth will continue to be Senior Age Marketing's theme in 2002. This growth will come from aggressive recruitment of new producers, as well as new initiatives to improve production among current producers.

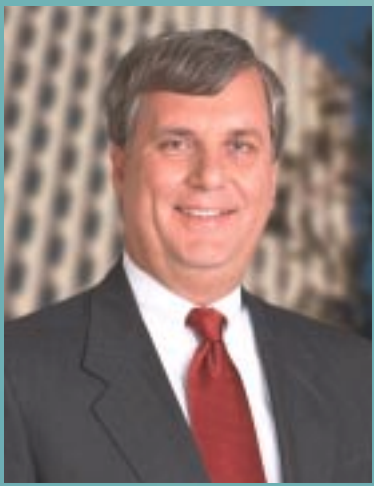
Senior Age Marketing expects continued strong premium growth and significant improvement in profitability in 2002. Growth will also come with the establishment of new markets for already proven products. Additional state approvals for these products are expected throughout 2002.

TWO-YEAR FINANCIAL COMPARISON (In thousands)

	LIFE	ANNUITY	ACCIDENT & HEALTH	TOTAL
2001				
Life insurance in force	$ 553,021	$ —	$ —	$ 553,021
Paid annualized premium from new sales	2,892	8,381	39,191	50,464
Earned premium income	24,211	375	143,241	167,827
Gain before allocations	(105)	(8)	(13,694)	(13,807)
Allocated investment income on equity	2,108	142	4,736	6,986
Allocated federal income taxes	(661)	(44)	2,956	2,251
Net income	$ 1,342	$ 90	$ (6,002)	$ (4,570)
2000				
Life insurance in force	$ 561,585	$ —	$ —	$ 561,585
Paid annualized premium from new sales	2,786	4,231	15,755	22,772
Earned premium income	25,056	119	123,249	148,424
Gain before allocations	2,169	(92)	457	2,534
Allocated investment income on equity	2,351	133	4,869	7,353
Allocated federal income taxes	(1,492)	(14)	(1,757)	(3,263)
Net income	$ 3,028	$ 27	$ 3,569	$ 6,624

This segment is known for its specialization in serving the senior market.

DIRECT MARKETING



SCOTT K. LUCHESI

President and
Chief Executive Officer
Garden State Life Insurance Company

Direct Marketing is well known for its stable, long-term management and willingness to pursue innovative marketing initiatives. With two decades of experience in the direct response marketplace, this segment has emerged as one of American National's core distribution channels.

2001 RESULTS

Net income increased in 2001, as did paid annualized premium from new sales and earned premium income. While life insurance in force declined slightly, the number of policies and annualized premium in force increased in 2001. Direct Marketing enjoyed its third consecutive year of record-setting sales increases.

Broadcast media remain the primary sources of lead generation for this segment. However, a dedicated Web site is an increasingly important source of leads, and online application completion is increasing as well. The agreement to be the exclusive life insurance provider in the Mover's Guide, distributed by the United States Postal Service, has been renewed, and a life insurance ad has been placed online at moversguide.com. Direct Marketing has created several other online ads with marketing partners, and additional online marketing opportunities are being explored.

LOOKING AHEAD

To build on the existing sales momentum, third-party marketing agreements are being actively pursued, and agreements with several major banks offer particular promise. A new broker has been hired to supplement third-party marketing efforts. Also, Direct Marketing has an agreement with the Student Loan Marketing Association (Sallie Mae) to be its

TWO-YEAR FINANCIAL COMPARISON (In thousands)

	LIFE	ANNUITY	ACCIDENT & HEALTH	TOTAL
2001				
Life insurance in force	$ 5,174,972	$ —	$ —	$ 5,174,972
Paid annualized premium from new sales	8,502	—	7	8,509
Earned premium income	28,771	3	357	29,131
Gain before allocations	3,964	94	246	4,304
Allocated investment income on equity	—	—	—	—
Allocated federal income taxes	(1,308)	(31)	(81)	(1,420)
Net income	$ 2,656	$ 63	$ 165	$ 2,884
2000				
Life insurance in force	$ 5,242,262	$ —	$ —	$ 5,242,262
Paid annualized premium from new sales	6,603	—	171	6,774
Earned premium income	26,853	3	412	27,268
Gain before allocations	2,436	15	277	2,728
Allocated investment income on equity	551	22	3	576
Allocated federal income taxes	(986)	(12)	(92)	(1,090)
Net income	$ 2,001	$ 25	$ 188	$ 2,214

life insurance provider in 2002 customer mailings. Test marketing results have been excellent.

The utilization of successful direct mail and broadcast media outlets, combined with new marketing initiatives and increased efficiencies in new business processing, is expected to generate a substantial increase in new annualized premium for Direct Marketing in 2002.

Direct Marketing enjoyed its third consecutive year of record-setting sales increases.

OTHER OPERATIONS

SECURITIES MANAGEMENT AND RESEARCH, INC. (SM&R)

SM&R, a wholly owned subsidiary, is an investment adviser, money manager, and broker-dealer. It serves as investment adviser and principal underwriter for a series of mutual funds and separate accounts, shares of which are sold directly or as an investment vehicle for variable life and annuity products. SM&R also manages assets for registered investment companies, retirement plans, bank trust funds, nonprofit foundations, private institutions of higher education, and private client portfolios.

SM&R continued to focus on three distribution channels in 2001: American National's Multiple Line and Independent Marketing segments, and SM&R's direct sales, including the Arizona College Savings Plan.

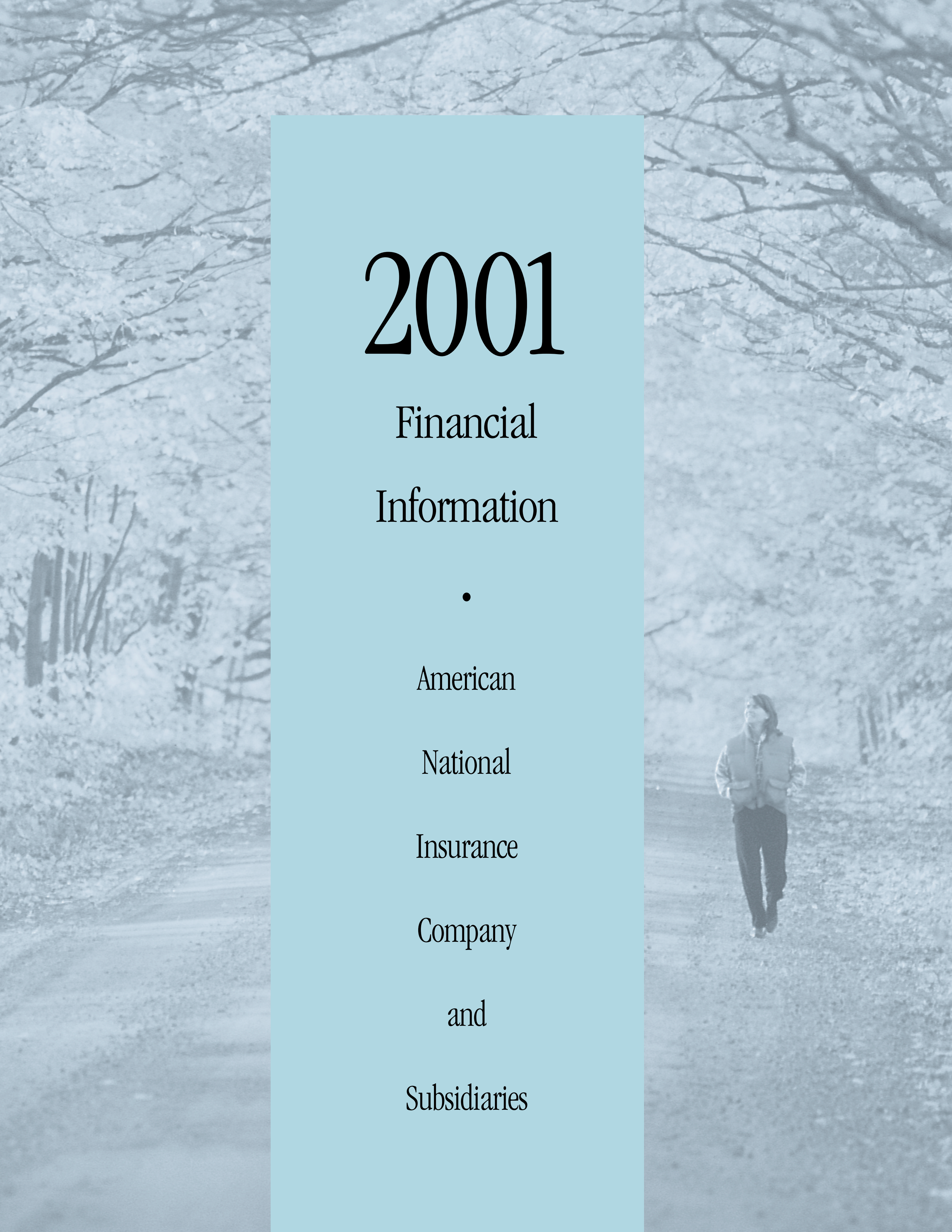
SPECIALIZED INVESTMENT COMPANIES

American National has several non-insurance subsidiaries that make real estate investments or provide investment related services. The use of these specialized companies provides for better risk management and monitoring of investment returns. The company also has numerous investments in joint ventures, including real estate partnerships and equity funds. These joint venture investments enable the company to share in the expertise of various partners that it could not otherwise utilize.

ACQUIRED BUSINESS

Business acquired by the company as closed blocks of insurance is reported under Other Operations. This includes the various blocks of insurance purchased from American Security Life, American Health and Life and several other smaller blocks.

The company will continue to explore opportunities for insurance acquisitions that will add value to the company. These targets could include blocks of closed insurance business or entire companies that offer strategic opportunities and the potential for future growth.



2001

Financial Information

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American

National

Insurance

Company

and

Subsidiaries

AMERICAN NATIONAL INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except for per share data)

	2001	2000	1999
PREMIUMS AND OTHER REVENUE			
Premiums			
Life	$ 323,603	$ 301,440	$ 300,326
Annuity	35,773	55,504	41,704
Accident and health	415,124	404,973	396,072
Property and casualty	666,823	426,786	392,576
Other policy revenues	104,680	103,323	100,258
Net investment income	529,146	479,089	473,949
Gain from sale of investments, net	6,545	22,571	149,061
Other income	52,687	40,795	35,668
Total revenues	2,134,381	1,834,481	1,889,614
BENEFITS AND EXPENSES			
Death and other benefits:			
Life	240,724	218,652	218,109
Annuity	55,196	53,180	45,464
Accident and health	332,371	316,965	290,846
Property and casualty	574,610	374,671	311,723
Increase in liability for future policy benefits:			
Life	23,983	15,539	15,546
Annuity	2,870	18,991	9,748
Accident and health	28,196	2,127	4,787
Interest credited to policy account balances	130,551	107,358	117,411
Commissions for acquiring and servicing policies	296,119	256,146	264,808
Other operating costs and expenses	306,867	222,458	210,877
Decrease (increase) in deferred policy acquisition costs	(15,254)	7,807	(2,188)
Taxes, licenses and fees	46,975	36,694	33,744
Total benefits and expenses	2,023,208	1,630,588	1,520,875
Income from operations before equity in earnings of unconsolidated affiliates and federal income taxes	111,173	203,893	368,739
Equity in earnings (losses) of unconsolidated affiliates	(6,054)	3,049	19,942
Income from operations before federal income taxes	105,119	206,942	388,681
Provision (benefit) for federal income taxes			
Current	56,708	83,255	132,128
Deferred	(16,520)	(16,487)	(10,060)
Net income	$ 64,931	$ 140,174	$ 266,613
Net income per common share—basic and diluted	$ 2.45	$ 5.29	$ 10.07

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(In thousands)

	December 31, 2001	December 31, 2000
ASSETS		
Investments, other than investments in unconsolidated affiliates		
Debt securities:		
Bonds held-to-maturity, at amortized cost	$ 3,811,582	$ 3,534,465
Bonds available-for-sale, at market	1,578,184	749,268
Marketable equity securities, at market:		
Preferred stocks	50,441	24,113
Common stocks	889,092	844,852
Mortgage loans on real estate	1,007,993	1,024,312
Policy loans	324,545	294,313
Investment real estate, net of accumulated depreciation of $132,873 and $121,446	233,069	243,263
Short-term investments	255,476	140,518
Other invested assets	129,398	134,857
Total investments	8,279,780	6,989,961
Cash	188,043	156,785
Investments in unconsolidated affiliates	173,878	158,229
Accrued investment income	125,781	107,573
Reinsurance ceded receivables	645,460	228,062
Prepaid reinsurance premiums	173,346	191,899
Premiums due and other receivables	214,586	152,218
Deferred policy acquisition costs	829,216	747,884
Property and equipment, net	73,932	51,194
Other assets	243,507	183,992
Separate account assets	310,608	302,590
Total assets	$ 11,258,137	$ 9,270,387
LIABILITIES		
Policyholder funds		
Future policy benefits:		
Life	$ 2,160,613	$ 1,890,103
Annuity	216,627	203,948
Accident and health	104,913	67,026
Policy account balances	2,849,458	2,206,888
Policy and contract claims	1,226,588	573,742
Other policyholder funds	958,156	647,911
Total policyholder liabilities	7,516,355	5,589,618
Current federal income taxes	(25,649)	(21,818)
Deferred federal income taxes	79,665	148,691
Notes payable	204,443	—
Other liabilities	234,124	227,649
Minority interests in subsidiaries	2,252	—
Separate account liabilities	310,608	302,590
Total liabilities	8,321,798	6,246,730
STOCKHOLDERS' EQUITY		
Capital stock	30,832	30,832
Additional paid-in capital	2,947	2,850
Accumulated other comprehensive income	75,940	150,402
Retained earnings	2,931,218	2,944,453
Treasury stock, at cost	(100,891)	(100,862)
Restricted stock	(3,707)	(4,018)
Total stockholders' equity	2,936,339	3,023,657
Total liabilities and stockholders' equity	$ 11,258,137	$ 9,270,387

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In thousands, except for per share data)

		2001	2000	1999
Common Stock	Balance at beginning and end of year	$ 30,832	$ 30,832	$ 30,832
Additional Paid-In Capital	Balance at beginning of year	2,850	211	211
	Issuance of treasury shares as restricted stock	97	2,639	—
	Balance at end of year	2,947	2,850	211
Accumulated Other Comprehensive Income	Balance at beginning of year	150,402	254,820	299,176
	Change in unrealized gains on marketable securities, net	(70,150)	(104,313)	(44,328)
	Foreign exchange adjustments	(4)	(105)	(28)
	Change in fair value of interest rate swap	(4,308)	—	—
	Balance at end of year	75,940	150,402	254,820
Retained Earnings	Balance at beginning of year	2,944,453	2,880,010	2,687,120
	Net income	64,931	140,174	266,613
	Cash dividends to common stockholders ($2.93, $2.86, $2.78 per share)	(77,585)	(75,731)	(73,723)
	Cash dividends to minority stockholders of subsidiaries	(226)	—	—
	Redemption premium on subsidiary preferred stock	(355)	—	—
	Balance at end of year	2,931,218	2,944,453	2,880,010
Treasury Stock	Balance at beginning of year	(100,862)	(102,727)	(102,727)
	Net issuance (redemption) of restricted stock	(29)	1,865	—
	Balance at end of year	(100,891)	(100,862)	(102,727)
Restricted Stock	Balance at beginning of year	(4,018)	—	—
	Net redemption (issuance) of restricted stock	(31)	(4,504)	—
	Amortization of restrictions	342	486	—
	Balance at end of year	(3,707)	(4,018)	—
Stockholders' Equity	Balance at end of year	$ 2,936,339	$ 3,023,657	$ 3,063,146

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	2001	2000	1999
Net income	$ 64,931	$ 140,174	$ 266,613
Other comprehensive income			
Change in unrealized gains on marketable securities, net	(70,150)	(104,313)	(44,328)
Foreign exchange adjustments	(4)	(105)	(28)
Change in fair value of interest rate swap	(4,308)	—	—
Total	(74,462)	(104,418)	(44,356)
Comprehensive income	$ (9,531)	$ 35,756	$ 222,257

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	2001	2000	1999
OPERATING ACTIVITIES			
Net income	$ 64,931	$ 140,174	$ 266,613
Adjustments to reconcile net income to net cash provided by operating activities:			
Increase in liabilities for policyholders' funds	607,666	298,026	125,112
Charges to policy account balances	(146,207)	(100,422)	(101,739)
Interest credited to policy account balances	130,551	107,358	117,411
Deferral of policy acquisition costs	(251,765)	(229,171)	(141,425)
Amortization of deferred policy acquisition costs	184,089	236,789	135,385
Deferred federal income tax benefit	(16,520)	(16,487)	(10,060)
Depreciation	25,216	21,564	19,598
Accrual and amortization of discounts and premiums	(22,762)	(17,319)	(15,183)
Amortization of goodwill	3,100	—	—
Gain from sale of investments, net	(33,217)	(22,571)	(149,061)
Equity in losses (earnings) of unconsolidated affiliates	6,054	(3,049)	(19,942)
Increase in premiums receivable	(9,800)	(55,515)	(5,185)
Decrease (increase) in accrued investment income	(1,380)	2,588	(5,756)
Capitalization of interest on policy and mortgage loans	(15,654)	(14,395)	(17,099)
Other changes, net	(188,055)	(152,092)	(53,452)
Net cash provided by operating activities	336,247	195,478	145,217
INVESTING ACTIVITIES			
Proceeds from sale or maturity of investments:			
Bonds	396,344	243,016	257,398
Stocks	165,615	198,901	452,055
Real estate	9,163	18,766	32,921
Other invested assets	16,160	18,146	96,670
Principal payments received on:			
Mortgage loans	154,012	89,585	176,394
Policy loans	9,092	36,940	37,594
Purchases of investments:			
Bonds	(583,203)	(99,701)	(508,205)
Stocks	(322,276)	(143,828)	(210,361)
Real estate	(11,741)	(2,039)	(29,124)
Mortgage loans	(49,828)	(34,095)	(146,513)
Policy loans	7,815	(24,217)	(22,461)
Other invested assets	(69,388)	(99,023)	(137,683)
Increase in short-term investments, net	(114,958)	(45,166)	(4,984)
Decrease (increase) in investment in unconsolidated affiliates, net	(21,703)	(38,857)	726
Payment for acquisition of subsidiary, net of cash acquired	(245,418)	—	—
Increase in property and equipment, net	(17,953)	(12,291)	(17,219)
Net cash provided by (used in) investing activities	(678,267)	106,137	(22,792)
FINANCING ACTIVITIES			
Policyholders' deposits to policy account balances	587,685	324,881	309,885
Policyholders' withdrawals from policy account balances	(341,039)	(408,356)	(366,439)
Increase in notes payable	204,443	—	—
Dividends to stockholders	(77,811)	(75,731)	(73,723)
Net cash provided by (used in) financing activities	373,278	(159,206)	(130,277)
NET INCREASE (DECREASE) IN CASH	31,258	142,409	(7,852)
Cash:			
Beginning of the year	156,785	14,376	22,228
End of the year	$ 188,043	$ 156,785	$ 14,376

See accompanying notes to consolidated financial statements.

(1) NATURE OF OPERATIONS

American National Insurance Company and its consolidated subsidiaries (collectively "American National") operate primarily in the insurance industry. Operating on a multiple line basis, American National offers a broad line of insurance coverages, including individual and group life, health, and annuities; personal lines property and casualty; and credit insurance. In addition, through non-insurance subsidiaries, American National offers mutual funds and invests in real estate. The majority (99%) of revenues is generated by the insurance business. Business is conducted in all states, as well as Puerto Rico, Guam and American Samoa. American National is also authorized to sell its products to American military personnel in Western Europe and, through subsidiaries, business is conducted in Mexico. Various distribution systems are utilized, including home service, multiple line ordinary, group brokerage, credit, independent third party marketing organizations and direct sales to the public.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

Principles of consolidation and basis of presentation—The consolidated financial statements include the accounts of American National Insurance Company and its subsidiaries. All significant intercompany transactions have been eliminated in consolidation. Investments in unconsolidated affiliates are shown at cost plus equity in undistributed earnings since the dates of acquisition.

The consolidated financial statements have been prepared on the basis of Generally Accepted Accounting Principles (GAAP) as defined in the United States of America. GAAP for insurance companies differs from the basis of accounting followed in reporting to insurance regulatory authorities. (See Note 16.)

Certain reclassifications have been made to the 1999 and 2000 financial information to conform to the 2001 presentation.

Use of estimates—The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from reported results using those estimates.

Accounting changes

***Accounting for derivative instruments*—**FAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by FAS No. 137 and FAS No. 138, is effective for all quarters, beginning after June 15, 2000. This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The statement requires that entities recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. American National adopted FAS No. 133, as amended, on January 1, 2001. The adoption of FAS No. 133 did not have a significant effect on American National's financial position or results from operations. However, in conjunction with the adoption of FAS No. 133, American National was permitted to reclassify bonds with an amortized value of $286,726,000 from held-to-maturity to available-for-sale. This reclassification resulted in an addition to unrealized losses of $3,976,000.

***Business combinations*—**FAS No. 141, "Business Combinations," is effective for all business combinations initiated after June 30, 2001. This statement establishes the purchase method as the only allowable way to account for business combinations. The statement also establishes the criteria for identifying and initially recognizing goodwill associated with a business combination. American National adopted FAS No. 141 on July 1, 2001. The adoption of FAS No. 141 did not have a significant effect on American National's financial position or results from operations.

***Goodwill and other intangible assets*—**FAS No. 142, "Goodwill and Other Intangible Assets," is effective for years beginning after December 15, 2001. This statement addresses the initial recognition and measurement of intangible assets that were not acquired as part of a business combination. The statement also addresses the subsequent accounting and measurement of goodwill and intangible assets regardless of how they were acquired. The statement eliminates the expensing of goodwill on a routine periodic basis and establishes an annual impairment evaluation approach for intangible assets. American National adopted FAS No. 142 on January 1, 2002. The adoption of FAS No. 142 will eliminate the future amortization of goodwill associated with the acquisition of Farm Family Holdings, Inc., which totaled $3,100,000 before tax, for 2001. (See Note 14.)

Investments

***Debt securities*—**Bonds that are intended to be held-to-maturity are carried at amortized cost. The carrying value of these debt securities is expected to be realized, due to American National's ability and intent to hold these securities until maturity.

Bonds held as available-for-sale are carried at market.

***Preferred stocks*—**All preferred stocks are classified as available-for-sale and are carried at market.

***Common stocks*—**All common stocks are classified as available-for-sale and are carried at market.

***Unrealized gains*—**For all investments carried at market, the unrealized gains or losses (differences between amortized cost and market value), net of applicable federal income taxes, are reflected in stockholders' equity as a component of accumulated other comprehensive income.

***Mortgage loans*—**Mortgage loans on real estate are carried at amortized cost, less allowance for valuation impairments.

The mortgage loan portfolio is closely monitored through the review of loan and property information, such as debt service coverage, annual operating statements and property inspection reports. This information is evaluated in light of current economic conditions and other factors, such as geographic location and property type. As a result of this review, impaired loans are identified and valuation allowances are established. Impaired loans are those which, based on current information and events, it is probable that American National will be unable to collect all amounts due, according to the contractual terms of the loan agreement.

***Policy loans*—**Policy loans are carried at cost.

***Investment real estate*—**Investment real estate is carried at cost, less allowance for depreciation and valuation impairments. Depreciation is provided over the estimated useful lives of the properties (15 to 50 years) using straight-line and accelerated methods.

American National's real estate portfolio is closely monitored through the review of operating information and periodic inspections. This information is evaluated in light of current economic conditions and other factors, such as geographic location and property type. As a result of this review, if there is any indication of an adverse change in the economic condition of a property, a complete cash flow analysis is performed to determine whether or not an impairment allowance is necessary. If a possible impairment is indicated, the fair market value of the property is estimated using a variety of techniques, including cash flow analysis, appraisals and comparison to the values of similar properties. If the book value is greater than the estimated fair market value, an impairment allowance is established.

***Short-term investments*—**Short-term investments (primarily commercial paper) are carried at amortized cost.

***Other invested assets*—**Other invested assets are carried at cost, less allowance for valuation impairments. Valuation allowances for other invested assets are considered on an individual basis in accordance with the same procedures used for investment real estate.

***Investment valuation allowances and impairments*—**Investment valuation allowances are established for other than temporary impairments of mortgage loans, real estate and other assets in accordance with the policies established for each class of asset. The increase in the valuation allowances is reflected in current period income as a realized loss in the net gain from sale of investments.

Management believes that the valuation allowances are adequate. However, it is possible that a significant change in economic conditions in the near term could result in losses exceeding the amounts established.

Cash and cash equivalents

American National considers cash on-hand and in-banks plus amounts invested in money market funds as cash for purposes of the consolidated statements of cash flows.

Investments in unconsolidated affiliates

These assets are primarily investments in real estate and equity fund joint ventures, and are accounted for under the equity method of accounting.

Property and equipment

These assets consist of buildings occupied by the companies, electronic data processing equipment, and furniture and equipment. These assets are carried at cost, less accumulated depreciation. Depreciation is provided using straight-line and accelerated methods over the estimated useful lives of the assets (3 to 50 years).

Foreign currencies

Assets and liabilities recorded in foreign currencies are translated at the exchange rate on the balance sheet date. Revenue and expenses are translated at average rates of exchange prevailing during the year. Translation adjustments resulting from this process are charged or credited to accumulated other comprehensive income.

Insurance specific assets and liabilities

***Deferred policy acquisition costs*—**Certain costs of acquiring new insurance business have been deferred. For life, annuity and accident and health business, such costs consist of inspection report and medical examination fees, commissions, related fringe benefit costs and the cost of insurance in force gained through acquisitions. The amount of commissions deferred includes first-year commissions and certain subsequent-year commissions that are in excess of ultimate level commission rates.

The deferred policy acquisition costs on traditional life and health products are amortized with interest over the anticipated premium-paying period of the related policies, in proportion to the ratio of annual premium revenue to be received over the life of the policies. Expected premium revenue is estimated by using the same mortality and withdrawal assumptions used in computing liabilities for future policy benefits. The amount of deferred policy acquisition costs is reduced by a provision for possible inflation of maintenance and settlement expenses in the determination of such amounts by means of grading interest rates.

Costs deferred on universal life, limited pay and investment type contracts are amortized as a level percentage of the present value of anticipated gross profits from investment yields, mortality, and surrender charges. The effect on the deferred policy acquisition costs that would result from realization of unrealized gains (losses) is recognized with an offset to accumulated other comprehensive income in consolidated stockholders' equity as of the balance sheet date. It is possible that a change in interest rates could have a significant impact on the deferred policy acquisition costs calculated for these contracts.

Deferred policy acquisition costs associated with property and casualty insurance business consist principally of commissions and underwriting and issue costs. These costs are amortized over the coverage period of the related policies, in relation to premium revenue recognized.

Future policy benefits**—**For traditional products, liabilities for future policy benefits have been provided on a net level premium method based on estimated investment yields, withdrawals, mortality, and other assumptions that were appropriate at the time that the policies were issued. Estimates used are based on the companies' experience, as adjusted to provide for possible adverse deviation. These estimates are periodically reviewed and compared with actual experience. When it is determined that future expected experience differs significantly from existing assumptions, the estimates are revised for current and future issues.

Future policy benefits for universal life and investment-type contracts reflect the current account value before applicable surrender charges.

Recognition of premium revenue and policy benefits

Traditional ordinary life and health**—**Life and accident and health premiums are recognized as revenue when due. Benefits and expenses are associated with earned premiums to result in recognition of profits over the life of the policy contracts. This association is accomplished by means of the provision for liabilities for future policy benefits and the amortization of deferred policy acquisition costs.

Annuities**—**Revenues from annuity contracts represent amounts assessed against contract holders. Such assessments are principally surrender charges and, in the case of variable annuities, administrative fees. Policy account balances for annuities represent the deposits received plus accumulated interest, less applicable accumulated administrative fees.

Universal life and single premium whole life**—**Revenues from universal life policies and single premium whole life policies represent amounts assessed against policyholders. Included in such assessments are mortality charges, surrender charges actually paid and earned policy service fees. Policyholder account balances consist of the premiums received plus credited interest, less accumulated policyholder assessments. Amounts included in expense represent benefits in excess of account balances returned to policyholders.

Property and casualty**—**Property and casualty premiums are recognized as revenue proportionately over the contract period. Policy benefits consist of actual claims and the change in reserves for losses and loss adjustment expenses. The reserves for losses and loss adjustment expenses are estimates of future payments of reported and unreported claims and the related expenses with respect to insured events that have occurred. These reserves are calculated using case basis estimates for reported losses and experience for claims incurred but not reported. These loss reserves are reported net of an allowance for salvage and subrogation. Management believes that American National's reserves have been appropriately calculated, based on available information as of December 31, 2001. However, it is possible that the ultimate liabilities may vary significantly from these estimated amounts.

Participating insurance policies**—**A portion of the life insurance portfolio is written on a participating basis. Participating business comprised approximately 8.2% of the life insurance in force at December 31, 2001, and 5.6% of life premiums in 2001. Of the total participating business, 72.2% was written by Farm Family Life Insurance Company (Farm Family Life). For the participating business excluding Farm Family Life, the allocation of dividends to participating policyowners is based upon a comparison of experienced rates of mortality, interest and expenses, as determined periodically for representative plans of insurance, issue ages and policy durations, with the corresponding rates assumed in the calculation of premiums.

For the Farm Family Life participating business, profits earned on participating business are reserved for the payment of dividends to policyholders, except for the stockholders' share of profits on participating policies, which is limited to the greater of 10% of the profit on participating business, or 50 cents per thousand dollars of the face amount of participating life insurance in force. Participating policyholders' interest includes the accumulated net income from participating policies reserved for payment to such policyholders in the form of dividends (less net income allocated to stockholders as indicated above) as well as a pro rata portion of unrealized investment gains (losses), net of tax.

Federal income taxes

American National and its eligible subsidiaries will file a consolidated life/nonlife federal income tax return for 2001. Certain subsidiaries consolidated for financial reporting are not eligible to be included in the consolidated federal income tax return. Separate provisions for income taxes have been determined for these entities.

Deferred federal income tax assets and liabilities have been recognized to reflect the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Separate account assets and liabilities

The separate account assets and liabilities represent funds maintained to meet the investment objectives of contract holders who bear the investment risk. The investment income and investment gains and losses from these separate funds accrue directly to the contract holders of the policies supported by the separate accounts. The assets of each separate account are legally segregated and are not subject to claims that arise out of any other business of American National. The assets of these accounts are carried at market value. Deposits, net investment income and realized investment gains and losses for these accounts are excluded from revenues, and related liability increases are excluded from benefits and expenses in this report.

(3) INVESTMENTS

The amortized cost and estimated market values of investments in held-to-maturity and available-for-sale securities are shown in Table 1 (in thousands).

TABLE 1

December 31, 2001	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Debt securities:				
Bonds held-to-maturity:				
U. S. Government and agencies	$ 43,830	$ 1,258	$ (74)	$ 45,014
States and political subdivisions	209,731	2,145	(1,266)	210,610
Foreign governments	44,175	935	—	45,110
Public utilities	973,502	32,921	(2,891)	1,003,532
All other corporate bonds	2,400,679	94,247	(8,457)	2,486,469
Mortgage-backed securities	139,665	6,952	(124)	146,493
Total bonds held-to-maturity	3,811,582	138,458	(12,812)	3,937,228
Bonds available-for-sale:				
U. S. Government and agencies	22,565	1,044	(62)	23,547
States and political subdivisions	97,420	417	(673)	97,164
Foreign governments	14,765	1,538	—	16,303
Public utilities	390,847	10,303	(7,811)	393,339
All other corporate bonds	890,397	35,364	(27,442)	898,319
Mortgage-backed securities	147,542	2,631	(661)	149,512
Total bonds available-for-sale	1,563,536	51,297	(36,649)	1,578,184
Total debt securities	5,375,118	189,755	(49,461)	5,515,412
Marketable equity securities:				
Preferred stock	49,405	1,706	(670)	50,441
Common stock	769,306	235,737	(115,951)	889,092
Total marketable equity securities	818,711	237,443	(116,621)	939,533
Total investments in securities	$ 6,193,829	$ 427,198	$ (166,082)	$ 6,454,945

TABLE 1 (CONTINUED)

December 31, 2000	Gross Amortized Cost	Gross Unrealized Gains	Estimated Unrealized Losses	Market Value
Debt securities				
Bonds held-to-maturity:				
U. S. Government and agencies	$ 58,765	$ 689	$ (201)	$ 59,253
States and political subdivisions	49,906	591	(145)	50,352
Foreign governments	108,541	3,854	—	112,395
Public utilities	998,042	12,715	(19,676)	991,081
All other corporate bonds	2,226,709	40,791	(27,481)	2,240,019
Mortgage-backed securities	92,502	4,512	(3)	97,011
Total bonds held-to-maturity	3,534,465	63,152	(47,506)	3,550,111
Bonds available-for-sale:				
U. S. Government and agencies	19,646	336	—	19,982
States and political subdivisions	38,563	225	(74)	38,714
Foreign governments	27,571	2,007	—	29,578
Public utilities	221,886	3,809	(9,098)	216,597
All other corporate bonds	500,045	7,501	(63,149)	444,397
Total bonds available-for-sale	807,711	13,878	(72,321)	749,268
Total debt securities	4,342,176	77,030	(119,827)	4,299,379
Marketable equity securities:				
Preferred stock	23,970	881	(738)	24,113
Common stock	549,721	372,866	(77,735)	844,852
Total marketable equity securities	573,691	373,747	(78,473)	868,965
Total investments in securities	$ 4,915,867	$ 450,777	$ (198,300)	$ 5,168,344

Debt Securities—The amortized cost and estimated market value, by contractual maturity of debt securities at December 31, 2001, are shown in Table 2 (in thousands). Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

TABLE 2

	Bonds-Held-to-Maturity		Bonds-Available-for-Sale	
	Amortized Cost	Estimated Market Value	Amortized Cost	Estimated Market Value
Due in one year or less	$ 224,572	$ 228,968	$ 82,594	$ 81,760
Due after one year through five years	1,929,837	2,014,041	813,095	835,858
Due after five years through ten years	1,089,002	1,117,451	346,140	340,780
Due after ten years	425,245	427,240	262,411	260,296
	3,668,656	3,787,700	1,504,240	1,518,694
Without single maturity date	142,926	149,528	59,296	59,490
	$ 3,811,582	$ 3,937,228	$ 1,563,536	$ 1,578,184

For 2001, proceeds from sales of investments in securities classified as available-for-sale (bonds and stocks) totaled $243,096,000. Gross gains of $49,033,000 and gross losses of $11,708,000 were realized on those sales. Securities with an amortized cost of $98,014,000 were transferred from held-to-maturity to available-for-sale due to evidence of a significant deterioration in the issuer's creditworthiness. An unrealized loss of $10,191,000 was established at the time of transfer.

For 2000, proceeds from sales of investments in securities classified as available-for-sale (bonds and stocks) totaled $234,477,000. Gross gains of $68,605,000 and gross losses of $48,761,000 were realized on those sales. Included in the proceeds from sales of available-for-sale securities was $8,893,000 from the sale of bonds that had been reclassified from bonds held-to-maturity. The bonds had been reclassified due to evidence of a significant deterioration in the issuer's creditworthiness. The net loss from the sale of these bonds was $7,941,000.

For 1999, proceeds from sales of investments in securities classified as available-for-sale (bonds and stocks) totaled $466,899,000. Gross gains of $148,762,000 and gross losses of $6,043,000 were realized on those sales. Included in the proceeds from sales of available-for-sale securities was $33,813,000 from the sale of bonds that had been reclassified from bonds held-to-maturity. The bonds had been reclassified due to evidence of a significant deterioration in the issuer's creditworthiness. The net loss from the sale of these bonds was $5,314,000.

During 2001, bonds were called or otherwise redeemed by the issuers, resulting in proceeds of $184,404,000 from the disposal. Gross gains of $676,000 and gross losses of $205,000 were realized on those disposals. During 2000, bonds were called or otherwise redeemed by the issuers, resulting in proceeds of $125,271,000 from the disposal. Gross gains of $379,000 were realized on those disposals. During 1999, bonds were called by the issuers, resulting in proceeds of $163,596,000 from the disposal. Gross gains of $688,000 were realized on those disposals.

All gains and losses were determined using specific identification of the securities sold.

Unrealized gains on securities—Unrealized gains on marketable equity securities and bonds available-for-sale, presented in the stockholders equity section of the consolidated statements of financial position, are net of deferred tax liabilities of $43,916,000, $81,060,000 and $137,222,000 for 2001, 2000, and 1999, respectively.

The change in the net unrealized gains on investments for the years ended December 31 are summarized as shown in Table 3 (in thousands).

TABLE 3

	2001	2000	1999
Bonds available-for-sale	$ 73,091	$ (39,436)	$ (66,800)
Preferred stocks	893	(464)	(1,793)
Common stocks	(175,345)	(117,142)	(20,456)
Index options	139	(139)	—
Amortization of deferred policy acquisition costs	(5,624)	(3,294)	21,028
	(106,846)	(160,475)	(68,021)
Provision for federal income taxes	37,144	56,162	23,693
	(69,702)	(104,313)	(44,328)
Change in unrealized gains of investments attributable to participating policyholders' interest	(448)	—	—
Total	$ (70,150)	$ (104,313)	$ (44,328)

Mortgage loans—In general, mortgage loans are secured by first liens on income-producing real estate. The loans are expected to be repaid from the cash flows or proceeds from the sale of real estate. American National generally allows a maximum loan-to-collateral-value ratio of 75% to 90% on newly funded mortgage loans. As of December 31, 2001, mortgage loans have fixed rates from 6.00% to 12.25% and variable rates from 6.39% to 10.25%. The majority of the mortgage loan contracts require periodic payments of both principal and interest, and have amortization periods of 3 months to 32 years.

American National has investments in first lien mortgage loans on real estate with carrying values of $1,007,993,000 and $1,024,312,000 at December 31, 2001 and 2000, respectively. Problem loans, on which valuation allowances were established, totaled $65,875,000 and $42,465,000 at December 31, 2001 and 2000, respectively. The valuation allowances on those loans totaled $8,211,000 and $4,838,000 at December 31, 2001 and 2000, respectively.

Policy loans—All of the company's policy loans carried interest rates ranging from 5% to 8% at December 31, 2001.

Investment income and realized gains (losses)—Investment income and realized gains (losses) on investments, before federal income taxes, for the years ended December 31 are summarized as shown in Table 4 (in thousands).

TABLE 4

	Investment Income			Gains (Losses) on Investments		
	2001	2000	1999	2001	2000	1999
Bonds	$ 360,907	$ 322,204	$ 318,898	$ (25,788)	$ (17,759)	$ (5,327)
Preferred stocks	2,067	1,879	2,599	(298)	(36)	(1,212)
Common stocks	19,363	14,802	16,284	37,209	38,018	149,946
Mortgage loans	86,768	94,287	98,111	(233)	(7,874)	1,206
Real estate	75,485	71,613	65,027	1,196	3,848	6,417
Other invested assets	48,709	37,832	36,819	398	(2,015)	2,793
Investment in unconsolidated affiliates	—	—	—	1,288	—	—
	593,299	542,617	537,738	13,772	14,182	153,823
Investment expenses	(64,153)	(63,528)	(63,789)	—	—	—
Decrease (increase) in valuation allowances	—	—	—	(7,227)	8,389	(4,762)
	$ 529,146	$ 479,089	$ 473,949	$ 6,545	$ 22,571	$ 149,061

Included in the realized losses for 2001 is a writedown of $26,672,000 of available-for-sale debt securities due to evidence of a significant deterioration in the issuer's creditworthiness resulting from an other than temporary decline in the value of the securities.

(4) CONCENTRATIONS OF CREDIT RISK ON INVESTMENTS

American National employs a strategy to invest funds at the highest return possible commensurate with sound and prudent underwriting practices to ensure a well-diversified investment portfolio.

Bonds:

Management believes American National's bond portfolio is of investment grade and is diversified. The bond portfolio distributed by quality rating at December 31 is summarized as shown in Table 5.

TABLE 5

	2001	2000
AAA	8%	6%
AA	10%	14%
A	41%	57%
BBB	25%	19%
Below BBB	16%	4%
	100%	100%

Common stock:

American National's stock portfolio by market sector distribution at December 31 is summarized as shown in Table 6.

TABLE 6

	2001	2000
Basic materials	3%	1%
Capital goods	7%	9%
Consumer goods	19%	18%
Energy	7%	8%
Finance	18%	18%
Technology	12%	16%
Health care	11%	13%
Miscellaneous	16%	10%
Mutual funds	7%	7%
	100%	100%

Mortgage loans and investment real estate:

American National invests primarily in the commercial sector in areas that offer the potential for property value appreciation. Generally, mortgage loans are secured by first liens on income-producing real estate.

Mortgage loans and investment real estate by property type distribution at December 31 are summarized as shown in Table 7.

American National has a diversified portfolio of mortgage loans and real estate properties. Mortgage loans and real estate investments by geographic distribution at December 31 are as shown in Table 8.

TABLE 7

	Mortgage Loans		Investment Real Estate	
	2001	2000	2001	2000
Office buildings	17%	17%	15%	15%
Shopping centers	43%	49%	41%	41%
Commercial	4%	4%	2%	6%
Apartments	2%	1%	3%	3%
Hotels/motels	11%	8%	12%	13%
Industrial	17%	16%	22%	21%
Other	6%	5%	5%	1%
	100%	100%	100%	100%

TABLE 8

	Mortgage Loans		Investment Real Estate	
	2001	2000	2001	2000
New England	7%	9%	—	—
Middle Atlantic	16%	16%	—	—
East North Central	7%	9%	19%	18%
West North Central	2%	2%	16%	17%
South Atlantic	21%	22%	7%	7%
East South Central	1%	1%	13%	13%
West South Central	29%	25%	36%	37%
Mountain	5%	6%	3%	2%
Pacific	12%	10%	6%	6%
	100%	100%	100%	100%

(5) FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated market values of financial instruments have been determined using available market information and appropriate valuation methodologies. However, considerable judgment is required in developing the estimates of fair value. Accordingly, these estimates are not necessarily indicative of the amounts that could be realized in a current market exchange, or the amounts that may ultimately be realized. The use of different market assumptions or estimating methodologies could have a material effect on the estimated fair values.

Debt securities:

The estimated market values for bonds represent quoted market values from published sources or bid prices obtained from securities dealers.

Marketable equity securities:

Market values for preferred and common stocks represent quoted market prices obtained from independent pricing services.

Mortgage loans:

The market value for mortgage loans is estimated using discounted cash flow analyses based on interest rates currently being offered for comparable loans. Loans with similar characteristics are aggregated for purposes of the analyses.

Policy loans:

The carrying amount for policy loans approximates their market value.

Short-term investments:

The carrying amount for short-term investments approximates their market value.

Investment contracts:

The market value of investment contract liabilities is estimated using a discounted cash flow model, assuming the companies' current interest rates on new products. The carrying value for these contracts approximates their market value.

Notes payable:

The carrying amount for notes payable approximates their market value.

Interest rate swap:

The carrying amount for the interest rate swap approximates its market value.

Investment commitments:

American National's investment commitments are all short-term in duration, and the market value was not significant at December 31, 2001 or 2000.

Values:

The carrying amounts and estimated market values of financial instruments at December 31 are as shown in Table 9 (in thousands).

TABLE 9

	2001		2000	
	Carrying Amount	Estimated Market Value	Carrying Amount	Estimated Market Value
Financial assets				
Bonds:				
Held-to-maturity	$ 3,811,582	$ 3,937,228	$ 3,534,465	$ 3,550,111
Available-for-sale	1,578,184	1,578,184	749,268	749,268
Preferred stock	50,441	50,441	24,113	24,113
Common stock	889,092	889,092	844,852	844,852
Mortgage loans on real estate	1,007,993	1,045,659	1,024,312	1,071,438
Policy loans	324,545	324,545	294,313	294,313
Short-term investments	255,476	255,476	140,518	140,518
Financial liabilities				
Investment contracts	1,699,373	1,699,373	1,494,353	1,494,353
Notes payable	204,443	204,443	—	—
Interest rate swap	6,627	6,627	—	—

(6) DEFERRED POLICY ACQUISITION COSTS

Deferred policy acquisition costs and premiums for the years ended December 31, 2001, 2000, and 1999, are summarized as shown in Table 10 (in thousands).

TABLE 10

	Life and Annuity	Accident and Health	Property and Casualty	Total
Balance at December 31, 1998	$ 615,535	$ 104,735	$ 11,433	$ 731,703
Additions	82,708	25,315	29,550	137,573
Amortization	(87,701)	(21,263)	(26,421)	(135,385)
Effect of change in unrealized gains on available-for-sale securities	21,028	—	—	21,028
Net change	16,035	4,052	3,129	23,216
Acquisitions	3,652	225	—	3,877
Balance at December 31, 1999	635,222	109,012	14,562	758,796
Additions	132,720	60,838	35,424	228,982
Amortization	(141,591)	(63,518)	(31,680)	(236,789)
Effect of change in unrealized gains on available-for-sale securities	(3,294)	—	—	(3,294)
Net change	(12,165)	(2,680)	3,744	(11,101)
Acquisitions	123	66	—	189
Balance at December 31, 2000	623,180	106,398	18,306	747,884
Additions	101,364	25,229	72,750	199,343
Amortization	(89,751)	(25,480)	(68,858)	(184,089)
Effect of change in unrealized gains on available-for-sale securities	(5,524)	—	—	(5,524)
Net change	6,089	(251)	3,892	9,730
Acquisitions	52,417	5	19,180	71,602
Balance at December 31, 2001	$ 681,686	$ 106,152	$ 41,378	$ 829,216
2001 premiums	$ 359,376	$ 415,124	$ 666,823	$ 1,441,323
2000 premiums	$ 356,944	$ 404,973	$ 426,786	$ 1,188,703
1999 premiums	$ 342,030	$ 396,072	$ 392,576	$ 1,130,678

Commissions comprise the majority of the additions to deferred policy acquisition costs for each year.

Acquisitions relate to the purchase of various insurance portfolios under assumption reinsurance agreements and, for the year 2001, the purchase of the Farm Family insurance companies. (See Note 14.)

During 2001 American National's evaluation of recoverability and reserve adequacy resulted in the establishment of premium deficiency reserves of $23,436,000. Such reserve charges include $11,087,000 related to the accident and health product line, previously distributed through American National's Multiple Line segment, and $12,349,000 for the long-term care business produced by the Senior Age Marketing segment. No such charges were recorded in 2000 or 1999.

(7) FUTURE POLICY BENEFITS AND POLICY ACCOUNT BALANCES

Life insurance:

Assumptions used in the calculation of future policy benefits or policy account balances for individual life policies are as shown in Table 11.

TABLE 11

Policy Issue Year	Interest Rate	Percentage of Future Policy Benefits So Valued
Ordinary		
1996-2001	7.5% for years 1 through 5, graded to 5.5% at the end of year 25, and level thereafter	5%
1981-1995	8% for years 1 through 5, graded to 6% at the end of year 25, and level thereafter	17%
1976-1981	7% for years 1 through 5, graded to 5% at the end of year 25, and level thereafter	12%
1972-1975	6% for years 1 through 5, graded to 4% at the end of year 25, and level thereafter	4%
1969-1971	6% for years 1 through 5, graded to 3.5% at the end of year 30, and level thereafter	4%
1962-1968	4.5% for years 1 through 5, graded to 3.5% at the end of year 15, and level thereafter	7%
1948-1961	4% for years 1 through 5, graded to 3.5% at the end of year 10, and level thereafter	7%
1947 and prior	Statutory rates of 3% or 3.5%	1%
Participating business acquired	Level rates of 3% to 5.5%	8%
Industrial		
1948-1967	4% for years 1 through 5, graded to 3.5% at the end of year 10, and level thereafter	3%
1947 and prior	Statutory rates of 3%	3%
Universal life		
	Future policy benefits for universal life are equal to the current account value	29%
		100%

Future policy benefits for group life policies have been calculated using a level interest rate of 4%. Mortality and withdrawal assumptions are based on American National's experience.

Annuities:

Fixed annuities included in future policy benefits are calculated using a level interest rate of 6%. Mortality and withdrawal assumptions are based on American National's experience. Policy account balances for interest-sensitive annuities are equal to the current gross account balance.

Health Insurance:

Interest assumptions used for future policy benefits on health policies are calculated using a level interest rate of 6%. Morbidity and termination assumptions are based on American National's experience.

(8) LIABILITY FOR UNPAID CLAIMS AND CLAIM ADJUSTMENT EXPENSES

Activity in the liability for accident and health, and property and casualty unpaid claims and claim adjustment expenses is summarized as shown in Table 12 (in thousands).

TABLE 12

	2001	2000	1999
Balance at January 1	$ 453,909	$ 278,198	$ 266,832
Balance of acquisition	221,233	—	—
Less reinsurance recoverables	154,842	3,988	4,641
Net beginning balance	520,300	274,210	262,191
Incurred related to:			
Current year	912,132	681,794	620,236
Prior years	(14,147)	6,311	(18,662)
Total incurred	897,985	688,105	601,574
Paid related to:			
Current year	572,903	443,453	427,073
Prior years	267,338	182,086	162,482
Total paid	840,241	625,539	589,555
Net balance at December 31	578,044	336,776	274,210
Plus reinsurance recoverables	471,553	117,133	3,988
Balance at December 31	$ 1,049,597	$ 453,909	$ 278,198

The balances at December 31 are included in policy and contract claims in the consolidated statements of financial position.

(9) REINSURANCE

As is customary in the insurance industry, the companies reinsure portions of certain insurance policies they write, thereby providing a greater diversification of risk and managing exposure on larger risks. The maximum amount that would be retained by one company (American National) would be $700,000 individual life, $250,000 individual accidental death, $100,000 group life and $125,000 credit life (total $1,175,000). If individual, group and credit were in force in all companies at the same time, the maximum risk on any one life could be $2,341,500.

American National remains primarily liable with respect to any reinsurance ceded, and would bear the entire loss if the assuming companies were to be unable to meet their obligations under any reinsurance treaties.

To minimize its exposure to significant losses from reinsurer insolvencies, American National evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers. At December 31, 2001, amounts recoverable from resinurers with a carrying value of $102,599,341, were associated with various auto dealer credit insurance program reinsurers domiciled in the Caribbean islands of Nevis or the Turks and Caicos Islands. American National holds collateral related to these credit reinsurers totaling $80,870,261. This collateral is in the form of custodial accounts controlled by the company, which can be drawn on for amounts that remain unpaid for more than 90 days. American National believes that the failure of any single reinsurer to meet its obligations would not have a significant effect on its financial position or results of operations.

As a result of the September 11, 2001 terrorist attack on the United States, American National accrued losses (primarily on reinsurance assumed) totaling $239,406,000. Reinsurance providing coverage of $218,606,000 was in place on these claims. American National has evaluated the reinsurers providing the coverage for these claims, and management believes that all of the ceded amounts are recoverable. However, due to the magnitude of this event, the overall effects on the insurance industry have not yet been determined. American National believes that the failure of any single reinsurer to meet its obligations for these claims would not have a significant effect on its financial position.

Premiums, premium-related reinsurance amounts and reinsurance recoveries for the years ended December 31 are summarized as shown in Table 13 (in thousands).

TABLE 13

	2001	2000	1999
Direct premiums	$ 1,536,932	$ 1,297,995	$ 1,268,129
Reinsurance premiums assumed from other companies	433,843	260,214	110,180
Reinsurance premiums ceded to other companies	(529,452)	(369,506)	(247,631)
Net premiums	$ 1,441,323	$ 1,188,703	$ 1,130,678
Reinsurance recoveries	$ 629,905	$ 256,731	$ 162,863

Life insurance in force and related reinsurance amounts at December 31 are summarized as shown in Table 14 (in thousands).

TABLE 14

	2001	2000	1999
Direct life insurance in force	$ 53,502,696	$ 47,902,590	$ 46,156,190
Reinsurance risks assumed from other companies	910,942	873,996	797,059
Total life insurance in force	54,413,638	48,776,586	46,953,249
Reinsurance risks ceded to other companies	(14,819,652)	(12,573,404)	(9,629,707)
Net life insurance in force	$ 39,593,986	$ 36,203,182	$ 37,323,542

(10) NOTES PAYABLE

In April 2001, a subsidiary of American National entered into a loan agreement with a bank to borrow $200,000,000. The proceeds of this loan were used in the acquisition of Farm Family Holdings, Inc.(FFH). (See Note 14.) The loan calls for quarterly interest payments but no principal payments until maturity in June 2003. The loan is secured by the stock of FFH and also partially secured by a pledge of fixed maturity investments from American National with a market value of $250,000,000. The loan carries a variable interest rate equal to the six-month LIBOR rate plus 0.75%. However, at the time the loan was executed, an interest rate swap agreement was entered into that gave the loan a fixed effective interest rate of 5.58%.

The interest rate swap agreement represents a hedge against fluctuations in the interest rate on the loan. At December 31, 2001, the swap agreement represented an obligation with a value of approximately $6,627,000, which is reflected in other liabilities on the consolidated statement of financial position. The change in the value of the swap agreement is reflected in stockholders' equity as a component of accumulated other comprehensive income.

At December 31, 2001, other American National subsidiaries had notes payable to third party lenders totaling $4,443,000. These notes are unsecured, have interest rates from 4.5% to 8.5% and maturities from 2004 to 2006. None of the principal on these notes is due before maturity.

(11) FEDERAL INCOME TAXES

The federal income tax provisions vary from the amounts computed when applying the statutory federal income tax rate. A reconciliation of the effective tax rate of the companies to the statutory federal income tax rate is shown in Table 15 (in thousands, except percentages).

TABLE 15

	2001		2000		1999	
	Amount	Rate	Amount	Rate	Amount	Rate
Tax on pre-tax income	$ 36,792	35.00 %	$ 72,430	35.00 %	$ 136,03	35.00 %
Tax-exempt investment income	(2,808)	(2.67)	(3,956)	(1.91)	(1,691)	(0.44)
Dividend exclusion	(3,243)	(3.09)	(1,247)	(0.60)	(3,414)	(0.88)
Exempted losses on sale of assets	—	0.00	(2,604)	(1.26)	(4,470)	(1.15)
Miscellaneous tax credits, net	(2,177)	(2.07)	(2,536)	(1.23)	(2,262)	(0.58)
Losses on foreign operations	6,599	6.28	1,476	0.71	(585)	(0.15)
Other items, net	5,025	4.78	3,205	1.55	(1,548)	(0.40)
	$ 40,188	38.23 %	$ 66,768	32.26 %	$ 122,068	31.40 %

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2001 and December 31, 2000 are as shown in Table 16 (in thousands).

TABLE 16

	2001	2000
Deferred tax assets:		
Investment in bonds, real estate and other invested assets, principally due to investment valuation allowances	$ 11,282	$ 10,024
Policyholder funds, principally due to policy reserve discount	174,815	103,866
Policyholder funds, principally due to unearned premium reserve	23,652	12,843
Other assets	8,057	22,039
Total gross deferred tax assets	217,806	148,772
Less valuation allowance	(3,000)	(3,000)
Net deferred tax assets	$ 214,806	$ 145,772
Deferred tax liabilities:		
Marketable equity securities, principally due to net unrealized gains on stock	$ (42,477)	$ (81,060)
Investment in bonds, principally due to accrual of discount on bonds	(33,316)	(13,190)
Deferred policy acquisition costs, due to difference between GAAP and tax	(183,883)	(178,788)
Property, plant and equipment, principally due to difference between GAAP and tax depreciation methods	(7,533)	(5,278)
Non-taxable pension	(14,773)	(14,503)
Other liabilities	(12,489)	(1,644)
Net deferred tax liabilities	(294,471)	(294,463)
Total deferred tax	$ (79,665)	$ (148,691)

Management believes that a sufficient level of taxable income will be achieved to realize the net deferred tax assets.

Through 1983, under the provision of the Life Insurance Company Income Tax Act of 1959, life insurance companies were permitted to defer from taxation a portion of their income (within certain limitations) until and unless it is distributed to stockholders, at which time it would be taxed at regular corporate tax rates. No provision for deferred federal income taxes applicable to such untaxed income has been made, because management is of the opinion that no distributions of such untaxed income (designated by federal law as "policyholders' surplus") will be made in the foreseeable future. There was no change in the "policyholders' surplus" between December 31, 2000 and December 31, 2001, and the cumulative balance was approximately $63,000,000 at both dates.

Federal income tax totaling approximately $80,985,000 in 2001, $114,415,000 in 2000, and $108,060,000 in 1999 was paid to the Internal Revenue Service. The statute of limitations for the examination of federal income tax returns through 1997 for American National and its subsidiaries by the Internal Revenue Service has expired. All prior year deficiencies have been paid or provided for, and American National has filed appropriate claims for refunds through 1997. In the opinion of management, adequate provision has been made for any tax deficiencies that may be sustained.

(12) COMPONENTS OF COMPREHENSIVE INCOME

The items included in comprehensive income, other than net income, are unrealized gains on available-for-sale securities (net of deferred acquisition costs), foreign exchange adjustments and the change in fair value of interest rate swap.

The details on the unrealized gains included in comprehensive income, and the related tax effects thereon, are as shown in Table 17 (in thousands).

TABLE 17

	Before Federal Income Tax	Federal Income Tax Expense	Net of Federal Income Tax
December 31, 2001			
Unrealized losses	$ (119,046)	$ (41,666)	$ (77,380)
Less: reclassification adjustment for gains realized in net income	11,123	3,893	7,230
Net unrealized loss component of comprehensive income	$ (107,923)	$ (37,773)	$ (70,150)
December 31, 2000			
Unrealized losses	$ (139,180)	$ (48,709)	$ (90,471)
Less: reclassification adjustment for gains realized in net income	(21,295)	(7,453)	(13,842)
Net unrealized loss component of comprehensive income	$ (160,475)	$ (56,162)	$ (104,313)
December 31, 1999			
Unrealized gains	$ 80,700	$ 28,359	$ 52,341
Less: reclassification adjustment for gains realized in net income	(148,721)	(52,052)	(96,669)
Net unrealized loss component of comprehensive income	$ (68,021)	$ (23,693)	$ (44,328)

(13) STOCKHOLDERS' EQUITY AND MINORITY INTERESTS

Common Stock—American National has only one class of common stock, with a par value of $1.00 per share and 50,000,000 authorized shares. The amounts outstanding at December 31, were as shown in Table 18.

TABLE 18

Common stock:	2001	2000	1999
Shares issued	30,832,449	30,832,449	30,832,449
Treasury shares	4,273,617	4,274,284	4,274,284
Restricted shares	79,000	79,000	79,000
Outstanding shares	26,479,832	26,479,165	26,479,165

Stock-Based Compensation—During 1999, American National's stockholders approved the "1999 Stock and Incentive Plan." Under this plan, American National can grant Non-Qualified Stock Options, Stock Appreciation Rights, Restricted Stock Awards, Performance Rewards, Incentive Awards and any combination of these. The number of shares available for grants under the plan cannot exceed 900,000 shares, and no more than 50,000 shares may be granted to any one individual in any calendar year.

The plan provides for the award of Restricted Stock. Restricted Stock Awards entitle the participant to full dividend and voting rights. Unvested shares are restricted as to disposition, and are subject to forfeiture under certain circumstances. Compensation expense is recognized over the vesting period. The restrictions on these awards lapse after 10 years, and feature a graded vesting schedule in the case of the retirement of an award holder. On August 1, 1999 awards were granted to directors and board consultants, with 60,000 shares granted at an exercise price of zero. These awards result in compensation expense to American National over the vesting period. The amount of compensation expense recorded was $342,000 in 2001, $486,000 in 2000 and zero in 1999.

The plan provides for the award of Stock Appreciation Rights (SAR). The SARs give the holder the right to compensation based on the difference between the price of a share of stock on the grant date and the price on the exercise date. The SARs vest at a rate of 20% per year for 5 years and expire 5 years after the vesting period. American National uses the average of the high and low price on the last trading day of the period to calculate the fair value and compensation expense for SARs. The fair value of the SARs was $1,361,000, $709,000 and zero at December 31, 2001, 2000 and 1999 respectively. Compensation expense was recorded totaling $889,000, $709,000 and zero for the years ended December 31, 2001, 2000 and 1999 respectively.

SAR and Restricted Stock (RS) information for 2001, 2000 and 1999 is shown in Table 19.

The weighted-average contractual remaining life for the 73,550 SAR shares outstanding as of December 31, 2001 is 7.7 years. The weighted-average exercise price for these shares is $58.14 per share. Of the shares outstanding, 21,350 are exercisable at a weighted-average exercise price of $57.14 per share.

TABLE 19

Shares	SAR Shares	SAR Weighted-Average Price per Share	RS Shares	RS Weighted-Average Price per Share
Outstanding at December 31, 1998	—	—	—	—
Granted	81,500	$ 57.00	79,000	$ 13.71
Outstanding at December 31, 1999	81,500	57.00	79,000	13.71
Granted	3,000	61.81	—	—
Exercised	(1,100)	57.00	—	—
Canceled	(1,208)	57.00	—	—
Outstanding at December 31, 2000	82,192	57.18	79,000	13.71
Granted	3,000	80.25	2,000	72.28
Exercised	(10,250)	57.00	(666)	57.00
Canceled	(1,392)	57.00	(1,334)	57.00
Outstanding at December 31, 2001	73,550	$ 58.14	79,000	$ 14.09

The weighted-average contractual remaining life for the 79,000 Restricted Stock shares outstanding as of December 31, 2001 is 7.8 years. The weighted-average exercise price for these shares is $14.09 per share. None of the shares outstanding was exercisable.

Earnings Per Share—Earnings per share for 2001 was calculated using a weighted average number of shares outstanding of 26,479,665. For 2000 and 1999, the weighted-average number of shares outstanding was 26,479,165. In 2001 and 2000, the incremental number of shares to be added to number of shares outstanding was less than 30,000 shares, and had no effect on the earnings per share calculation. In 1999, the average market price, since the grant date of the Restricted Stock Awards, was less than the exercise price. As a result, diluted earnings per share is equal to the basic earnings per share for 2001, 2000 and 1999.

Dividends—American National's payment of dividends to stockholders is restricted by statutory regulations. Generally, the restrictions require life insurance companies to maintain minimum amounts of capital and surplus, and, in the absence of special approval, limit the payment of dividends to statutory net gain from operations on an annual, non-cumulative basis. Additionally, insurance companies are not permitted to distribute the excess of stockholders' equity, as determined on a GAAP basis, over that determined on a statutory basis.

Generally, the same restrictions on amounts that can transfer in the form of dividends, loans, or advances to the parent company apply to American National's insurance subsidiaries.

At December 31, 2001, approximately $910,919,000 of American National's consolidated stockholders' equity represents net assets of its insurance subsidiaries. Any transfer of these net assets to American National would be subject to statutory restrictions and approval.

Minority Interests—Two of American National's subsidiaries have preferred stock outstanding to unrelated third parties. These preferred stock issues had a total value of $1,252,000 at December 31, 2001, and carry various terms, including cumulative dividends and voting rights as they apply to the subsidiary.

In 2001, American National formed TMNY Investments, LLC (TMNY). Subsequently, TMNY purchased five percent of the common stock of Farm Family Holdings, Inc. from another subsidiary of American National. The purpose of TMNY is to provide certain officers with additional incentive to enhance the profitable growth of the Farm Family companies. Accordingly, shares of TMNY preferred stock, representing 66% of the value of the company, were granted to various officers of American National and its subsidiaries. The preferred shares cannot be sold or otherwise traded by the officers for a period of eight years. The total value of these preferred shares was $1,000,000 at December 31, 2001.

[14] ACQUISITION

On April 10, 2001 American National completed the acquisition of Farm Family Holdings, Inc. (FFH), which is the parent company for Farm Family Casualty Company, Farm Family Life Insurance Company and United Farm Family Insurance Company. These insurance companies market and sell personal lines property and casualty and life insurance to the agribusiness market in the northeastern United States.

The purchase price for FFH was $280 million, and was paid in cash, funded in part through a bank loan of $200 million, with the remainder provided by internally generated funds. The acquisition was accounted for by the purchase method of accounting. Accordingly, the results of FFH and its subsidiaries are included in the consolidated statements of income for the nine months since the purchase date.

The assets and liabilities for FFH were adjusted to reflect fair market value at the purchase date. Goodwill was recognized for the amount of the excess of the purchase price over the fair market value at the date of purchase. The goodwill was amortized during 2001 on a straight line basis using an average life of 11.5 years, producing a total expense of $3,100,000. With the adoption of FAS 142, the goodwill will no longer be amortized in future periods. It will, however, be subject to annual recoverability analyses. A summary of the assets acquired and liabilities assumed in the acquisition are shown in Table 20 (in thousands).

TABLE 20

Assets acquired	
Investments	$ 1,144,636
Deferred acquisition costs	71,671
Cash	35,152
Goodwill	47,539
Other assets	156,609
Total assets acquired	1,455,607
Liabilities assumed	
Benefit reserves	477,684
Policy account balances	411,580
Other liabilities	285,773
Total liabilities assumed	1,175,037
Net purchase price	$ 280,570

Table 21 presents unaudited pro forma results of operations for the years ended December 31, 2001 and 2000, as if FFH and subsidiaries had been combined with American National as of the beginning of the year. The pro forma results include estimates and assumptions that management believes are reasonable. However, pro forma results do not include any anticipated cost savings or other effects of the acquisition, and are not necessarily indicative of the results that may occur in the future.

TABLE 21

	Unaudited Pro Forma Year Ended	
(In thousands, except per share amounts)	**2001**	**2000**
Total revenue	$ 2,219,055	$ 2,147,408
Total benefits and expenses	2,106,692	1,915,137
Earnings (losses) of unconsolidated affiliates	(6,055)	3,049
Income before federal income taxes	106,308	235,320
Federal income tax expense	40,756	76,062
Net income	$ 65,552	$ 159,258
Net income per common share - basic and diluted	$ 2.48	$ 6.01

The FFH income included in the pro forma results for the year 2000 contains a nonrecurring income item of $12,746,000.

(15) SEGMENT INFORMATION

American National and its subsidiaries are engaged principally in the insurance business. Management organizes the business around its marketing distribution channels. Separate management of each segment is required because each business unit is subject to different marketing strategies. There are eight operating segments based on the company's marketing distribution channels.

The operating segments are as follows:

Multiple Line—This segment derives its revenues from the sale of individual life, annuity, accident and health, and property and casualty products marketed through American National, ANTEX, ANPAC, ANGIC, ANPAC Lloyds and the Farm Family group of companies.

Home Service Division—This segment derives its revenues from the sale of individual life, annuity, accident and health insurance. In this segment, the agent collects the premiums. This segment includes business in the United States and Mexico.

Independent Marketing—This segment derives its revenues mainly from the sale of life and annuity products marketed through independent marketing organizations.

Health Division—This segment derives its revenues primarily from the sale of accident and health insurance plus group life insurance marketed through group brokers and third party marketing organizations.

Senior Age Marketing—This segment derives its revenues primarily from the sale of Medicare supplement plans, individual life, annuities, and accident and health insurance marketed through Standard Life and Accident Insurance Company.

Direct Marketing—This segment derives its revenues principally from the sale of individual life insurance, marketed through Garden State Life Insurance Company, using direct selling methods.

Credit Insurance Division—This segment derives its revenues principally from the sale of credit life and credit accident and health insurance.

Capital and Surplus—This segment derives its revenues principally from investment instruments.

All Other—This category comprises segments that are individually insignificant. This category includes non-insurance, reinsurance assumed, and retirement benefits.

All income and expense amounts specifically attributable to policy transactions are recorded directly to the appropriate line of business within each segment. Income and expenses not specifically attributable to policy transactions are allocated to the lines within each segment as follows:

- Net investment income from fixed income assets (bonds and mortgage loans on real estate) is allocated based on the funds generated by each line at the average yield available from these fixed income assets at the time such funds become available.
- Net investment income from all other assets is allocated to capital and surplus to arrive at an underwriting gain from operations. A portion of the income allocated to capital and surplus is then re-allocated to the other segments in accordance with the amount of equity invested in each segment.
- Expenses are allocated to the lines based upon various factors, including premium and commission ratios within the respective operating segments.
- Gain or loss on the sale of investments is allocated to capital and surplus.
- Equity in earnings of unconsolidated affiliates is allocated to the segment that provided the funds to invest in the affiliate.
- Federal income taxes have been applied to the net earnings of each segment based on a fixed tax rate. Any difference between the amount allocated to the segments and the total federal income tax amount is allocated to capital and surplus.

Table 22 summarizes net income and various components of net income by operating segment for the years ended December 31, 2001, 2000, and 1999 (in thousands).

TABLE 22

	Premiums and Other Policy Revenue	Net Investment Income and Realized Gains	Expenses and Benefits	Equity in Unconsolidated Affiliates	Gain From Operations Before Federal Income Taxes	Federal Income Tax Expense (Benefit)	Net Income
2001							
Multiple Line	$ 788,498	$ 147,607	$ 934,143	$ —	$ 1,962	$ 647	$ 1,315
Home Service Division	212,344	118,396	287,223	—	43,517	14,361	29,156
Independent Marketing	50,045	116,213	157,173	—	9,085	2,998	6,087
Health Division	249,718	8,483	275,375	—	(17,174)	(5,667)	(11,507)
Credit Insurance Division	65,905	18,458	71,615	—	12,748	4,207	8,541
Senior Age Marketing	168,039	18,399	193,259	—	(6,821)	(2,251)	(4,570)
Direct Marketing	29,840	3,412	28,948	—	4,304	1,420	2,884
Capital and Surplus	1,054	74,592	16,988	(8,345)	50,313	22,102	28,211
All Other	33,247	30,131	58,484	2,291	7,185	2,371	4,814
	$ 1,598,690	$ 535,691	$ 2,023,208	$ (6,054)	$ 105,119	$ 40,188	$ 64,931
2000							
Multiple Line	$ 518,271	$ 95,629	$ 596,098	$ —	$ 17,802	$ 5,874	$ 11,928
Home Service Division	212,951	119,543	276,686	—	55,808	18,417	37,391
Independent Marketing	76,236	113,107	176,196	—	13,147	4,339	8,808
Health Division	253,820	8,779	281,837	—	(19,238)	(6,349)	(12,889)
Credit Insurance Division	63,412	17,010	68,466	—	11,956	3,945	8,011
Senior Age Marketing	148,565	18,292	156,970	—	9,887	3,263	6,624
Direct Marketing	28,076	3,906	28,678	—	3,304	1,090	2,214
Capital and Surplus	938	94,795	(264)	100	96,097	30,190	65,907
All Other	30,553	30,599	45,922	2,949	18,179	5,999	12,180
	$ 1,332,822	$ 501,660	$ 1,630,589	$ 3,049	$ 206,942	$ 66,768	$ 140,174
1999							
Multiple Line	$ 489,263	$ 95,821	$ 530,321	$ —	$ 54,763	$ 18,072	$ 36,691
Home Service Division	209,033	118,978	263,945	—	64,066	21,142	42,924
Independent Marketing	60,574	118,960	162,052	—	17,482	5,769	11,713
Health Division	237,446	7,406	256,390	—	(11,538)	(3,808)	(7,730)
Credit Insurance Division	63,262	16,094	65,903	—	13,453	4,439	9,014
Senior Age Marketing	148,368	18,013	162,209	—	4,172	1,377	2,795
Direct Marketing	26,857	3,734	24,823	—	5,768	1,903	3,865
Capital and Surplus	1,087	211,453	256	12,249	224,533	67,900	156,633
All Other	30,714	32,551	54,976	7,693	15,982	5,274	10,708
	$ 1,266,604	$ 623,010	$ 1,520,875	$ 19,942	$ 388,681	$ 122,068	$ 266,613

There were no significant non-cash items to report. Substantially all of the consolidated revenues were derived in the United States.

Most of the operating segments offer essentially the same types of products. Table 23 provides revenues within each segment by line of business for the years ended December 31, 2001, 2000, and 1999 (in thousands).

TABLE 23

Total Revenues

	Life	Annuity	Accident and Health	Property and Casualty	Credit	All Other	Total Revenues
2001							
Multiple Line	$ 175,781	$ 32,123	$ 19,721	$ 708,480	$ —	$ —	$ 936,105
Home Service Division	315,456	5,562	9,722	—	—	—	330,740
Independent Marketing	19,635	146,623	—	—	—	—	166,258
Health Division	4,336	—	253,865	—	—	—	258,201
Credit Insurance Division	—	—	—	—	84,363	—	84,363
Senior Age Marketing	32,890	2,993	150,555	—	—	—	186,438
Direct Marketing	33,069	—	183	—	—	—	33,252
Capital and Surplus	—	—	—	—	—	75,646	75,646
All Other	32,637	1,809	418	—	—	28,514	63,378
	$ 613,804	$ 189,110	$ 434,464	$708,480	$ 84,363	$ 104,160	$ 2,134,381
2000							
Multiple Line	$ 122,302	$ 17,392	$ 17,853	$ 450,894	$ —	$ —	$ 608,441
Home Service Division	287,057	4,477	9,317	—	—	—	300,851
Independent Marketing	14,549	162,592	—	—	—	—	177,141
Health Division	4,055	—	253,274	—	—	—	257,329
Credit Insurance Division	—	—	—	—	69,346	—	69,346
Senior Age Marketing	30,487	1,675	125,541	—	—	—	157,703
Direct Marketing	31,188	—	219	—	—	—	31,407
Capital and Surplus	—	—	—	—	—	173,478	173,478
All Other	29,311	1,671	937	—	—	26,866	58,785
	$ 518,949	$ 187,807	$ 407,141	$ 450,894	$ 69,346	$ 200,344	$ 1,834,481
1999							
Multiple Line	$ 121,753	$ 17,637	$ 19,736	$ 403,029	$ —	$ —	$ 562,155
Home Service Division	283,566	4,576	8,778	—	—	—	296,920
Independent Marketing	8,938	157,569	—	—	—	—	166,507
Health Division	3,920	—	236,559	—	—	—	240,479
Credit Insurance Division	—	—	—	—	69,007	—	69,007
Senior Age Marketing	31,577	1,692	125,609	—	—	—	158,878
Direct Marketing	29,501	146	427	—	—	—	30,074
Capital and Surplus	—	—	—	—	—	306,797	306,797
All Other	30,120	1,878	1,709	—	—	25,090	58,797
	$ 509,375	$ 183,498	$ 392,818	$ 403,029	$ 69,007	$ 331,887	$ 1,889,614

The operating segments are supported by the fixed income assets and policy loans. Equity type assets, such as stocks, real estate and other invested assets, are investments of the Capital and Surplus segment. Assets of the non-insurance companies are specifically associated with those companies in the "All Other" segment. Any assets not used in support of the operating segments are assigned to Capital and Surplus.

Table 24 summarizes assets by operating segment for the years ended December 31, 2001 and 2000 (in thousands).

TABLE 24

	2001	2000
Multiple Line	$ 3,042,507	$ 1,687,541
Home Service Division	1,833,920	1,815,757
Independent Marketing	1,900,552	1,650,600
Health Division	713,071	376,246
Credit Insurance Division	428,885	408,780
Senior Age Marketing	374,024	340,324
Direct Marketing	90,665	91,173
Capital and Surplus	1,907,577	2,275,332
All Other	966,936	624,634
	$ 11,258,137	$ 9,270,387

The net assets of the Capital and Surplus and All Other segments include investments in unconsolidated affiliates. Almost all of American National's assets are located in the United States of America.

The amount of each segment item reported is the measure reported to the chief operating decision-maker for purposes of making decisions about allocating resources to the segment and assessing its performance. Adjustments and eliminations are made when preparing the consolidated financial statements, and allocations of revenues, expenses and gains or losses have been included when determining reported segment profit or loss.

The reported measures are determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in the consolidated financial statements.

The results of the operating segments of the business are affected by economic conditions and customer demands. A portion of American National's insurance business is written through one third-party marketing organization. During 2001, approximately 4% of the total premium revenues and policy account deposits were written through that organization, which is included in the Independent Marketing operating segment. This compares with 10% and 8% in 2000 and 1999, respectively. Of the total business written by this one organization, the majority was annuities.

[16] RECONCILIATION TO STATUTORY ACCOUNTING

American National and its insurance subsidiaries are required to file statutory financial statements with state insurance regulatory authorities. Accounting principles used to prepare these statutory financial statements differ from those used to prepare financial statements on the basis of Generally Accepted Accounting Principles. Effective January 1, 2001 new codified statutory accounting principles were adopted. The adoption of the new principles resulted in an increase of $76,814,000 in the statutory capital and surplus, as reported in the following tables.

Reconciliations of statutory net income and capital and surplus, as determined using statutory accounting principles, to the amounts included in the accompanying consolidated financial statements, as of and for the years ended December 31, are as shown in Table 25 (in thousands).

TABLE 25

	2001	2000	1999
Statutory net income of insurance companies	$ 32,070	$ 132,682	$ 159,375
Net gain (loss) of non-insurance companies	5,310	(17,524)	97,782
Combined net income	37,380	115,158	257,157
Increases/(decreases):			
Deferred policy acquisition costs	15,254	(7,807)	2,188
Policyholder funds	26,188	15,851	4,288
Deferred federal income tax benefit	16,520	16,487	10,060
Premiums deferred and other receivables	(131)	(2,134)	(2,315)
Gain on sale of investments	118	(752)	416
Change in interest maintenance reserve	74	(5,904)	(1,033)
Asset valuation allowances	(16,648)	8,388	(4,762)
Investment income	(3,817)	44	73
Goodwill amortization	(3,100)	—	—
Other adjustments, net	(582)	(284)	875
Consolidating eliminations and adjustments	(6,325)	1,127	(334)
Net income reported herein	$ 64,931	$ 140,174	$ 266,613

	2001	2000	1999
Statutory capital and surplus of insurance companies	$ 2,415,330	$ 2,309,259	$ 2,377,589
Stockholders' equity of non-insurance companies	504,144	517,805	523,550
Combined capital and surplus	2,919,474	2,827,064	2,901,139
Increases/(decreases):			
Deferred policy acquisition costs	829,216	747,884	758,796
Policyholder funds	197,830	174,874	159,394
Deferred federal income taxes	(79,665)	(148,691)	(221,341)
Premiums deferred and other receivables	(87,615)	(82,583)	(80,453)
Reinsurance in "unauthorized companies"	48,716	45,769	37,376
Statutory asset valuation reserve	362,952	339,963	370,191
Statutory interest maintenance reserve	7,517	4,308	9,729
Asset valuation allowances	(37,502)	(30,062)	(38,285)
Investment market value adjustments	14,302	(56,087)	(9,556)
Non-admitted assets and other adjustments, net	149,137	204,393	158,876
Consolidating eliminations and adjustments	(1,388,023)	(1,003,175)	(982,720)
Stockholders' equity reported herein	$ 2,936,339	$ 3,023,657	$ 3,063,146

In accordance with various government and state regulations, American National and its insurance subsidiaries had bonds with an amortized value of $84,328,000 on deposit with appropriate regulatory authorities.

(17) RETIREMENT BENEFITS

Pension Benefits

American National and its subsidiaries have one active tax-qualified defined-benefit pension plan and one inactive plan. The active plan has three separate programs. One of the programs is contributory and covers home service agents and managers. The other two programs are noncontributory, with one covering salaried and management employees and the other covering home office clerical employees subject to a collective bargaining agreement. The program covering salaried and management employees provides pension benefits that are based on years of service and the employee's compensation during the five years before retirement. The programs covering hourly employees and agents generally provide benefits that are based on the employee's career average earnings and years of service.

The inactive tax-qualified defined-benefit pension plan covers employees of the Farm Family companies hired prior to January 1, 1997. Effective January 1, 1997, benefits through this plan were frozen, and no new participants have been added.

American National also sponsors for key executives three non-tax-qualified pension plans that restore benefits that would otherwise be curtailed by statutory limits on qualified plan benefits.

The companies' funding policy for the pension plans is to make annual contributions in accordance with the minimum funding standards of the Employee Retirement Income Security Act of 1974. The unfunded plans will be funded out of general corporate assets when necessary.

Actuarial computations of pension expense (before income taxes) produced a pension debit of $3,954,000 for 1999, $4,071,000 for 2000 and $4,924,000 for 2001.

The pension debit for the years ended December 31 is made up of the following in Table 26 (in thousands):

TABLE 26

	2001	2000	1999
Service cost-benefits earned during period	$ 6,900	$ 5,212	$ 5,833
Interest cost on projected benefit obligation	10,811	8,927	8,175
Expected return on plan assets	(10,600)	(8,940)	(8,946)
Amortization of past service cost	361	289	534
Amortization of transition asset	(2,616)	(2,619)	(2,619)
Amortization of actuarial loss	68	1,202	977
Total pension debit	$ 4,924	$ 4,071	$ 3,954

Table 27 sets forth the actuarial present value of benefit obligations, the funded status, and the amounts recognized in the consolidated statements of financial position at December 31 for the companies' pension plans (in thousands).

TABLE 27

	2001		2000	
	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets
Vested benefit obligation	$ (86,075)	$ (60,053)	$ (77,961)	$ (28,064)
Accumulated benefit obligation	$ (89,778)	$ (60,053)	$ (80,947)	$ (28,064)
Projected benefit obligation	$ (107,233)	$ (61,365)	$ (98,531)	$ (29,349)
Plan assets at fair value (long-term securities)	134,600	20,240	131,439	—
Funded status:				
Plan assets in excess of projected benefit obligation	27,367	(41,125)	32,908	(29,349)
Unrecognized net loss	7,074	494	4,698	545
Prior service cost not yet recognized in periodic pension cost	—	6,463	—	208
Unrecognized net transition asset at January 1 being recognized over 15 years	—	—	(2,619)	—
Adjustment required to recognize minimum liability	—	(5,632)	—	—
Offset for intangible asset	—	5,632	—	—
Prepaid pension cost included in other assets or other liabilities	$ 34,441	$ (34,168)	$ 34,987	$ (28,596)

Assumptions used at December 31	2001	2000
Weighted-average discount rate on benefit obligation	6.96%	7.40%
Rate of increase in compensation levels	4.20%	4.80%
Expected long-term rate of return on plan assets	7.14%	7.00%

Health Benefits

American National and its subsidiaries provide certain health and/or dental benefits to retirees. Participation in these plans is limited to current retirees and their dependents who met certain age and length of service requirements. No new participants will be added to these plans in the future.

The primary retiree health benefit plan provides major medical benefits for participants under the age of 65 and Medicare supplemental benefits for those over 65. Prescription drug benefits are provided to both age groups. The plan is contributory, with the company's contribution limited to $80 per month for retirees and spouses under the age of 65, and $40 per month for retirees and spouses over the age of 65. All additional contributions necessary, over the amount to be contributed by American National, are to be contributed by the retirees.

The accrued post-retirement benefit obligation, included in other liabilities, was $7,864,000 and $5,888,000 at December 31, 2001 and 2000, respectively. These amounts were approximately equal to the unfunded accumulated post-retirement benefit obligation. Since American National's contributions to the cost of the retiree benefit plans are fixed, the health care cost trend rate will have no effect on the future expense or the accumulated post-retirement benefit obligation.

Other Benefits

Under American National and its subsidiaries' various group benefit plans for active employees, life insurance benefits are provided upon retirement for eligible participants who meet certain age and length of service requirements.

In addition to the defined benefit pension plans, American National sponsors one defined contribution plan for all employees, excluding those of the Farm Family companies, and an incentive savings plan for employees of the Farm Family companies. The defined contribution plan (also known as a 401(k) plan) allows employees to contribute up to the maximum allowable amount as determined by the Internal Revenue Service. American National does not contribute to the defined contribution plan. Company contributions are made under the incentive savings plan for the Farm Family companies, with a discretionary portion based on the profits earned by the Farm Family companies. The expense associated with this plan was $1,100,000 for 2001.

[18] COMMITMENTS AND CONTINGENCIES

Commitments**—**American National and its subsidiaries lease insurance sales office space in various cities. The long-term lease commitments at December 31, 2001 were approximately $6,886,000.

In the ordinary course of operations, the companies also had commitments outstanding at December 31, 2001 to purchase, expand or improve real estate, to fund mortgage loans and to purchase other invested assets aggregating $91,909,000, all of which are expected to be funded in 2002. As of December 31, 2001, all of the mortgage loan commitments have interest rates that are fixed.

Off-Balance-Sheet Contingencies**—**American National is a partner in numerous real estate joint ventures. A number of these joint ventures have long-term debt to third parties. The amount of the outstanding debt at December 31, 2001 totaled approximately $99,000,000. All of the debt is secured by the real estate in the joint ventures, and is non-recourse to the partners in the joint ventures, including American National. Therefore, the maximum loss that American National could sustain if the joint ventures failed to pay the debt is the amount of the investment in the joint ventures, or approximately $33,000,000 at December 31, 2001.

Litigation**—**In recent years, various life insurance companies have been named as defendants in class action lawsuits relating to discriminatory practices in life insurance pricing and sales practices. A number of these lawsuits have resulted in substantial settlements across the life insurance industry. American National is a defendant in similar lawsuits. Management believes that American National has meritorious legal defenses against these lawsuits. Therefore, no provision for possible losses on these cases has been recorded in the consolidated financial statements.

American National and its subsidiary, Standard Life and Accident Insurance Company, are defendants in class action lawsuits alleging fraud and misrepresentation involving the benefits to be paid under certain limited-benefit nursing home policies. Management believes that the companies have meritorious legal defenses against these lawsuits. Therefore, no provision for possible losses on these cases has been recorded in the consolidated financial statements.

American National and its subsidiary, American National Life Insurance Company of Texas, are defendants in several lawsuits alleging, among other things, improper calculation and/or cancellation of benefits under certain group health contracts. Class action certification in these lawsuits has been requested by the plaintiffs, but has not yet been granted. Management believes that the companies have meritorious legal defenses against these lawsuits. Therefore, no provision for possible losses on these cases has been recorded in the consolidated financial statements.

Based on information currently available, management also believes that amounts ultimately paid, if any, arising from these cases would not have a material effect on the company's results of operations and financial position. However, it should be noted that the frequency of large damage awards, which bear little or no relation to the economic damages incurred by plaintiffs in some jurisdictions, continues to create the potential for an unpredictable judgment in any given lawsuit. It is possible that, if the defenses in these lawsuits are not successful, and the judgments are greater than management can anticipate, the resulting liability could have a material impact on the consolidated financial results.

The companies are also defendants in various other lawsuits concerning alleged failure to honor certain loan commitments, alleged breach of certain agency and real estate contracts, various employment matters, allegedly deceptive insurance sales and marketing practices, and other litigation arising in the ordinary course of operations. Certain of these lawsuits include claims for compensatory and punitive damages. After reviewing these matters with legal counsel, management is of the opinion that the ultimate resultant liability, if any, would not have a material adverse effect on the companies' consolidated financial position or results of operations. However, these lawsuits are in various stages of development, and future facts and circumstances could result in management's changing its conclusions.

TO THE STOCKHOLDERS AND BOARD OF DIRECTORS
AMERICAN NATIONAL INSURANCE COMPANY:

We have audited the accompanying consolidated statements of financial position of American National Insurance Company and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of income and comprehensive income, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The accompanying consolidated financial statements of American National Insurance Company and subsidiaries as of December 31, 1999 were audited by other auditors whose report thereon dated February 11, 2000, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American National Insurance Company and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, effective January 1, 2001, the Company adopted the provisions of Statement of Financial Accounting Standards (''SFAS'') No. 133, ''Accounting for Derivative Instruments and Hedging Activities.'' In conjunction with the adoption of FAS No. 133, the Company was permitted to reclassify bonds from held-to-maturity to available-for-sale.

KPMG LLP
February 6, 2002
Houston, Texas

TEN-YEAR FINANCIAL HIGHLIGHTS

FOR THE YEARS ENDED DECEMBER 31 (in millions, except per share data and ratios)

	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
Operating Results										
Revenues	$ 2,135	$ 1,834	$ 1,890	$ 1,745	$ 1,740	$ 1,550	$ 1,471	$ 1,395	$ 1,329	$ 1,318
Operating earnings[(a)]	61	125	166	155	182	178	157	156	149	137
Realized capital gains[(b)]	4	15	101	42	66	37	49	59	36	32
Net income	65	140	267	197	248	216	206	215	185	169
Operating earnings per share[(a)]	2.29	4.73	6.26	5.86	6.88	6.74	5.95	5.88	5.65	5.17
Realized capital gains per share[(b)]	0.16	0.56	3.81	1.59	2.50	1.40	1.84	2.24	1.35	1.20
Net income per share	2.45	5.29	10.07	7.45	9.38	8.14	7.79	8.12	7.00	6.37
Financial Position										
Assets	$ 11,258	$ 9,270	$ 9,090	$ 8,816	$ 8,483	$ 7,989	$ 7,140	$ 5,961	$ 5,451	$ 5,165
Investments	8,280	6,990	7,254	7,143	6,982	6,566	5,821	4,811	4,368	4,165
Liabilities	8,322	6,247	6,027	5,901	5,778	5,515	4,819	3,889	3,489	3,308
Policyholder liabilities	7,516	5,590	5,368	5,283	5,261	5,046	4,364	3,520	3,069	2,911
Total equity[(c)]	2,936	3,023	3,063	2,915	2,705	2,474	2,321	2,072	1,962	1,857
Total equity, excluding SFAS 115	2,926	3,062	3,075	2,884	2,681	2,458	2,291	2,075	—	—
Insurance Production Information										
Life insurance sales	$ 11,821	$ 11,487	$ 11,224	$ 10,208	$ 10,091	$ 10,134	$ 10,135	$ 9,520	$ 9,145	$ 8,699
Life insurance in force[(d)]	54,414	48,777	46,953	44,848	43,805	42,529	41,490	40,070	38,564	37,488
Policy account deposits	588	325	310	290	392	757	867	455	138	118
Common Stock Statistics										
Market close	$ 84.10	$ 73.00	$ 63.75	$ 82.75	$ 93.00	$ 73.75	$ 66.50	$ 47.00	$ 51.25	$ 52.00
Book value per share	110.89	114.19	115.68	110.07	102.17	93.43	87.66	78.26	74.09	70.12
Dividends per share	2.93	2.86	2.78	2.70	2.62	2.54	2.40	2.24	2.08	1.92
Shares outstanding (000's)[(e)]	26,480	26,479	26,479	26,479	26,479	26,479	26,479	26,479	26,479	26,479
Financial Ratios										
Return on equity[(f)]	(0.3)%	1.2%	7.6%	10.4%	12.2%	9.5%	15.1%	8.7%	8.6%	7.3%
Operating return on equity[(g)]	2.0%	4.1%	5.7%	5.8%	7.4%	7.8%	7.6%	7.9%	8.1%	7.7%
Dividend payout[(h)]	127.8%	60.5%	44.5%	46.1%	38.1%	37.7%	40.3%	38.1%	36.8%	37.2%
Assets per $100 of liabilities	$ 135	$ 148	$ 151	$ 149	$ 147	$ 145	$ 148	$ 153	$ 156	$ 156

(a) After tax and excluding gains from sale of investments
(b) After-tax gains from sale of investments
(c) Reflects adoption of SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities," at January 1, 1994
(d) Includes insurance acquired of $6.596 million in 1992 and $4.125 million in 2001
(e) Number of unrestricted shares outstanding at year end
(f) Change in total equity before dividends to stockholders divided by total equity at the beginning of the year
(g) Operating earnings per share divided by book value per share at the beginning of the year, adjusted to exclude the effect of SFAS 115
(h) Total dividends paid to stockholders divided by operating earnings

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Ross R. Moody
A. Ingrid Moody
Edward J. Muhl
Gregory V. Ostergren
James E. Pozzi
Timothy A. Walsh
Philip P. Weber
Ronald J. Welch

OFFICERS

Gregory V. Ostergren
Chairman of the Board

G. Richard Ferdinandtsen
Vice Chairman of the Board

Philip P. Weber
President and Chief Executive Officer

James J. Bettini
Executive Vice President
Operations

Victoria M. Stanton
Executive Vice President
General Counsel and Secretary

Timothy A. Walsh
Executive Vice President
Chief Financial Officer and Treasurer

Sharon T. DiLorenzo
Senior Vice President
Life Operations

Patrick A. Wejrowski
Senior Vice President
Information Services

Michele M. Bartkowski
Vice President
Treasury Services

Roy S. Davies
Vice President
Accounting

Gordon D. Dixon
Vice President
Investments

Lewis E. Dufort
Vice President
Marketing

Kathryn Lentivech
Vice President
Life Actuarial Services

Michael W. McCroskey
Vice President
Investments

United Farm Family Insurance Company

New York

DIRECTORS

G. Richard Ferdinandtsen
Stephen J. George
Irwin M. Herz, Jr.
Clark W. Hinsdale III
John W. Lincoln
Ross R. Moody
A. Ingrid Moody
Edward J. Muhl
Gregory V. Ostergren
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Treasurer

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Vice President
Treasury Services

Roy S. Davies
Vice President
Accounting

Gordon D. Dixon
Vice President
Investments

Michael W. McCroskey
Vice President
Investments

FAMILY OF COMPANIES

AMERICAN NATIONAL INSURANCE COMPANY
A stock life insurance company that offers a broad range of insurance coverages, including individual and group life, health and annuities, and credit insurance

AMERICAN NATIONAL LIFE INSURANCE COMPANY OF TEXAS
An insurer that markets life and health insurance products through alternative distribution systems

STANDARD LIFE AND ACCIDENT INSURANCE COMPANY
A life insurer specializing in the marketing of Medicare supplement and other products for the senior market

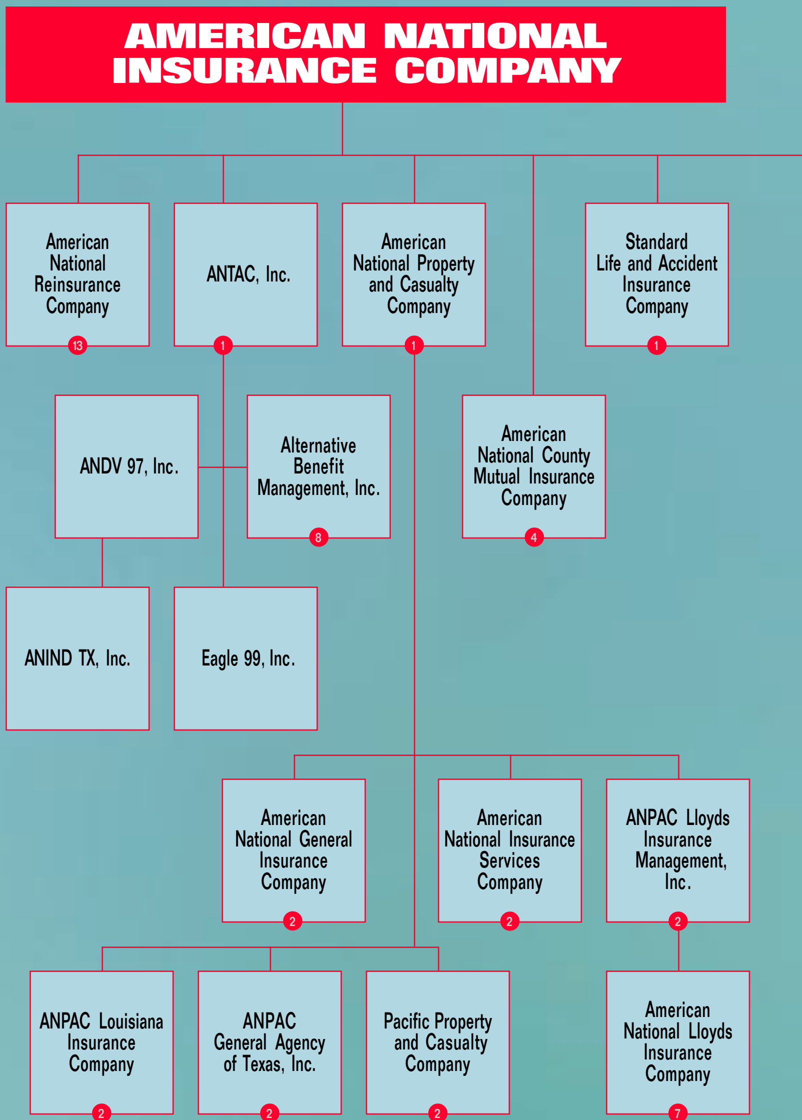
GARDEN STATE LIFE INSURANCE COMPANY
A direct response company with sales of life insurance generated through broadcast and print media, as well as through sponsoring organziations

AMERICAN NATIONAL DE MÉXICO, COMPAÑÍA DE SEGUROS DE VIDA, S.A. DE C.V.
A Mexican life insurance company specializing in Home Service life products

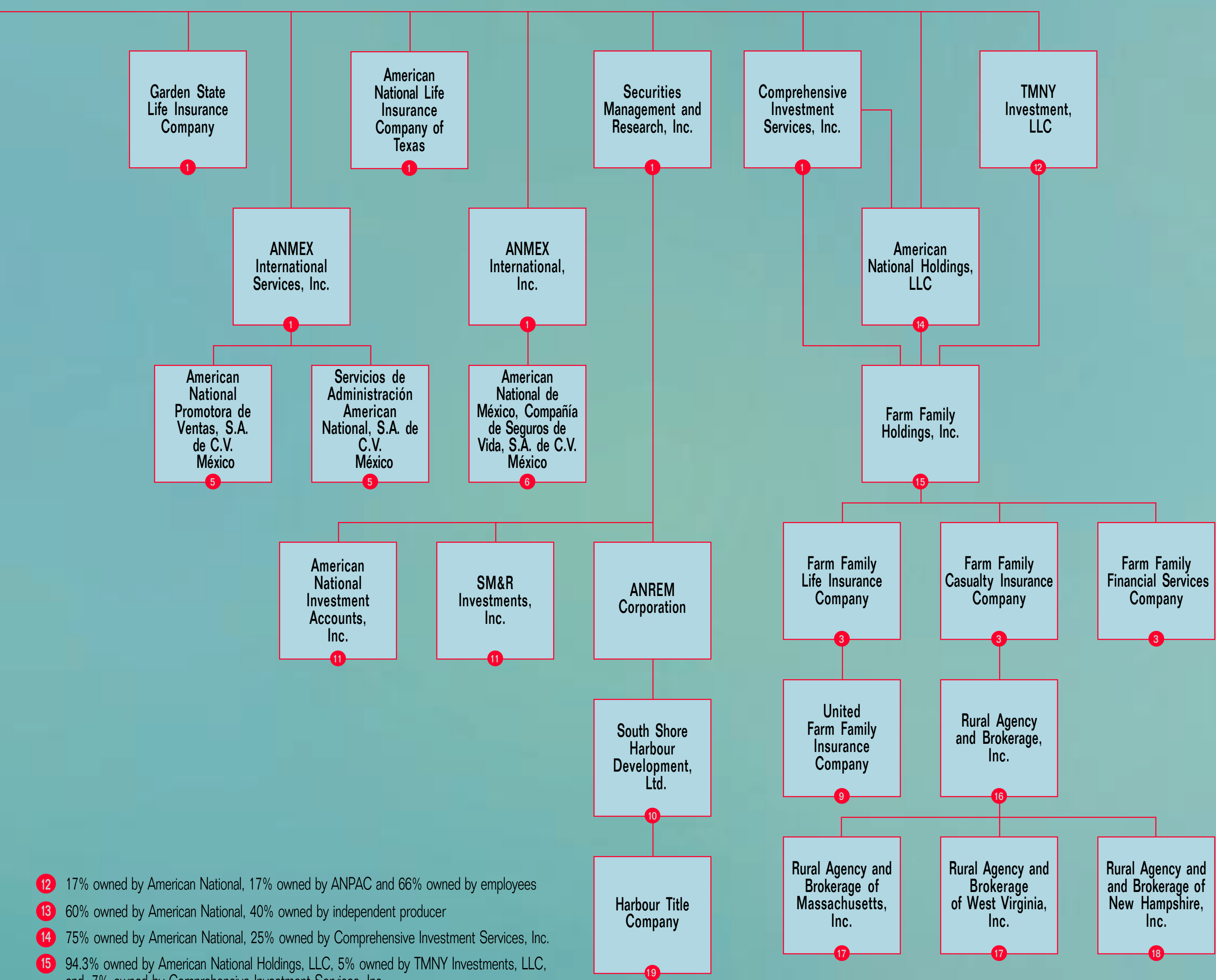
AMERICAN NATIONAL PROPERTY AND CASUALTY COMPANY AND SUBSIDIARIES
Property and casualty insurers that write primarily auto and homeowners insurance

FARM FAMILY HOLDINGS, INC.
Markets personal lines property and casualty and life insurance to the agribusiness market, concentrating on the northeastern United States

SECURITIES MANAGEMENT AND RESEARCH, INC.
A broker-dealer, member NASD, SIPC, investment advisor



1. 100% owned by American National Insurance Company
2. 100% owned by American National Property and Casualty Company
3. 100% owned by Farm Family Holdings, Inc.
4. Not a subsidiary company, but managed by American National Insurance Company
5. 99.9% owned by ANMEX International Services, Inc. and .1% owned by ANMEX International, Inc.
6. 99.9% owned by ANMEX International, Inc. and .1% owned by ANMEX International Services, Inc.
7. Not a subsidiary company, but managed by ANPAC Lloyds Insurance Management, Inc.
8. 100% of common stock owned by ANTAC, Inc., while third parties have an ownership interest through preferred stock holdings
9. 100% owned by Farm Family Life Insurance Company
10. Not a subsidiary company, but a partnership between ANREM Corporation (5% general partnership interest) and ANTAC, Inc. (95% limited partnership interest)
11. Not subsidiaries, but mutual funds managed by Securities Management and Research, Inc. (SM&R) and in which SM&R and/or American National Insurance Company may have start-up and/or other investments from time to time



12 17% owned by American National, 17% owned by ANPAC and 66% owned by employees

13 60% owned by American National, 40% owned by independent producer

14 75% owned by American National, 25% owned by Comprehensive Investment Services, Inc.

15 94.3% owned by American National Holdings, LLC, 5% owned by TMNY Investments, LLC, and .7% owned by Comprehensive Investment Services, Inc.

16 100% owned by Farm Family Casualty Insurance Company

17 100% owned by Rural Agency and Brokerage, Inc.

18 75% owned by New Hampshire Farm Bureau Federation, 25% owned by Rural Agency and Brokerage, Inc.

19 50% owned by South Shore Harbour Development, Ltd. and 50% owned by third parties

In addition to the entities shown in this chart, American National Insurance Company owns a direct or indirect interest in certain joint ventures and limited partnerships. Such ownership is primarily in connection with real estate investments.

In addition to the entities shown in this chart, American National Insurance Company owns several "shell" companies, which are currently inactive.

INDUSTRY RATINGS

A.M. BEST COMPANY REPORT (A+ Superior)

A.M. Best Company, independent analyst of the insurance industry since 1899, has awarded American National Insurance Company a rating of A+ (Superior), based on the company's strength and performance.

STANDARD AND POOR'S (AA+ Very Strong)

Standard & Poor's has assigned its AA+ rating of insurer financial strength to American National Insurance Company, reflecting the company's superior capitalization strength, solid earnings performance, strong liquidity, excellent market position and investment performance.

Ratings reflect the publisher's opinion of the relative financial strength and performance of each insurer in comparison to other insurers. They are not a warranty of the current or future ability to meet contractual obligation.

STATEMENT OF EQUAL EMPLOYMENT OPPORTUNITY PROGRAMS OF AMERICAN NATIONAL INSURANCE COMPANY

Recognizing the value of using human resources to their fullest, American National Insurance Company continues its policy of affording equal opportunity for employment to all individuals, regardless of race, age, color, disability, religion, sex, or national origin. This company is basically committed to the principles of equal employment opportunity because of its concern to further the development of human resources.

FORWARD-LOOKING STATEMENT

Safe Harbor Statement under The Private Securities Litigation Reform Act of 1995: This Annual Report contains "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995 that are based on American National management's current knowledge, expectations, estimates, beliefs and assumptions. The forward-looking statements in this Annual Statement include, but are not limited to, statements describing the marketing plans of American National. Such forward-looking statements generally include the words "may," "could," "should," "would," "believe," "anticipate," "expect," "intend," "plan," or similar expressions or statements regarding future periods. Readers are hereby cautioned that certain events or circumstances could cause actual results to differ materially from those estimated, projected, or predicted. The forward-looking statements in this Annual Statement are not guarantees of future events or performance, and are subject to a number of important risks and uncertainties, many outside of American National's control, that could cause actual results to differ materially. These risks and uncertainties include, but are not limited to: (1) adverse decisions from regulatory authorities; (2) changes in regulatory requirements; (3) the potential occurrence of major disasters; (4) adverse litigation results; (5) competition from existing insurance companies; (6) the volatility of the securities markets; and (7) general economic conditions. Forward-looking statements may also be made in American National's press releases, as well as by American National's management in oral statements. American National undertakes no obligation to update or revise any forward-looking statements for events or circumstances after the date on which such statement is made.

VISION

To be a leading provider

of financial products and services for

current and future generations

MISSION

To be the company of choice

for insurance and other financial products and services

while maintaining superior financial strength

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AMERICAN NATIONAL INSURANCE COMPANY

CORPORATE OFFICE
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Galveston, Texas 77550-7999
www.anico.com

LEGAL COUNSEL
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Galveston, Texas

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700 Louisiana
Houston, Texas 77002

STOCK TRANSFER AGENT AND REGISTRAR
(SHAREHOLDER INFORMATION)
Communications regarding
stock transfer, dividends, lost certificates or
changes of address may be directed to:

Mellon Investor Services LLC
85 Challenger Road
Ridgefield Park, NJ 07660
P.O. Box 3315
South Hackensack, NJ 07606
1-888-213-0965
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