Looking Back Moving Forward Looking Back Moving Torward Looking Back All S

onal Insurance

2004 ANNUAL REPORT



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Looking Back . Moving Forward The ANICO Tower, 2004

KEY RESULTS 2004

Assets reached \$16,570,827,000, an increase of 9.4% over year-end 2003.

Stockholders' equity reached \$3,295,758,000, or \$124.46 per share.

Net income for 2004 totaled \$255,593,000, or \$9.65 per share, an increase of 40.3% over 2003.

Life insurance in force totaled \$61,402,527,000, an increase of 4.5% over year-end 2003.



The W.L. Moody Building, c. 1905

W.L. Moody Jr., Founder

ANICO Building, 21st and Market, c. 1912

For one hundred years, American National has been a leader and innovator in the insurance industry, a driving force in the economic growth of the communities in which it operates, and a steady and sure source of financial protection. The 2004 Annual Report celebrates American National's first century of existence with photos of the people and events that have shaped the company through the years. The operational results related in this year's report exemplify the conservative stewardship that has fueled the company's, growth from a beginning capitalization of \$100,000 to over \$16 billion in assets today. American National continues to seek profitable growth opportunities throughout North America and beyond. It is a proven strategy that has served the financial protection needs of scores of families and businesses for one hundred years and counting.



Medical Arts Building, c. 1973

Robert L. Moody

One Moody Plaza

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Shearn Moody Sr.

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Management Message



ROBERT L. MOODY Chairman of the Board Chief Executive Officer



G. RICHARD FERDINANDTSEN President and Chief Operating Officer

As American National Insurance Company celebrates the centennial of its 1905 founding, we are especially gratified to report that the company achieved its highest-ever operating earnings in 2004. The company also ended the year in the strongest financial condition of its long, remarkable history.

Since 1911—an impressive string of 94 consecutive years—the company has paid a dividend to its stockholders. In 2004 the dividend rate was \$2.96 per share.

For 2004, consolidated net income was \$255.6 million, or \$9.65 per share. The after-tax net gain from operations totaled \$220.2 million, or \$8.32 per share. We believe these results are a resounding validation of the values and principles on which the company was founded and by which it continues to be managed: prudent, deliberate, conservative stewardship, resulting in solid, long-term value to our policyholders and stockholders.

The year's results are also a testament to our ongoing emphasis on sustainable, profitable growth. Our willingness to invest the necessary resources in infrastructure, systems and technology will enable the company's second century, like its first, to be characterized by continued growth and success.

STRATEGIC PLANNING

Communication and collaboration in the strategic planning process have resulted in a well-coordinated, coherent corporate plan with measurability and accountability. In addition, it is increasingly important for both American National and the industry at large to refine and formalize risk management processes. A new section is included with this year's annual report to address some of American National's risk management activity.

RATINGS

A.M. Best Company and Standard & Poor's provide financial strength ratings for American National. The assigned ratings are based on rigorous quantitative and qualitative analysis of all aspects of the company and its management strategy. Ratings are independent opinions of the company's ability to meet policy obligations and commitments, and are often used for comparative purposes. Both A.M. Best Company and Standard & Poor's are recognized for their consistent and objective approaches.

American National is rated A+ (Superior) by A.M. Best Company. The rating carries a stable outlook. A.M. Best Company cites a superior level of capital on both an absolute and risk-adjusted basis, excellent overall asset quality and liquidity, and the successful efforts to broaden the corporation's reach into new markets as rationale for their assigned rating.

Standard & Poor's rates American National as AA (Very Strong) based on the company's strength and diversification. Standard & Poor's refers to American National's extremely strong capitalization and operating performance, as well as its very strong liquidity and market position. Recent diversification of distribution channels is credited for an improved company profile.

COMPLIANCE

As an insurance company regulated by the Texas Department of Insurance, American National is exempt from periodic filings with the Securities and Exchange Commission under Section 12 (g) (2) (G) of the Securities Exchange Act of 1934. As a result, the Company does not make the traditional "10K" and "10Q" filings associated with most public companies, and is, therefore, not subject to many of the provisions of the Sarbanes-Oxley Act. However, as a matter of best business practices, the Company has chosen to implement the internal control provisions of Section 404 of the Sarbanes-Oxley Act in a deliberate, cost-efficient manner.

Monitoring the legal and regulatory environments for developments that could impact the company's operations is critical. In planning for the future, the Company will be vigilant in this effort.

INSURANCE OPERATIONS

For all of the company's 100 years of existence, life insurance has been, and continues to be, the foundation on which the company's financial achievements have been based. Our success as a life insurance carrier has enabled us to expand into a broader array of related financial products and services. In 2004, the company's property/casualty lines produced stellar results, which are among the very best of any company in that sector.

Presidents of American National







Mary Moody Northen



W.L. Vogler



R.A. Furbush

All seven of the company's marketing segments made unique and positive contributions in 2004, resulting in the most successful year of operations the company has seen since its beginning in 1905.

MULTIPLE LINE

Multiple Line's net operating gain in 2004 was \$176.5 million, a 46.7% increase over the previous year. These strong results were driven by growth in property/casualty revenues and a decline in the combined property/casualty benefit-and-expense ratio. Excellent results in the property/casualty line were achieved, even though the company experienced \$51 million in before-tax net catastrophe losses, due primarily to the four major hurricanes that struck Florida during the year. While each of the storms ranked among the top 10 catastrophe losses in U.S. history, American National's property/casualty Risk Mitigation Program was effective in keeping claim expenses at a manageable level.

The segment's life insurance business contributed \$26.5 million to net gain from operations. In addition, life sales increased, with significant growth in the sale of larger policies.

All three key Multiple Line initiatives – increasing the number of high quality agents, cultivating a Million Dollar Round Table (MDRT) culture, and increasing client tri-line percentages – experienced growth in 2004.

HOME SERVICE DIVISION

Although the Home Service Division's combined domestic and foreign net operating income of \$25.0 million was a slight decline from the totals achieved in 2003, the Division continues to rank as a leader among home service companies. Two primary reasons for the decline in earnings were decreases

in net investment income and total policy revenues. In addition, policy benefit expenses were up, primarily due to an increase in limited benefit health claims.

While operations in Mexico experienced a \$6.9 million net operating loss in 2004, results improved 9% from 2003. We remain confident that this market offers attractive growth potential for the Division.

The Home Service Division is engaged in initiatives that will modernize premium collection processes in its domestic business, resulting in improved efficiencies and control.

INDEPENDENT MARKETING GROUP

Independent Marketing Group continues to grow and add to the profitability of the corporation. While annuity sales decreased, weighted annualized premiums for new life sales increased 16% to \$22.3 million, and total revenues were up 42%, to \$369.7 million for the year. The segment's \$25.1 million net gain from operations was more than double that reported in 2003.

Independent Marketing Group provides diversification to the corporation's sales of life and annuity products. The support necessary for increased sales is provided by a focus on improving service for the distribution channels within the group. The sales and marketing activities for all pension products throughout the company are supported by Independent Marketing Group. During 2004, pension plans under administration grew 56%.

SENIOR AGE MARKETING

Senior Age Marketing continues to make strong contributions to the success of American National. For the third year in a row, the segment's gain from operations increased, resulting







Glendon E. Johnson



Orson C Clav



Robert L. Moody



G. Richard Ferdinandtsen

in a \$20.8 million contribution to American National's bottom line during 2004.

Senior Age Marketing excels in the Medicare Supplement business. The segment continues to take actions to leverage its current distribution system and introduce new products, including products of other companies, to its target market. Senior Age is striving to better serve its targeted market and add value to American National.

DIRECT MARKETING

Direct Marketing followed multiple years of double-digit growth with a solid 9.1% increase in sales during 2004. This segment recovered from a loss in 2003 to contribute more than \$3.5 million to American National's pre-tax gain from operations.

With the installation of state-of-the-art information systems, Direct Marketing is now poised to realize even more improvements in performance for 2005. A new series of television commercials, a recently introduced consumer-friendly Web site, and additional third-party relationships with large banks are expected to enable the segment to continue sales growth during 2005.

CREDIT INSURANCE DIVISION

The Credit Insurance Division reported a \$1.4 million loss from operations after the establishment of a \$16.6 million collectibility reserve for accounts receivable associated with producer-owned reinsurance companies. Excluding the adjustment, the Division's gain would have been comparable to prior-year results.

As a result of the full integration of the Royal & SunAlliance transaction, which occurred in late 2003, the Credit Insurance Division achieved record premium production

in 2004, with a 55% increase in net written premiums.

Property/casualty represents an increasing percentage of the Division's premiums, rising to over half of the total during 2004. The Division will be seeking new distribution channels and examining new products that will enable it to continue its pattern of premium growth.

HEALTH DIVISION

An increase in health claim costs and litigation expenses resulted in a loss of \$507,000 in 2004 for the health lines sold by the Health Division. In addition, a corporate decision to decrease exposure to specialty health products resulted in a significant reduction in the Division's revenue.

The Health Division manages the health business sold by all segments of American National. The combined health lines accounted for the addition of \$16.9 million to the corporation's pre-tax gain from operations. Improvements in customer service enabled the Division to contribute significantly to the improvements in the Medicare Supplement business of the Senior Age segment. Improvements in customer service will continue, and development of new specialty health products will enable the Health Division to continue to make strong contributions to the success of the company.

THE NEXT 100 YEARS

As the company enters its second century, we acknowledge the profound contributions of the many leaders who came before us, laying the foundation for American National's success. To our policyholders and our stockholders, we express sincere gratitude for the confidence that you continue to place in this company.

We will endeavor to remain worthy of that trust.

Risk Management

The purpose of insurance is to protect insureds from the financial impact of unforeseen events. Thus it is imperative that the risks American National assumes by issuing insurance policies be entered into deliberately and profitably in order to maintain assets needed to meet the obligations.

American National considers each risk both independently and in the context of the entire corporation, but refuses to use this approach to rationalize assuming individual pockets of unacceptable risk. Increasing the breadth of distribution and diversification of product lines has allowed the corporation to mitigate risks. In addition, American National prefers to avoid markets in which price is driven down to unacceptable levels. These are but a few of the proactive management techniques used to sustain a profitable, viable corporation.

American National continues to formalize and refine the risk management process. During 2004, a Chief Corporate Risk Management Officer was appointed. A Security Committee focuses on strengthening the safety of the corporation, particularly in the areas of building and information security. An Asset/Liability Management committee works regularly to refine capital allocation, cash management, and the investment of assets in a manner appropriate to support liabilities. One of the primary purposes of the committee is to evaluate strategies in advance of needs in order to maintain financial flexibility and liquidity. The committee operates with the active participation of the Investment, Actuarial, Controller and Corporate Planning departments, as well as the president of the company.

PHYSICAL HAZARDS

Hurricanes pose a significant physical risk to American National since the corporate headquarters are located on Galveston Island. The company has engaged in painstaking efforts to prepare for the inevitable impact of hurricanes. During the latter part of 2004, American National took possession of a new, remotely located computer information

facility designed to withstand the highest intensity hurricane. Subsidiary offices located in Missouri and New York also have established disaster recovery plans, and now maintain separate sites that will be used in the event hazards prevent normal operation.

LIFE INSURANCE AND ANNUITY PRODUCTS

In recent years, American National has significantly increased annuity sales. As a result, the risk profile of the corporation has shifted. A robust pricing methodology using multiple economic scenarios is used to ensure that products marketed are sustainable in various situations. Once annuities are sold, proactive management maintains the business in the everchanging economic environment. To that end, interest spread management occurs at least monthly, and guaranteed rates are maintained at levels sustainable over the long term. American National considers unadvisable some of the guaranteed return provisions in variable annuities and long-term guarantees in Universal Life products currently offered by competitors. Products and features considered underpriced in the market will not be offered.

PROPERTY/CASUALTY INSURANCE PRODUCTS

Property/casualty insurance constitutes an increasing portion of American National's product portfolio. Due to the cyclical nature of this line, the corporation continues to focus on managed growth, emphasizing expansion in non-coastal areas. American National's property/casualty subsidiaries focus on a target market of responsible families and individuals. This naturally results in a better risk for the corporation. Rating plans encourage and reward insured individuals for their loss control efforts. Once policies are issued, a regular review of rates is undertaken to respond to market trends and changes in individual needs.

A program to manage catastrophe losses is in place. This

includes such activities as limiting exposure in high-risk areas and establishing deductibles to align our interests with those of insured property owners. Additionally, a property catastrophe reinsurance program provides \$190 million in coverage after American National's initial \$10 million retention. The program provides for one automatic reinstatement of coverage for an additional event, resulting in total coverage of \$380 million for the company.

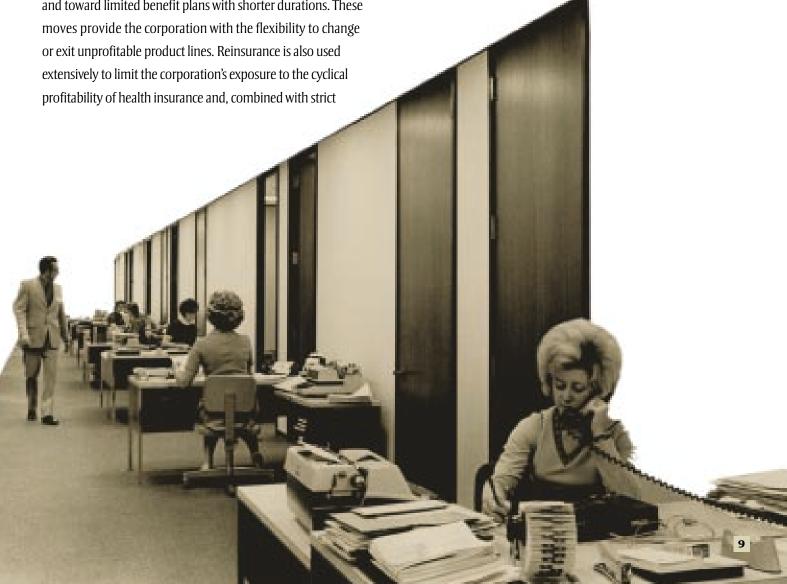
HEALTH INSURANCE PRODUCTS

In the past, the Health line has posed challenges for the corporation. In response, American National has chosen to narrow the focus of its health operation, eliminating unprofitable lines of business and moving away from traditional health products and toward limited benefit plans with shorter durations. These moves provide the corporation with the flexibility to change or exit unprofitable product lines. Reinsurance is also used extensively to limit the corporation's exposure to the cyclical

underwriting, allows the corporation to maintain its position in the market. Recently, Medicare Supplement and stop-loss coverages have been the most successful products within this line.

INVESTMENTS

Risk management would not be complete without the consideration of investments. The overall conservative approach of American National has resulted in a portfolio that strongly supports the insurance liabilities. American National maintains a diversified portfolio with relatively small, but carefully selected investments in capital ventures, real estate and international equities. Bonds constitute the majority of assets, with three-quarters of those rated "A" or higher when purchased.



Investments

American National has grown from an initial investment of \$100,000 in 1905 to over \$16 billion in assets today. In 2004, the company's assets grew more than 9%, with the majority invested in fixed maturity securities. Simultaneously, the quality of the portfolio was improved, with reductions in below investment grade bonds and equity and fixed income impairments. Problem mortgage loans and foreclosures remained at historically low levels.

FIXED MATURITY SECURITIES

As annuity sales continued at a strong pace, American National added substantially to its portfolio of fixed income securities. During the year a conscious decision was made to increase the allocation of newly purchased securities to Bonds Available for Sale. The yield on the bond portfolio held relatively stable at 5.93%, despite the current interest rate environment.

COMMON STOCK PORTFOLIO

As the economy continued to strengthen, the company's confidence in its disciplined approach to the equity markets provided handsome returns. American National realized significant capital gains from the common stock portfolio, with a portfolio return in excess of 8%.

MORTGAGE LOANS

Mortgage loan production increased significantly during 2004, reaching levels substantially above those of recent years. Prepayments, while still significant, were down from prior years. This combination resulted in a 19% increase in Mortgage Loan assets. The new assets in mortgage loans were invested at an attractive weighted average yield rate of 6.05%.





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/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/casualty insurers and some significant non-insurance enterprises.

LIFE INSURERS

- 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)

PROPERTY/CASUALTY INSURERS

- 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)
- American National County Mutual Insurance Company
- 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)
- ANTAC, Inc.

The American National family of companies conducts business in all 50 states, the District of Columbia, Puerto Rico, 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.

(Dollars in thousands)

2004

Gain before allocations
Life and health companies
American National
Other life and health companies
Property and casualty companies
Non-insurance companies
Consolidating adjustments
Total gain before allocations
Earnings of unconsolidated affiliates
Allocated federal income taxes
Gain from operations after tax
After-tax realized gains (losses)
Net income (loss)

2003

Gain before allocations
Life and health companies
American National
Other life and health companies
Property and casualty companies
Non-insurance companies
Consolidating adjustments

Total gain before allocations
Earnings of unconsolidated affiliates
Allocated federal income taxes
Gain from operations after tax
After-tax realized gains (losses)

Net income (loss)

TOTAL	CAPITAL AND SURPLUS	MULTIPLE LINE	HOME SERVICE DIVISION	INDEPENDENT MARKETING	SENIOR AGE MARKETING	DIRECT MARKETING	CREDIT INSURANCE DIVISION	HEALTH DIVISION	ALL OTHER
\$ 171,832 30,742 157,104	\$ 78,929 15,531 8,162	\$ 23,146 5,014 148,942	\$ 31,968 (6,905)	\$ 25,068 —	\$ — 21,459	\$ — 3,589	\$ (883) (517)	\$ 5,162 (5,669)	\$ 8,442 (1,760)
(31,501) (13,914)	(25,691) (12,239)	<u> </u>			(673)	(79)			(5,810) (334)
314,263 6,339 (100,372)	64,692 6,143 (17,950)	176,513 — (58,249)	25,063 — (8,271)	25,068 — (8,272)	20,786 — (6,859)	3,510 — (1,158)	(1,400) — 462	(507) — 167	538 196 (242)
220,230 35,363 \$ 255,593	52,885 35,363 \$ 88,248	118,264 — \$ 118,264	16,792 — \$ 16,792	16,796 — \$ 16,796	13,927 — \$ 13,927	2,352 — \$ 2,352	(938) — \$ (938)	(340) — \$ (340)	492 — \$ 492
\$ 233,333	\$ 00,210	\$ 110,204	\$ 10,732	\$ 10,790	\$ 13,327	\$ 2,332	\$ (250)	\$ (540)	3 T3Z
\$ 155,319 33,407 94,334	\$ 58,546 11,643 6,979	\$ 22,299 11,149 87,355	\$ 33,659 (7,585)	\$ 10,625 — —	\$ — 14,596 —	\$ — (447) —	\$ 15,143 15 —	\$ 6,142 3,281 —	\$ 8,905 755 —
(48,930) 402	(42,312) 1,541	(472)		_ _	<u> </u>	(64)		_ _	(6,618) (64)
234,532 4,327 (78,057)	36,397 4,017 (12,571)	120,331 — (39,709)	26,074 — (8,604)	10,625 — (3,506)	14,057 — (4,639)	(511) — 169	15,158 — (5,002)	9,423 — (3,110)	2,978 310 (1,085)
160,802 21,363	27,843 21,363	80,622	17,470 —	7,119 —	9,418	(342)	10,156	6,313	2,203
 \$ 182,165	\$ 49,206	\$ 80,622	\$ 17,470	\$ 7,119	\$ 9,418	\$ (342)	\$ 10,156	\$ 6,313	\$ 2,203



MULTIPLE LINE

GREGORY V. OSTERGREN

Executive Vice President, Director Multiple Line Chairman, President and Chief Executive Officer American National Property and Casualty Companies Chairman Farm Family



Multiple Line's exclusive agency force markets a variety of life and property/casualty insurance products to responsible individuals, families and business owners at all income levels. Multiple Line agents have earned a reputation for providing excellent client service and offering an outstanding package of value to insurance clients.

2004 RESULTS

Multiple Line enjoyed a net operating gain of \$176 million in 2004, a 46.7% increase over 2003 results. This was due in large part to a combined property/casualty benefit-and-expense ratio of 92.8 in 2004, a reduction from the 2003 ratio of 97.3.

The four major hurricanes that struck Florida in 2004—each ranking among the top ten catastrophe losses in U.S. history—led to net catastrophe losses for the company of over \$51 million. However, American National's property/casualty Risk Mitigation Program played a vital role in keeping claims expenses at a manageable level.

Multiple Line's life insurance business contributed \$26.5 million to net gain from operations. In addition, life sales increased, with significant growth in the sale of larger policies.

In 2004, the productivity of Multiple Line agents, based on measures such as property/casualty loss ratios and life insurance production and persistency, continued on an upward trend. Multiple Line's elite agents — those with best-in-class business practices as measured by the Company's proprietary system — increased 8.8% over 2003.

LOOKING AHEAD

Enhancing overall agent business practices to an industry leading level, cultivating a Million Dollar Round Table (MDRT) culture, and growing the percentage of tri-line clients — those with auto, home and life coverages — are the three primary initiatives that have helped drive profitability and growth in Multiple Line over the last three years.

Last year, for the fourth year in a row, Multiple Line increased its number of MDRT-qualifying agents to record levels. According to MDRT, in 2004 American National ranked among the top 10 U.S. companies in membership growth.

In 2005, Multiple Line will continue to emphasize and increase performance in its three key initiatives, with the goal of becoming the premier Multiple Line Exclusive Agent carrier in the industry.

While Ordinary Agencies was formed in the 1920s, it was in the post-war economic boom of the 1940s that the segment really began to flourish. American National Property and Casualty Company (ANPAC*) was incorporated in 1973 to serve the client's property and casualty insurance needs. In 1997, Ordinary Agencies was re-named Multiple Line, reflecting a commitment to serve a broader range of the clients' coverage needs. In 2001, Farm Family was acquired by American National, boosting Multiple Line's agricultural-related product line and increasing the segment's presence in the Northeast United States.



		LIFE	ANNUIT	Y A	&Н	PROPERTY/ CASUALTY	TOTAL
2004							
Financial Results							
Premiums and other policy revenues	\$	127,044	\$ 3,18	5 \$	14,432	\$1,099,599	\$ 1,244,260
Net investment income		77,517	30,47	1	2,296	63,318	173,602
Expenses and benefits		(178,042)	(30,70))	(18,043)	(1,014,564)	(1,241,349)
Pre-tax gain from operations		26,519	2,95	5	(1,315)	148,353	176,513
Allocated federal income taxes		(8,751)	(97	5)	434	(48,957)	(58,249)
Net income	\$	17,768	\$ 1,98	1 \$	(881)	\$ 99,396	\$ 118,264
Statistical Data							
Life insurance in force	\$2	9,335,731	\$ -	- \$	_	s —	\$29,335,731
Weighted annualized premium from new sales		22,756	3,99	5	826	_	27,577
Net written premiums		_	_	-	_	1,091,326	1,091,326
Policy account deposits		107,444	56,41	1	_	_	163,855
Earned premium income		57,956	1,43	2	14,421	1,092,815	1,166,624
Other policy revenues		68,116	1,39	3	_	_	69,509
2003							
Financial Results							
Premiums and other policy revenues	\$	124,471	\$ 5,07	5 \$	15,462	\$ 991,951	\$ 1,136,960
Net investment income		82,477	30,84	3	2,425	56,128	171,878
Expenses and benefits	••	(172,749)	(34,97	7)	(19,584)	(961,196)	(1,188,507)
Pre-tax gain from operations		34,199	94	5	(1,697)	86,883	120,331
Allocated federal income taxes		(11,286)	(31	2)	560	(28,671)	(39,709)
Net income		22,913	\$ 63	1 \$	(1,137)	\$ 58,212	\$ 80,622
Statistical Data							
Life insurance in force	\$2	7,187,881	\$ -	- \$	_	s —	\$ 27,187,881
Weighted annualized premium from new sales		21,774	4,91	5	807	_	27,497
Net written premiums			_	-	_	1,035,776	1,035,776
Policy account deposits		103,140	64,16	3	_	_	167,303
Earned premium income		58,773	3,51		15,442	986,343	1,064,073
Other policy revenues		64,865	1,12		,		65,986

Home Service's employee-agents have been part of American National since the company's founding in 1905. American National's Home Service Division markets life and limited benefit health insurance products to moderate-income households in the United States. In Mexico, the Division serves a growing market of individuals seeking life insurance coverage.

2004 RESULTS

In 2004, net operating income was \$25.1 million, one of the strongest results among companies in the home service business. The impressive results were obtained despite a rise in benefits paid, particularly related to limited benefit health claims.

Net investment income declines, combined with decreases in premiums and revenues from policies, led to a revenue decrease of approximately \$7.2 million in 2004. Expenses were down by \$8.1 million in 2004, reflecting a continuing effort to implement initiatives that lead to greater management efficiencies.

While operations in Mexico experienced a net operating loss, 2004 results represented a 9% improvement over the previous year. In addition, several positive trends related to premium revenue have emerged. Overall premium revenue increased 12% in 2004. While first-year premiums remained at last year's levels, renewal premiums increased 27%.

LOOKING AHEAD

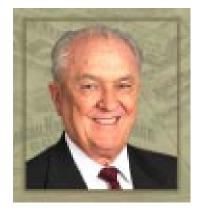
Home Service is seeking to refine its business model. The goal is to deliver its product and service mix in the United States on a more efficient basis. To further this goal in 2005, Home Service will provide its agents with software that should help agents illustrate to clients the integral part that life insurance can play in a family's long-term financial planning.

To facilitate the automation of the premium collection process, managers, agents, office managers and other clerical staff will be utilizing the new Mobile Agent and CASH accounting system technology.

In Mexico, certification training programs are being developed for district managers, sales managers and salespersons. These programs will define a clear career path — and requirements that must be met — for those desiring to begin or advance in a managerial career.



BILL J. GARRISONExecutive Vice President
Director, Home Service Division



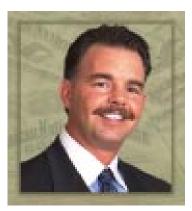
American National Insurance Company was founded in 1905 as a home service company. For many years, home service was the leading distribution channel in the industry. American National remains one of the leaders in the home service industry. In 1999, American National established operations built on the home service model in Mexico. Home Service is an integral part of American National's history and foundation, and remains a rock solid contributor to company earnings.



	LIFE	ANNUITY	A&H	TOTAL
2004				
Financial Results				
Premiums and other policy revenues	\$ 200,101	\$ 380	\$ 9,926	\$ 210,407
Net investment income	102,737	3,272	1,063	107,072
Expenses and benefits	(277,647)	(4,041)	(10,728)	(292,416)
Pre-tax gain from operations	25,191	(389)	261	25,063
Allocated federal income taxes	(8,313)	128	(86)	(8,271)
Net income	\$ 16,878	\$ (261)	\$ 175	\$ 16,792
Statistical Data				
Life insurance in force	\$ 14,541,026	\$ —	\$ —	\$ 14,541,026
Weighted annualized premium from new sales	34,816	422	2,057	37,295
Policy account deposits	22,049	5,803	_	27,852
Earned premium income	183,171	205	9,926	193,302
Other policy revenues	16,916	175	_	17,091
<u>2003</u>				
Financial Results				
Premiums and other policy revenues	\$ 195,840	\$ 212	\$ 16,578	\$ 212,631
Net investment income	113,971	3,685	(5,558)	112,098
Expenses and benefits	(284,802)	(4,378)	(9,474)	(298,655
Pre-tax gain from operations	25,009	(481)	1,546	26,074
Allocated federal income taxes	(8,253)	159	(510)	(8,604
Net income	\$ 16,756	\$ (322)	\$ 1,036	\$ 17,470
Statistical Data				
Life insurance in force	\$ 14,451,066	\$ —	\$ —	\$ 14,451,066
Weighted annualized premium from new sales	37,680	436	2,393	40,509
Policy account deposits	22,718	5,953	_	28,671
Earned premium income	184,548	46	9,943	194,537
Other policy revenues	17,864	167	_	18,031

INDEPENDENT MARKETING GROUP

DAVID A. BEHRENSExecutive Vice President
Independent Marketing



Independent Marketing provides wealth management and protection to small business owners and individual consumers. The segment focuses on designing, marketing and servicing innovative life insurance, annuity and pension products for distribution through financial institutions, large marketing organizations, employee benefit firms, broker-dealers and independent insurance agents and brokers. During 2004, Independent Marketing entered its tenth year of operation. It is expected to be a continuing source of significant growth for the corporation.

2004 RESULTS

Independent Marketing attained record earnings during 2004. Gain from operations increased 136%, to \$25.1 million in 2004. This compares with \$10.6 million in 2003. The overall earnings were driven by increases of more than 130% in both the life and annuity lines. A 23% decrease in controllable expenses from 2003 helped boost profitability.

Sales continue to be strong for the segment, with weighted life and annuity sales of \$142.6 million for the year. The 16% increase in weighted life premiums was offset by a 49% decrease in fixed annuity deposits, to \$1.2 billion. The decrease resulted from increasing returns on competitive products available through financial institutions, and the movement of sales toward equity-based products. Growth is further evidenced by an increase in statutory reserves to \$5.7 billion.

LOOKING AHEAD

Continuing to improve support for the distribution channels is critical to sales in Independent Marketing. Increased wholesaler support has resulted in increased sales. Independent Marketing will continue to build distribution by further improving customer service and its relationship with the members of its distribution. Profitable new niche opportunities will be explored and pursued.

Independent Marketing expects to continue healthy growth in life and annuity reserves by offering profitable new life and annuity products that are in line with the company's appetite for risk. An emphasis on life insurance sales will complement continued strong annuity sales. Earnings are expected to increase for Independent Marketing, in line with the proactive management of new and in force business.

In 1992, American National ventured beyond the traditional captive agent by establishing a relationship with an independent marketing organization. In 1995, the Independent Marketing Group was formalized as American National's avenue to the independent marketplace. Since that time, Independent Marketing has grown to support independent agents in six distinct distribution channels, including Bank, Brokerage, Alternative, Payroll Deduction, Broker Dealer and Pension.



TWO	VEAD	FIRIABICIA	ADICON /I	thousands)

	LIFE	ANNUITY	TOTAL
<u>2004</u>			
Financial Results			
Premiums and other policy revenues	\$ 22,243	\$ 44,827	\$ 67,070
Net investment income	29,939	272,662	302,601
Expenses and benefits	(47,392)	(297,211)	(344,603)
Pre-tax gain from operations	4,790	20,278	25,068
Allocated federal income taxes	(1,580)	(6,692)	(8,272)
Net income	\$ 3,210	\$ 13,586	\$ 16,796
Statistical Data			
Life insurance in force	\$3,936,453	\$ —	\$3,936,453
Weighted annualized premium from new sales	22,337	120,233	142,570
Policy account deposits	130,709	1,215,987	1,346,696
Earned premium income	5,932	32,708	38,640
Other policy revenues	16,312	12,107	28,419
2003			
Financial Results			
Premiums and other policy revenues	\$ 19,384	\$ 26,037	\$ 45,421
Net investment income	24,022	191,283	215,305
Expenses and benefits	(41,539)	(208,562)	(250,101)
Pre-tax gain from operations	1,867	8,758	10,625
Allocated federal income taxes	(616)	(2,890)	(3,506)
Net income	\$ 1,251	\$ 5,868	\$ 7,119
Statistical Data			
Life insurance in force	\$3,155,822	\$ —	\$3,155,822
Weighted annualized premium from new sales	19,206	236,648	255,854
Policy account deposits	113,986	2,368,428	2,482,414
Earned premium income	5,648	19,534	25,182
Other policy revenues	13,736	6,503	20,239

Senior Age Marketing focuses its efforts on the middle-income, pre-retiree and senior-age consumer. Sales are conducted through independent agents contracted with Standard Life and Accident Insurance Company. Expertise in the needs of the mature consumer is the cornerstone of the segment's strength.

2004 RESULTS

Senior Age's \$20.8 million net gain from operations was a 48% increase over the 2003 net gain of \$14.1 million. Gain from the Medicare Supplement line of business totaled \$18.1 million, an improvement of \$4.9 million over 2003, continuing the strong trend from 2002. Gain from the life insurance and annuity lines was \$1.4 million, up 23% from the prior year.

The Medicare Supplement business is very price competitive. While management of rates improved profitability, sales were impacted. The segment's overall sales, expressed as net annualized premium, decreased in 2004 to \$13.9 million, down from \$24.2 million in the previous year. Underwriting adjustments made late in the year should lead to improved production.

Efforts to increase sales also included the introduction of a simplified application package for whole life insurance. Also, a new whole life insurance policy, a recovery care policy, and a Health Savings Account product were also introduced during the year, although not early enough to impact sales in 2004.

Standard Plus, a captive insurance agency, was created during 2004 to better utilize Senior Age Marketing's distribution system and improve flexibility in recruiting agency organizations.

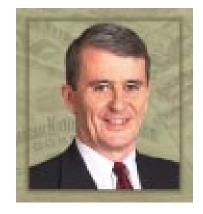
LOOKING AHEAD

Extending Senior Age's sales mix to life, annuity and non-Medicare health products, while also growing Medicare Supplement sales, will be targeted. New producers will be aggressively recruited.

More sales to the pre-retiree consumer and to the more affluent middle-income consumer will also be targeted. The new products introduced late in 2004 will be aggressively marketed in 2005, while new equity indexed annuity and supplemental health products are planned for 2005.



E. HARRISON MARTINPresident and Chief Marketing Officer
Standard Life and Accident Insurance Company



Founded in 1948 in Oklahoma City, Okla., Standard Life and Accident Insurance Company was acquired by American National in 1976. In 1997, Standard Life moved its home office operation from Oklahoma City to Galveston. Over the last seven years, the segment's life and annuity product line has been expanded to better serve the pre-retiree and senior age markets. Senior Age Marketing is poised to be "the company of choice for seniors," providing financial products and services to the rapidly growing American population age 55 and older.



	LIFE	AN	NUITY	A&H	TOTAL
<u>2004</u>					
Financial Results					
Premiums and other policy revenues	\$ 19,666	\$	341	\$179,650	\$ 199,657
Net investment income	7,246		2,662	8,744	18,652
Expenses and benefits	(25,681)		(2,808)	(169,034)	(197,523)
Pre-tax gain from operations	1,231		195	19,360	20,786
Allocated federal income taxes	(406)		(64)	(6,389)	(6,859)
Net income	\$ 825	\$	131	\$ 12,971	13,927
Statistical Data					
Life insurance in force	\$ 475,549	\$	_	\$ —	\$ 475,549
Weighted annualized premium from new sales	899		1,028	12,023	13,950
Policy account deposits	1,263		10,496	_	11,759
Earned premium income	19,548		154	179,649	199,351
2003					
Financial Results					
Premiums and other policy revenues	\$ 21,556	\$	573	\$184,637	\$ 206,766
Net investment income	7,263		2,394	9,488	19,145
Expenses and benefits	(27,343)		(3,282)	(181,229)	(211,854)
Pre-tax gain from operations	1,476		(315)	12,896	14,057
Allocated federal income taxes	(487)		104	(4,256)	(4,639)
Net income	\$ 989	\$	(211)	\$ 8,640	\$ 9,418
Statistical Data					
Life insurance in force	\$ 502,281	\$	_	\$ —	\$ 502,281
Weighted annualized premium from new sales	1,662		767	21,767	24,196
Policy account deposits	4,665		7,745	_	12,410
Earned premium income	21,384		362	184,637	206,383

Direct Marketing uses a balanced mix of direct-to-the-consumer advertising media — mail, print, broadcast, and Internet—to market its products. The segment conducts business through Garden State Life Insurance Company. As more consumers seek the "anytime" convenience of direct insurance sales, Direct Marketing looks forward to continuing growth.

2004 RESULTS

Sales for 2004 totaled \$12.2 million, 9.1% ahead of 2003's results. The number of applications increased 1.8% over 2003, comparing favorably to the rest of the direct response insurance industry, which saw a decline in applications of about 2.3%. Real growth in total net life premiums for the year was 7.8%. Pre-tax gain from operations was \$3.5 million, an improvement of \$4 million over 2003.

All of these improvements took place amid the installation of powerful state-of-the-art systems for new business and administrative processing. The economies and efficiencies of those new systems are already producing a measurable positive impact on productivity, and such benefits will be even greater in coming years.

Direct Marketing's new consumer-friendly Web site, which allows customers to purchase a life insurance policy in a matter of minutes, has been well received. Sales growth in the online market channel is encouraging. Special new products for the Web site are now available, and are competitively priced to reflect the lower operating costs made possible by online distribution. Meanwhile, a new series of television commercials recognizing that women are the catalyst for a large percentage of life insurance purchases is generating strong response.

LOOKING AHEAD

In addition to the benefits of newly installed administrative systems, substantial cost savings are also anticipated, as a result of streamlined processes. Organization of the home office staff into functional teams has enabled the segment to improve customer service, grow its block of business, and achieve its highest-ever annualized premium figures per employee, all without the addition of staff.

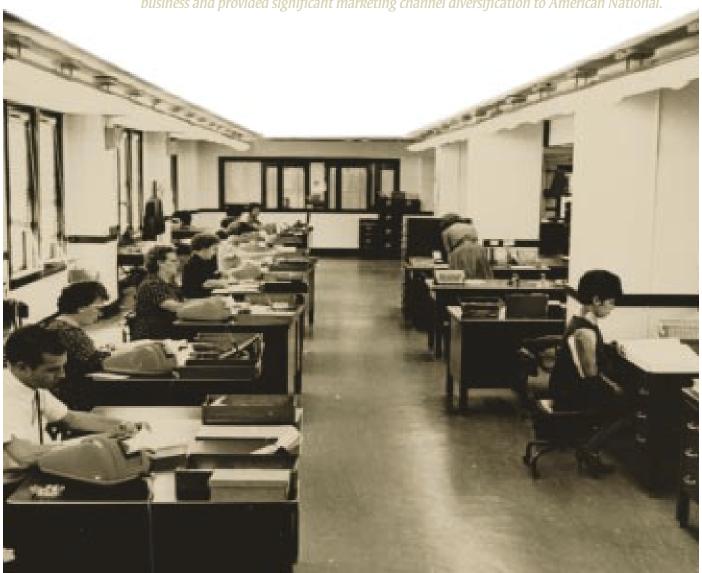
Continued expense savings coupled with Direct Marketing's commitment to developing innovative products and strategic partnerships will enable the segment to maintain a growing presence in the direct marketing arena. As consumers continue to seek greater convenience in their shopping choices, American National is well positioned to secure an increasing share of the growing market for direct life insurance sales.



SCOTT K. LUCHESI President and Chief Executive Officer Garden State Life Insurance Company



American National expanded into the direct marketing arena in 1992 with its purchase of Garden State Life Insurance Company. Shortly thereafter, operations were moved to League City, Texas and the company's domicile was changed to Texas. Direct Marketing has experienced solid growth, contributed substantially to American National's business and provided significant marketing channel diversification to American National.



TWO-YEAR FINANCIAL COMPARISON (In thousands)

TO TENTE TO TENTE CONTINUES OF (In thousands)								
	2004		2003					
\$	37,817	\$	35,256					
	3,308		3,823					
	(37,615)		(39,590)					
	3,510		(511)					
	(1,158)		169					
\$	2,352	\$	(342)					
\$	6,106,482	\$	5,828,035					
	12,241		11,221					
	37,202		34,587					
	\$	\$ 37,817 3,308 (37,615) 3,510 (1,158) \$ 2,352 \$ 6,106,482 12,241	\$ 37,817 \$ 3,308 (37,615) \$ 3,510 (1,158) \$ 2,352 \$ \$ \$ 6,106,482 12,241					

The Credit Insurance Division offers life, disability and property/casualty products that provide for the repayment of loans in the event of individual loss. The primary distribution channel for credit insurance products is general agents who market to financial institutions, auto dealers and furniture dealers. The Division has consistently been among the top ten providers of credit insurance in the United States.

2004 RESULTS

Despite record premium production, Credit Insurance incurred a \$1.4 million loss from operations. The loss was primarily caused by an increase of \$16.7 million in the estimated collectibility reserve for accounts receivable associated with producer owned reinsurance companies.

Credit Insurance posted record levels of premium production for the second consecutive year. Total net written premiums in 2004 reached \$251.0 million, a 55% increase over 2003. The Division's Property/Casualty premium production increased by over 132%, to \$164.1 million during 2004. This increase in premium reflects a full year of production from the distribution sources, obtained as a result of the Royal & SunAlliance transaction in 2003. Property/casualty premiums represented 62% of the Division's total premiums during 2004, compared with 40% in 2003.

LOOKING AHEAD

The Division will continue maximizing long-term relationships with distribution partners.

In addition to maintaining these existing relationships and maximizing their potential for premium production, the Division will also be seeking new distribution channels and examining new products for addition to its portfolio.

The Credit Insurance Division is expected to continue its pattern of growth in premium production and return to profitability in 2005.

CREDIT INSURANCE DIVISION

JAMES W. PANGBURN
Senior Vice President
Credit Insurance Division



American National's entry into the credit insurance business occurred in 1954, with the formation of a company agency specializing in credit life and credit accident and health insurance. Located in Dallas, Texas, the agency grew into a self-supporting full service operation with its own accounting, underwriting, claims and reinsurance operations. In 1985, the Division moved to Galveston. In 1994, the Credit Insurance Division expanded its portfolio of products to include credit-related property/casualty products underwritten by ANPAC® and its affiliated companies. It is one of the leading producers of credit insurance products in the U.S.



	2004	2003
Financial Results		
Premiums and other policy revenues	\$ 144,495	\$ 99,167
Net investment income	19,747	17,553
Expenses and benefits	(165,642)	(101,562
Pre-tax gain from operations	(1,400)	15,158
Allocated federal income taxes	462	(5,002
Net income	\$ (938)	\$ 10,156
Statistical Data		
Life insurance in force	\$ 5,675,347	\$ 6,203,223
Sales of life insurance (face amount)	2,950,282	2,950,282
Written premium	250,969	161,775
Earned premium income	138,138	91,062

The Health Division manages and administers American National's entire portfolio of health insurance policies, including those sold by the company's other segments. Using a conservative, risk-sharing approach, the Health Division carefully seeks market niches in which profitability is sustainable.

2004 RESULTS

Loss ratios and litigation expenses in the Division's traditional health product lines were the primary causes of an operating loss of \$507,000 in 2004. Likewise, a corporate decision to diminish exposure associated with specialty health products marketed by Managing General Underwriters resulted in a significant reduction in the Division's revenue.

The Health Division was also responsible for positive developments that are benefiting the company in a variety of areas. The implementation of new technology for various policyholder interactions resulted in dramatically faster, more economical handling of claims payments. In addition to cost-savings, these improvements have already produced increased customer satisfaction and are recognized as having played a major role in the success of the Medicare Supplement line of products marketed by the Senior Age Marketing segment.

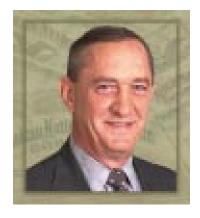
LOOKING AHEAD

The ongoing implementation of customer service technology is expected to produce additional economies and efficiencies. Enhancements to the Division's business conservation unit and policyholder communications are expected to further improve policyholder satisfaction.

As the cost for health care services and health care insurance continues to rise, consumers are seeking new avenues to help finance these costs. In 2004, the Division created a competitive Health Savings Account product to tap into the growing consumer demand for this product. In addition, new distribution channels for the Division's specialty health products will be reviewed and developed wherever sales and profit goals can be met.



STEVEN H. SCHOUWEILER
Senior Vice President
Health Division

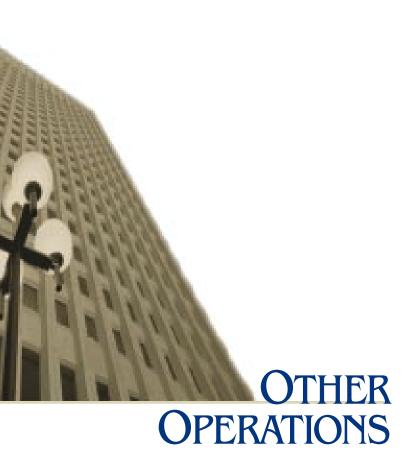


American National has sold and serviced health insurance policies from its earliest days. For the first 50 years, weekly indemnity policies were the primary health product offerings. In 1958, a separate agency was established to sell an expanding portfolio of health insurance products. In the 1970s, the sale of group products was expanded with the formation of a group operation. During 1989, the individual health operations were significantly expanded into the association group business. In the mid 1990s, the management of all health operations was brought under one umbrella into the Health Division.



TWO.VFAR	FINANCIAL	COMPARISON	(In thousands)

TWO-TEAR FINANCIAL COMPARISON (III tilousalius	LIFE	A&H	TOTAL
2004			
Financial Results			
Premiums and other policy revenues	\$ 2,228	\$ 136,904	\$ 139,132
Net investment income	357	3,768	4,125
Expenses and benefits	(2,176)	(141,588)	(143,764)
Pre-tax gain from operations	409	(916)	(507)
Allocated federal income taxes	(135)	302	167
Net income	\$ 274	\$ (614)	\$ (340)
Statistical Data			
Life insurance in force	\$ 524,860	s —	\$ 524,860
Earned premium income	2,228	121,145	123,373
2003			
Financial Results			
Premiums and other policy revenues	\$ 2,200	\$ 190,549	\$ 192,749
Net investment income	428	8,695	9,123
Expenses and benefits	(1,824)	(190,625)	(192,449)
Pre-tax gain from operations	804	8,619	9,423
Allocated federal income taxes	(266)	(2,844)	(3,110)
Net income	\$ 538	\$ 5,775	\$ 6,313
Statistical Data			
Life insurance in force	\$ 540,481	\$ —	\$ 540,481
Earned premium income	2,201	170,229	172,430



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

SM&R, a wholly-owned subsidiary, is a registered 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, not-for-profit foundations and private client portfolios.

SM&R continued to focus on three distribution channels in 2004: American National's Multiple Line and Independent Marketing segments and SM&R's direct sales.

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 it could not otherwise utilize.

ACQUIRED BUSINESS

Closed blocks of business acquired by the company are reported under Other Operations. This includes blocks of insurance business purchased from American Security Life, American Health and Life and several other smaller insurers.

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

Ballery -inancial Information
American National Insurance Company and Subsidiaries ican Mational Insurance

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

	2	004	2003	 2002
PREMIUMS AND OTHER REVENUE				
Premiums				
Life	\$	337,498	\$ 336,747	\$ 337,100
Annuity		35,429	24,520	10,948
Accident and health		350,939	405,039	408,430
Property and casualty	1	,182,310	1,030,899	861,696
Other policy revenues		123,253	112,787	106,372
Net investment income		739,321	631,385	564,500
Realized gains (losses) on investments		54,404	32,866	(131,743
Other income		56,182	54,473	63,263
Total revenues	2	,879,336	2,628,716	2,220,566
BENEFITS AND EXPENSES				
Death and other benefits:				
Life		242,866	248,686	242,189
Annuity		92,340	57,224	53,688
Accident and health		253,877	288,902	305,532
Property and casualty		817,606	778,127	719,016
Increase (decrease) in liability for future policy benefits:				
Life		33,867	31,693	31,132
Annuity		(32,617)	(18,596)	(24,236
Accident and health		(2,062)	3,088	9,069
Interest credited to policy account balances		296,319	257,510	166,515
Commissions for acquiring and servicing policies		450,451	489,839	343,096
Other operating costs and expenses		356,163	355,971	336,699
Taxes, licenses and fees		59,470	55,913	38,536
Decrease (increase) in deferred policy acquisition costs		(71,135)	(197,559)	(43,606
Minority interest and participating policyholders share of operations		13,524	10,520	5,976
Total benefits and expenses	2	,510,669	2,361,318	2,183,606
Income from operations before equity in earnings of unconsolidated affiliates				
and federal income taxes		368,667	267,398	36,960
Equity in earnings (losses) of unconsolidated affiliates		6,339	4,327	(10,125
Income from operations before federal income taxes		375,006	271,725	26,835
Provision (benefit) for federal income taxes:				
Current		136,205	94,792	22,051
Deferred		(16,792)	(5,232)	(12,071
Net income	\$	255,593	\$ 182,165	\$ 16,855
Net income per common share - basic	\$	9.65	\$ 6.88	\$ 0.64
Net income per common share - diluted	S	9.63	\$ 6.87	\$ 0.64

See accompanying notes to consolidated financial statements.

De	ecember 31, 2004	December 31, 2003
ASSETS		
Investments, other than investments in unconsolidated affiliates		
Debt securities:		
Bonds held-to-maturity, at amortized cost	\$ 7,770,976	\$ 7,388,060
Bonds available-for-sale, at market	2,314,395	1,406,872
Marketable equity securities, at market:		
Preferred stocks	42,464	49,612
Common stocks	1,052,436	1,020,993
Mortgage loans on real estate	1,139,014	955,360
Policy loans	335,865	332,743
Investment real estate, net of		
accumulated depreciation of \$143,112 and \$131,371	562,370	569,692
Short-term investments	48,836	110,695
Other invested assets	99,011	128,249
Total investments	13,365,367	11,962,276
Cash	112,558	103,615
Investments in unconsolidated affiliates	69,319	77,106
Accrued investment income	182,825	168.131
Reinsurance ceded receivables	489,474	557.666
Prepaid reinsurance premiums	119,247	180,681
Premiums due and other receivables	250,886	257,028
Deferred policy acquisition costs	1,133,031	1,065,958
Property and equipment, net	88,087	79,013
Other assets	296,002	316,209
Separate account assets	464,031	372,551
Total assets	\$ 16,570,827	\$ 15,140,234
LIABILITIES		
Policyholder funds		
Policyholder funds Future policy benefits:		
Policyholder funds	\$ 2,281,050	\$ 2,243,689
Policyholder funds Future policy benefits: Life Annuity	388,783	244,927
Policyholder funds Future policy benefits: Life	388,783 115,771	244,927 117,413
Policyholder funds Future policy benefits: Life	388,783 115,771 7,009,002	244,927 117,413 6,021,359
Policyholder funds Future policy benefits: Life	388,783 115,771 7,009,002 1,305,218	244,927 117,413
Policyholder funds Future policy benefits: Life	388,783 115,771 7,009,002	244,927 117,413 6,021,359
Policyholder funds Future policy benefits: Life	388,783 115,771 7,009,002 1,305,218	244,927 117,413 6,021,359 1,320,772
Policyholder funds Future policy benefits: Life	388,783 115,771 7,009,002 1,305,218 150,810	244,927 117,413 6,021,359 1,320,772 143,721
Policyholder funds Future policy benefits: Life Annuity Accident and health Policy account balances Policy and contract claims Participating policyholder share Other policyholder funds	388,783 115,771 7,009,002 1,305,218 150,810 960,941	244,927 117,413 6,021,359 1,320,772 143,721 969,689 11,061,570
Policyholder funds Future policy benefits: Life	388,783 115,771 7,009,002 1,305,218 150,810 960,941 12,211,575 (8,664)	244,927 117,413 6,021,359 1,320,772 143,721 969,689 11,061,570 (17,633)
Policyholder funds Future policy benefits: Life Annuity Accident and health Policy account balances Policy and contract claims Participating policyholder share Other policyholder funds Total policyholder liabilities Current federal income taxes Deferred federal income taxes	388,783 115,771 7,009,002 1,305,218 150,810 960,941 12,211,575 (8,664) 164,292	244,927 117,413 6,021,359 1,320,772 143,721 969,689 11,061,570 (17,633) 162,519
Policyholder funds Future policy benefits: Life	388,783 115,771 7,009,002 1,305,218 150,810 960,941 12,211,575 (8,664) 164,292 128,503	244,927 117,413 6,021,359 1,320,772 143,721 969,689 11,061,570 (17,633) 162,519 119,044
Policyholder funds Future policy benefits: Life Annuity Accident and health Policy account balances Policy and contract claims Participating policyholder share Other policyholder funds Current federal income taxes Deferred federal income taxes Notes payable Other liabilities	388,783 115,771 7,009,002 1,305,218 150,810 960,941 12,211,575 (8,664) 164,292 128,503 319,262	244,927 117,413 6,021,359 1,320,772 143,721 969,689 11,061,570 (17,633) 162,519 119,044 322,613
Policyholder funds Future policy benefits: Life Annuity Accident and health Policy account balances Policy and contract claims Participating policyholder share Other policyholder funds Total policyholder liabilities Current federal income taxes Deferred federal income taxes Notes payable Other liabilities Minority interests in subsidiaries	388,783 115,771 7,009,002 1,305,218 150,810 960,941 12,211,575 (8,664) 164,292 128,503 319,262 (3,930)	244,927 117,413 6,021,359 1,320,772 143,721 969,689 11,061,570 (17,633) 162,519 119,044 322,613 7,548
Policyholder funds Future policy benefits: Life Annuity Accident and health Policy account balances Policy and contract claims Participating policyholder share Other policyholder funds Current federal income taxes Deferred federal income taxes Notes payable Other liabilities Minority interests in subsidiaries Separate account liabilities	388,783 115,771 7,009,002 1,305,218 150,810 960,941 12,211,575 (8,664) 164,292 128,503 319,262 (3,930) 464,031	244,927 117,413 6,021,359 1,320,772 143,721 969,689 11,061,570 (17,633) 162,519 119,044 322,613 7,548 372,551
Policyholder funds Future policy benefits: Life Annuity Accident and health Policy account balances Policy and contract claims Participating policyholder share Other policyholder funds Total policyholder liabilities Current federal income taxes Deferred federal income taxes Notes payable Other liabilities Minority interests in subsidiaries Separate account liabilities Total liabilities	388,783 115,771 7,009,002 1,305,218 150,810 960,941 12,211,575 (8,664) 164,292 128,503 319,262 (3,930)	244,927 117,413 6,021,359 1,320,772 143,721 969,689 11,061,570 (17,633) 162,519 119,044 322,613 7,548
Policyholder funds Future policy benefits: Life	388,783 115,771 7,009,002 1,305,218 150,810 960,941 12,211,575 (8,664) 164,292 128,503 319,262 (3,930) 464,031	244,927 117,413 6,021,359 1,320,772 143,721 969,689 11,061,570 (17,633) 162,519 119,044 322,613 7,548 372,551
Policyholder funds Future policy benefits: Life	388,783 115,771 7,009,002 1,305,218 150,810 960,941 12,211,575 (8,664) 164,292 128,503 319,262 (3,930) 464,031 13,275,069	244,927 117,413 6,021,359 1,320,772 143,721 969,689 11,061,570 (17,633) 162,519 119,044 322,613 7,548 372,551 12,028,212
Policyholder funds Future policy benefits: Life Annuity Accident and health Policy account balances Policy and contract claims Participating policyholder share Other policyholder funds Current federal income taxes Deferred federal income taxes Notes payable Other liabilities Minority interests in subsidiaries Separate account liabilities Total liabilities STOCKHOLDERS' EQUITY Capital stock Additional paid-in capital	388,783 115,771 7,009,002 1,305,218 150,810 960,941 12,211,575 (8,664) 164,292 128,503 319,262 (3,930) 464,031 13,275,069	244,927 117,413 6,021,359 1,320,772 143,721 969,689 11,061,570 (17,633) 162,519 119,044 322,613 7,548 372,551 12,028,212
Policyholder funds Future policy benefits: Life Annuity Accident and health Policy account balances Policy and contract claims Participating policyholder share Other policyholder funds Total policyholder liabilities Current federal income taxes Deferred federal income taxes Notes payable Other liabilities Minority interests in subsidiaries Separate account liabilities Total liabilities STOCKHOLDERS' EQUITY Capital stock Additional paid-in capital Accumulated other comprehensive income	388,783 115,771 7,009,002 1,305,218 150,810 960,941 12,211,575 (8,664) 164,292 128,503 319,262 (3,930) 464,031 13,275,069 30,832 9,974 214,755	244,927 117,413 6,021,359 1,320,772 143,721 969,689 11,061,570 (17,633) 162,519 119,044 322,613 7,548 372,551 12,028,212 30,832 7,841 208,712
Policyholder funds Future policy benefits: Life Annuity Accident and health Policy account balances Policy and contract claims Participating policyholder share Other policyholder liabilities Current federal income taxes Deferred federal income taxes Notes payable Other liabilities Minority interests in subsidiaries Separate account liabilities Total liabilities STOCKHOLDERS' EQUITY Capital stock Additional paid-in capital Accumulated other comprehensive income Retained earnings	388,783 115,771 7,009,002 1,305,218 150,810 960,941 12,211,575 (8,664) 164,292 128,503 319,262 (3,930) 464,031 13,275,069 30,832 9,974 214,755 3,149,156	244,927 117,413 6,021,359 1,320,772 143,721 969,689 11,061,570 (17,633) 162,519 119,044 322,613 7,548 372,551 12,028,212 30,832 7,841 208,712 2,972,498
Policyholder funds Future policy benefits: Life	388,783 115,771 7,009,002 1,305,218 150,810 960,941 12,211,575 (8,664) 164,292 128,503 319,262 (3,930) 464,031 13,275,069 30,832 9,974 214,755	244,927 117,413 6,021,359 1,320,772 143,721 969,689 11,061,570 (17,633) 162,519 119,044 322,613 7,548 372,551 12,028,212 30,832 7,841 208,712
Policyholder funds Future policy benefits: Life Annuity Accident and health Policy account balances Policy and contract claims Participating policyholder share Other policyholder liabilities Current federal income taxes Notes payable Other liabilities Minority interests in subsidiaries Separate account liabilities STOCKHOLDERS' EQUITY Capital stock Additional paid-in capital Accumulated other comprehensive income Retained earnings	388,783 115,771 7,009,002 1,305,218 150,810 960,941 12,211,575 (8,664) 164,292 128,503 319,262 (3,930) 464,031 13,275,069 30,832 9,974 214,755 3,149,156 (100,683)	244,927 117,413 6,021,359 1,320,772 143,721 969,689 11,061,570 (17,633) 162,519 119,044 322,613 7,548 372,551 12,028,212 30,832 7,841 208,712 2,972,498 (99,097)

See accompanying notes to consolidated financial statements.

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

	2004	2003	2002
COMMON STOCK			
Balance at beginning and end of year	\$ 30,832	\$ 30,832	\$ 30,832
ADDITIONAL PAID-IN CAPITAL			
Balance at beginning of year	7,841	7,841	2,947
Issuance of treasury shares as restricted stock	2,133	_	4,894
Balance at end of year	9,974	7,841	7,841
ACCUMULATED OTHER COMPREHENSIVE INCOME			
Balance at beginning of year	208,712	74,668	75,940
Change in unrealized gains on marketable securities, net	6,612	133,500	(1,660)
Foreign exchange adjustments		(248)	(493)
Change in fair value of interest rate swap	—	1,221	3,087
Minimum pension liability adjustment	(536)	(429)	(2,206)
Balance at end of year	214,755	208,712	74,668
RETAINED EARNINGS			
Balance at beginning of year	2,972,498	2,869,259	2,931,218
Net income	255,593	182,165	16,855
Cash dividends to common stockholders (\$2.96, \$2.96, \$2.92 per share)	(78,848)	(78,839)	(78,726)
Cash dividends to minority stockholders of subsidiaries	(87)	(87)	(88)
Redemption premium on subsidiary preferred stock	–	_	_
Balance at end of year	3,149,156	2,972,498	2,869,259
TREASURY STOCK			
Balance at beginning of year	(99,097)	(99,097)	(100,891)
Net issuance of restricted stock		_	1,794
Balance at end of year	(100,683)	(99,097)	(99,097)
RESTRICTED STOCK			
Balance at beginning of year	(8,764)	(9,774)	(3,707)
Net issuance of restricted stock	(546)	_	(6,688)
Amortization of restrictions	1,034	1,010	621
Balance at end of year	(8,276)	(8,764)	(9,774)
STOCKHOLDERS' EQUITY			
Balance at end of year	\$ 3,295,758	\$ 3,112,022	\$ 2,873,729

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In thousands)

	2004	2003	2002
Net Income	255,593	\$ 182,165	\$ 16,855
Other comprehensive income			
Change in unrealized gains on marketable securities, net	6,612	133,500	(1,660)
Foreign exchange adjustments	(33)	(248)	(493)
Change in fair value of interest rate swap	_	1,221	3,087
Minimum pension liability adjustment	(536)	(429)	(2,206)
Total	6,043	134,044	(1,272)
Comprehensive income\$	261,636	\$ 316,209	\$ 15,583

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (In thousands)

	2004	2003	2002
DPERATING ACTIVITIES			
Net income	\$ 255,593	\$ 182,165	\$ 16,855
Adjustments to reconcile net income to net cash provided by operating activities:			
Increase in liabilities for policyholders' funds		151,566	221,748
Decrease (increase) in reinsurance ceded receivable		88,577	(783
Charges to policy account balances		(137,821)	(58,769
Interest credited to policy account balances		257,510	166,515
Deferral of policy acquisition costs		(459,964)	(260,013)
Amortization of deferred policy acquisition costs		257,498	216,231
Deferred federal income tax benefit	(16,792)	(5,232)	(30,960)
Depreciation		25,842	26,621
Accrual and amortization of discounts and premiums		(6,177)	(15,233)
Loss (gain) from sale or disposal of investments, net	(54,404)	(35,375)	131,095
Equity in earnings of unconsolidated affiliates	(6,339)	(4,327)	(10,125
Decrease (increase) in premiums receivable	6,142	6,472	(47,407)
Increase in accrued investment income	(14,694)	(32,163)	(10,216)
Capitalization of interest on policy and mortgage loans		(17,084)	(16,386)
Other changes, net		105,047	(17,229)
Net cash provided by operating activities		376,534	311,944
NVESTING ACTIVITIES		370,331	311,311
Proceeds from sale or maturity of investments:			
Bonds	813,248	824,372	885,419
		263.032	,
Stocks		,	99,960
Real estate	,	22,655	20,079
Other invested assets	144,424	64,157	34,332
Principal payments received on:	226.007	102.422	100 212
Mortgage loans		192,422	109,312
Policy loans	8,059	38,965	38,216
Purchases of investments:	()	(=	/· · · · · · ·
Bonds		(3,619,592)	(1,463,876)
Stocks		(228,178)	(137,685)
Real estate		(186,280)	(17,790)
Mortgage loans		(168,941)	(112,954)
Policy loans		(28,706)	(26,199)
Other invested assets		(9,071)	(69,249)
Decrease (increase) in short-term investments, net		324,768	(179,987)
Decrease (increase) in investment in unconsolidated affiliates, net		(9,937)	(367)
Increase in property and equipment, net	(22,961)	(14,391)	(20,907)
Net cash used in investing activities	(1,396,419)	(2,534,725)	(841,696
INANCING ACTIVITIES			
Policyholders' deposits to policy account balances		2,638,617	914,343
Policyholders' withdrawals from policy account balances		(315,515)	(292,979
Increase (decrease) in notes payable		(182,896)	(315)
Dividends to stockholders		(78,926)	(78,814
Net cash provided by financing activities		2,061,280	542,235
NET INCREASE (DECREASE) IN CASH		(96,911)	12,483
Cash:			
Beginning of the year	103,615	200,526	188,043
End of the year	\$ 112,558	\$ 103,615	\$ 200,526

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 (97%) 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 as defined in the United States of America (GAAP). GAAP for insurance companies differs from the basis of accounting followed in reporting to insurance regulatory authorities. (See Note 15.)

Certain reclassifications have been made to the 2003 and 2002 financial information to conform to the 2004 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

Guarantees to others

In November of 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34." This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002, and have not had a material effect on American National's financial statements.

Accounting and reporting for nontraditional insurance products

In July of 2003, the Accounting Standards Executive Committee issued Statement of Position (SOP) No. 03-1, "Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts." This SOP provides guidance for insurance companies in the accounting and reporting of interest sensitive insurance products and separate accounts. The new guidance is effective for financial statements for fiscal years beginning after December 15, 2003. American National adopted SOP 03-1 on January 1, 2004. The adoption of this statement did not have a material effect on American National's financial statements.

Consolidation of variable interest entities

In December of 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities." This interpretation addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. American National determined that it has no significant variable interest entities to which this interpretation would apply.

Pension disclosures

FAS No. 132 (revised), "Employers' Disclosures about Pensions and Other Postretirement Benefits" was issued in December of 2003. This statement revises employers' disclosures about pension plans and other postretirement benefits, but does not change the measurement or recognition of those plans. The statement retains the existing disclosures and requires additional disclosures about the assets, obligations, cash flows and net periodic benefit cost of defined benefit pension plans and other postretirement benefit plans. The new disclosure requirements are effective for financial statements for periods ending after December 15, 2003, and are included in the notes to these consolidated financial statements.

Additional disclosures on securities

At its meeting on November 12-13, 2003, the Emerging Issues Task Force of the FASB adopted new disclosure requirements regarding debt and marketable equity securities with unrealized losses that have not been recognized as other-than-temporary impairments. The new disclosures require tabular information as to the length of time securities have had unrealized losses, and a narrative description of why the company has not recorded an other-than-temporary impairment. These new disclosures are included in Note 3 to these consolidated financial statements.

Stock-based compensation

FAS No. 123 (revised), "Share-Based Payment" was issued in December of 2004. This statement revises the original requirements of FAS No. 123 "Accounting for Stock Based Compensation" to require the recognition of an expense for the cost of services received in exchange for the award of

equity based instruments. The expense is to be recognized over the period during which the service must be provided in exchange for the award. This statement is effective as of the beginning of the first annual reporting period after June 15, 2005. American National adopted the expensing of share-based payments when the original FAS No. 123 was issued in 1995 and the adoption of the revision will not have a material impact on American National's financial statements.

INVESTMENTS

Marketable securities

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.

IMPAIRMENTS: All marketable securities are regularly reviewed for impairment based on criteria that include the extent to which cost exceeds market value, the duration of the market decline, and the financial health of and specific prospects for the issuer. Losses that are determined to be other than temporary are recognized in current period income as a realized loss.

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

Investment valuation allowances are established for 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.

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.

Derivative instruments and hedging activities

American National purchases derivative instruments only as hedges of the fair value of a recognized asset or liability. All derivatives are carried at fair value. The amount of derivatives at December 31, 2004 and 2003, were immaterial.

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 other accumulated 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, 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/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 casebasis 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, 2004. 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 7.9% of the life insurance in force at December 31, 2004 and 11.7% of life premiums in 2004. Of the total participating business, 65.2% 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/non-life federal income tax return for 2004. Certain subsidiaries which are 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.

STOCK-BASED COMPENSATION

American National uses the fair value method to account for stock-based compensation.

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 these consolidated financial statements.

3 · INVESTMENTS

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

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	м	к		

December 31, 2004	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
·	COST	Gallis	LUSSES	Value
DEBT SECURITIES Ponds held to maturity				
Bonds held-to-maturity:	\$ 242,260	\$ 2,440	\$ (4,037)	\$ 240,663
U. S. Government and agencies States, and political subdivisions	3 242,260 240,399	\$ 2,440 9,428	\$ (4,037) (786)	\$ 240,005 249,041
Foreign governments	11,727	9,426 89	(700)	11,816
Public utilities	772,998	32,791	(960)	804,829
All other corporate bonds	5,683,381	247,858	(31,666)	5,899,573
Mortgage-backed securities	820,211	9,002	(5,188)	824,025
			., .	· · · · · · · · · · · · · · · · · · ·
Total bonds held-to-maturity	7,770,976	301,608	(42,637)	8,029,947
Bonds available-for-sale:				
U. S. Government and agencies	12,588	424	(27)	12,985
States, and political subdivisions	91,650	4,309	(98)	95,861
Foreign governments	4,679	_	(10)	4,669
Public utilities	380,190	25,619	(226)	405,583
All other corporate bonds	1,649,971	51,323	(7,352)	1,693,942
Mortgage-backed securities	98,798	3,030	(473)	101,355
Total bonds available-for-sale	2,237,876	84,705	(8,186)	2,314,395
Total debt securities	10,008,852	386,313	(50,823)	10,344,342
MARKETABLE EQUITY SECURITIES				
Preferred stock	43,355	1,372	(2,263)	42,464
Common stock	752,754	316,254	(16,572)	1,052,436
Total marketable equity securities	796,109	317,626	(18,835)	1,094,900
Total investments in securities	\$10,804,961	\$ 703,939	\$ (69,658)	\$ 11,439,242

DEBT SECURITIES				
Bonds held-to-maturity:				
U. S. Government and agencies	\$ 195,446	\$ 2,947	\$ (3,269)	\$ 195,124
States, and political subdivisions	262,065	11,191	(935)	272,321
Foreign governments	10,763	830	_	11,593
Public utilities	802,109	51,258	(2,370)	850,997
All other corporate bonds	5,508,963	272,576	(47,181)	5,734,358
Mortgage-backed securities	608,714	12,557	(2,967)	618,304
Total bonds held-to-maturity	7,388,060	351,359	(56,722)	7,682,697
Bonds available-for-sale:				
U. S. Government and agencies	20,163	622	(2)	20,783
States, and political subdivisions	86,883	5,033	_	91,916
Foreign governments	14,962	502	_	15,464
Public utilities	411,224	29,507	(299)	440,432
All other corporate bonds	719,157	53,162	(2,169)	770,150
Mortgage-backed securities	70,348	1,815	(4,036)	68,127
Total bonds available-for-sale	1,322,737	90,641	(6,506)	1,406,872
Total debt securities	8,710,797	442,000	(63,228)	9,089,569
MARKETABLE EQUITY SECURITIES				
Preferred stock	49,145	1,540	(1,073)	49,612
Common stock	752,209	282,081	(13,297)	1,020,993
Total marketable equity securities	801,354	283,621	(14,370)	1,070,605
Total investments in securities	\$ 9,512,151	\$ 725,621	\$ (77,598)	\$ 10,160,174

DEBT SECURITIES

The amortized cost and estimated market value, by contractual maturity, of debt securities at December 31, 2004, 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.

Available-for-sale securities are sold throughout the year for various reasons. Additionally, both available-for-sale securities and held-to-maturity securities are called or otherwise redeemed by the issuer. Proceeds from the disposals of these securities, with the gains and losses realized, are shown in TABLE 3 (in thousands).

In 2004, securities with an amortized cost of \$11,673,000 were transferred from held-to-maturity to available-forsale due to evidence of a significant deterioration in the issuers' creditworthiness. An unrealized loss of \$349,000 was established at the time of

TABLE 2

	Bonds Held-to-Maturity Bonds Av				Bonds Avail	vailable-for-Sale			
		Estimated Amortized Market Cost Value			A	mortized Cost	Estimated Market Value		
Due in one year or less	\$	744,426	\$	757,920	\$	240,822	\$	244,551	
Due after one year through five years		1,240,977		1,327,890		523,099		558,855	
Due after five years through ten years		3,321,183		3,460,617		1,008,411		1,028,112	
Due after ten years		1,629,024		1,644,103		383,571		399,299	
		6,935,610		7,190,530		2,155,903		2,230,817	
Without single maturity date		835,366		839,417		81,973		83,578	
	\$	7,770,976	\$	8,029,947	\$	2,237,876	\$	2,314,395	

TABLE 3

	2004	2003	2002
Proceeds from sales of available-for-sale securities	\$ 221,520	\$ 227,140	\$ 218,364
Gross gains realized	62,474	60,499	29,549
Gross losses realized	2,795	1,167	31,119
Proceeds from bonds called or otherwise redeemed by the issuer	\$ 696,082	\$ 632,642	\$ 519,635
Gross gains realized	3,982	4,622	2,154
Gross losses realized	640	678	355

the transfer. Additionally in 2004, held-to-maturity securities with an amortized cost of \$11,751,000 were sold to maintain American National's credit risk policy. Proceeds from sales of these bonds totaled \$11,766,000 with net realized gain of \$15,000.

In 2003, securities with an amortized cost of \$25,313,000 were transferred from held-to-maturity to available-for-sale due to evidence of a significant deterioration in the issuers' creditworthiness. An unrealized gain of \$1,520,000 was established at the time of the transfer. Additionally in 2003, held-to-maturity securities with an amortized cost of \$81,861,000 were sold to maintain American National's credit risk policy. Proceeds from sales of these bonds totaled \$88,097,000 with net realized gains of \$6,236,000.

In 2002, securities with an amortized cost of \$173,145,000 were transferred from held-to-maturity to available-for-sale due to evidence of a significant deterioration in the issuers' creditworthiness. An unrealized loss of \$21,281,000 was established at the time of the transfer. Additionally in 2002, held-to-maturity securities with an amortized cost of \$170,311,000 were sold to maintain American National's credit risk policy. Proceeds from sales of these bonds totaled \$178,769,000 with net realized gains of \$8,458,000.

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 stockholder's equity section of the consolidated statements of financial position, are net of deferred tax liabilities of \$121,817,000, \$116,971,000, and \$42,743,000 for 2004, 2003, and 2002 respectively.

The change in the net unrealized gains on investments for the years ended December 31 are summarized as shown in TABLE 4 (in thousands).

TABLE 4				
		2004	2003	2002
Bonds available-for-sale	\$	(7,616)	\$ 30,290	\$ 39,197
Preferred stocks		(1,358)	483	(1,052)
Common stocks		30,898	192,369	(43,371)
Index options		(38)	(37)	_
Amortization of deferred policy acquisition costs		(7,171)	(11,008)	1,503
		14,715	212,097	(3,723)
Provision for federal income taxes		(4,846)	(74,228)	1,319
		9,869	137,869	(2,404)
Change in unrealized gains of investments				
attributable to participating policyholders' interest		(3,257)	(4,369)	744
Total	(6.612	\$133,500	\$ (1.660)

Gross unrealized losses on investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, for the year ended December 31, 2004, are summarized as shown in TABLE 5 (in thousands).

	Less than 1	2 months	12 month	s or more	То	tal
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Bonds held-to-maturity:						
U. S. Government and agencies	\$ 336	\$ 71,234	\$ 3,701	\$ 112,687	\$ 4,037	\$ 183,921
States, and political subdivisions	36	3,114	750	27,691	786	30,805
Public utilities	124	11,804	836	29,585	960	41,389
All other corporate bonds	4,178	58,248	27,488	1,020,266	31,666	1,078,514
Mortgage-backed securities	3,524	219,799	1,664	63,271	5,188	283,070
Total held-to-maturity	8,198	364,199	34,439	1,253,500	42,637	1,617,699
Bonds available-for-sale:						
U. S. Government and agencies	27	2,104	_	_	27	2,104
States, and political subdivisions	98	9,681	_	_	98	9,681
Foreign governments	10	820	_	_	10	820
Public utilities	189	22,952	37	1,987	226	24,939
All other corporate bonds	6,204	402,992	1,148	13,452	7,352	416,444
Mortgage-backed securities	228	29,862	245	3,600	473	33,462
Total available-for-sale	6,756	468,411	1,430	19,039	8,186	487,450
Total debt securities	14,954	832,610	35,869	1,272,539	50,823	2,105,149
Marketable equity securities:						
Preferred stock	2,263	24,584	_	_	2,263	24,584
Common stock	16,572	110,671	_	_	16,572	110,671
Total marketable equity securities	18,835	135,255	_	_	18,835	135,255
Total investments in securities	\$ 33,789	\$ 967,865	\$ 35,869	\$ 1,272,539	\$ 69,658	\$ 2,240,404

Bonds

American National evaluates all bonds that have unrealized losses on a quarterly basis to determine if the creditworthiness of any of the bonds have deteriorated to a point that would prevent American National from realizing the full amount at maturity. For those bonds where management believes that the full amount will not be realized, an other-than-temporary impairment is recorded. On all other bonds where management does not believe there is a credit problem, American National has the ability and intent to hold these bonds until a market price recovery or maturity and, therefore, these bonds are not considered to be other-than-temporarily impaired.

Marketable equity securities

American National evaluates all marketable equity securities on a quarterly basis and recognizes an other-than-temporary impairment on all of those where market value is less than 80% of book value for nine consecutive months or more. All securities which have an unrealized loss are also evaluated for credit quality, and impairments are recognized for any securities, regardless of the length of time that they have had an unrealized loss, where management believes the carrying value will not be realized. For the remaining securities with unrealized losses, management believes the losses are temporary, and American National has the ability and intent to hold these securities until a market price recovery.

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, 2004, mortgage loans have fixed rates from 4.50% to 10.375% and variable rates from 3.22% to 9.14%. The majority of the mortgage loan contracts require periodic payments of both principal and interest, and have amortization periods of 3 months to 33 years.

American National has investments in first lien mortgage loans on real estate with carried values of \$1,139,014,000 and \$955,360,000 at December 31, 2004 and 2003, respectively. Problem loans, on which valuation allowances were established, totaled \$9,855,000 and \$20,827,000 at December 31, 2004 and 2003, respectively. The valuation allowances on those loans totaled \$1,053,000 and \$2,106,000 at December 31, 2004 and 2003, respectively.

POLICY LOANS

All of American National's policy loans carried interest rates ranging from 4.50% to 8.00% at December 31, 2004.

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 6 (in thousands).

TABLE 6							
	ln	vestment Incom	e	Gains (Losses) on Investments			
	2004	2003	2002	2004	2003	2002	
Bonds	\$ 562,287	\$ 455,590	\$ 394,461	\$ 227	\$ 21,345	\$ (8,462)	
Preferred stocks	2,879	2,971	3,022	100	531	153	
Common stocks	25,909	22,270	20,038	56,031	15,562	(123,352)	
Mortgage loans	72,609	86,297	85,709	(1,016)	(2,720)	(3,811)	
Real estate	113,429	96,533	75,803	6,156	1,657	(175)	
Other invested assets	57,974	53,948	47,825	471	(10,206)	(64)	
Investment in unconsolidated affiliates	_	_	_	37	_	_	
	835,087	717,609	626,858	62,006	26,169	(135,711)	
Investment expenses	(95,766)	(86,224)	(62,358)	_	_	_	
Decrease (increase) in valuation allowances	_	_	_	(7,602)	6,697	3,968	
	\$ 739,321	\$ 631,385	\$ 564,500	\$ 54,404	\$ 32,866	\$ (131,743)	

Included in the realized losses are markdowns of available-for-sale securities due to other-than-temporary declines in the value of the securities. The markdowns totaled \$6,678,000 in 2004, \$32,074,000 in 2003, and \$139,672,000 in 2002.

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 diversified and of investment grade. The bond portfolio distributed by quality rating at December 31 is summarized as shown in TABLE 7.

COMMON STOCK

American National's stock portfolio by market sector distribution at December 31 is summarized as shown in TABLE 8.

	2004	2003
Materials	3%	4%
Industrials	10%	10%
Consumer Goods	19%	19%
Energy & Utilities	10%	10%
Financials	28%	25%
Information Technology	11%	12%
Health Care	9%	10%
Communications	4%	4%
Mutual Funds	6%	6%
	100%	100%

2004	2003
15%	14%
5%	5%
45%	44%
31%	31%
2%	3%
2%	3%
100%	100%
	15% 5% 45% 31% 2% 2%

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 9.

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 summarized as shown in TABLE 10.

TA		

	Mortgage Loans			tment Estate
	2004	2003	2004	2003
New England	7%	5%	1%	1%
Middle Atlantic	12%	15%	_	_
East North Central	12%	9%	11%	8%
West North Central	2%	2%	5%	5%
South Atlantic	16%	18%	22%	8%
East South Central	4%	4%	11%	29%
West South Central	30%	29%	45%	45%
Mountain	5%	5%	3%	2%
Pacific	12%	13%	2%	2%
	100%	100%	100%	100%

TABLE 9

	Mortgage Loans			tment Estate
	2004	2003	2004	2003
Office buildings	24%	21%	17%	15%
Shopping centers	39%	44%	24%	24%
Commercial	3%	5%	5%	1%
Apartments	_	_	_	1%
Hotels/Motels	13%	14%	4%	4%
Industrial	14%	10%	46%	47%
Other	7%	6%	4%	8%
	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 market values.

DEBT SECURITIES

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

MARKETABLE EOUITY SECURITIES

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

MORTGAGE LOANS

The fair 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 aggregate fair value of policy loans approximates the carrying value reflected on the consolidated balance sheet. These loans typically carry an interest rate that is tied to the crediting rate applied to the related policy and contract reserves. Policy loans are an integral part of the life insurance policies that American National has in-force and cannot be valued separately.

SHORT-TERM INVESTMENTS

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

INVESTMENT CONTRACTS

The fair 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 fair value.

INVESTMENT COMMITMENTS

American National's investment commitments are all short-term in duration, and the market value was not significant at December 31, 2004 or 2003.

VALUES

The carrying amounts and estimated fair values of financial instruments at December 31 are as shown in TABLE 11 (in thousands).

TABLE 11

	2004		20	103
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
FINANCIAL ASSETS				
Bonds:				
Held-to-maturity	\$ 7,770,976	\$ 8,029,947	\$ 7,388,060	\$ 7,682,697
Available-for-sale	2,314,395	2,314,395	1,406,872	1,406,872
Preferred stock	42,464	42,464	49,612	49,612
Common stock	1,052,436	1,052,436	1,020,993	1,020,993
Mortgage loans on real estate	1,139,014	1,212,127	955,360	1,005,884
Policy loans	335,865	335,865	332,743	332,743
Short-term investments	48,836	48,836	110,695	110,695
FINANCIAL LIABILITIES				
Investment contracts	5,368,147	5,368,147	4,535,663	4,535,663
Notes payable	128,503	128,503	119,044	119,044

6 • DEFERRED POLICY ACQUISITION COSTS

Deferred policy acquisition costs and premiums for the years ended December 31, 2004, 2003, and 2002 are as shown in TABLE 12 (in thousands).

TA		

	Life and Annuity	Accident and Health	Property and Casualty	Total
Balance at December 31, 2001	\$ 681,686	\$ 106,152	\$ 41,378	\$ 829,216
Additions	134,057	17,234	108,547	259,838
Amortization	(99,077)	(21,947)	(95,208)	(216,232)
Effect of change in unrealized gains on available-for-sale securities	1,498	_	_	1,498
Net change	36,478	(4,713)	13,339	45,104
Acquisitions	113	62	_	175
Balance at December 31, 2002	718,277	101,501	54,717	874,495
Additions	282,945	10,823	161,289	455,057
Amortization	(113,526)	(17,522)	(126,450)	(257,498)
Effect of change in unrealized gains on available-for-sale securities	(11,003)	_	_	(11,003)
Net change	158,416	(6,699)	34,839	186,556
Acquisitions	2,215	2,809	_	5,024
Foreign exchange effect	(117)	_	_	(117)
Balance at December 31, 2003	878,791	97,611	89,556	1,065,958
Additions	198,639	14,097	212,678	425,414
Amortization	(138,151)	(19,182)	(196,946)	(354,279)
Effect of change in unrealized gains on available-for-sale securities	(7,173)	_	_	(7,173)
Net change	53,315	(5,085)	15,732	63,962
Acquisitions	2,755	357	_	3,112
Foreign exchange effect	(1)	_	_	(1)
Balance at December 31, 2004	\$ 934,860	\$ 92,883	\$ 105,288	\$ 1,133,031
2004 Premiums	\$ 372,927	\$ 350,939	\$ 1,182,310	\$ 1,906,176
2003 Premiums	\$ 361,267	\$ 405,039	\$ 1,030,899	\$ 1,797,205
2002 Premiums	\$ 348,048	\$ 408,430	\$ 861,696	\$ 1,618,174

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.

Acquisition costs for American National's Mexican subsidiary are maintained in their functional currency of Mexican pesos, and translated into U.S. dollars for reporting purposes. Part of the change in deferred acquisition cost balance is due to differences in the exchange rate applied to the balance from period to period. The entire amount of this difference is reported in the shareholders' equity section of the balance sheet.

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 summarized as shown in TABLE 13.

TABLE 13

Policy Issue Year	Interest Rate	Percentage of Future Policy Benefits So Valued
Ordinary		
1996-2004		
1981-1995	8% for years 1 through 5, graded to 6% at the end of year 25, and level thereafter	16%
1976-1980		9%
1972-1975		4%
1969-1971		
	4.5% for years 1 through 5, graded to 3.5% at the end of year 15, and level thereafter	
1948-1961		5%
1947 and prior	Statutory rates of 3% or 3.5%	
Participating Business Acquired	Level rates of 3% to 5.5%	8%
Industrial		
1948-1967		
1947 and prior	Statutory rates of 3%	
Universal Life	•	
	Future policy benefits for universal life are equal to the current account value	37%
		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/casualty unpaid claims and claim adjustment expenses is summarized as shown in Table 14 (in thousands).

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,

TABLE 14			
	2004	2003	2002
Balance at January 1	\$ 1,245,350	\$ 1,220,678	\$ 1,160,510
Less reinsurance recoverables	500,583	567,114	582,467
Net beginning balance	744,767	653,564	578,043
Incurred related to:			
Current year	1,085,422	1,072,097	998,604
Prior years	(29,546)	(25,517)	12,927
Total incurred	1,055,876	1,046,580	1,011,531
Paid related to:			
Current year	648,984	651,639	603,229
Prior years	331,649	303,738	332,781
Total paid	980,633	955,377	936,010
Net balance at December 31	820,010	744,767	653,564
Plus reinsurance recoverables	455,395	500,583	567,114
Balance at December 31	\$ 1,275,405	\$ 1,245,350	\$ 1,220,678

\$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 \$2,361,000.

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, 2004, amounts recoverable from reinsurers with a carrying value of \$73,826,598 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 \$46,979,233. 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.

American National has amounts receivable from reinsurers totaling \$489,474,000 at December 31, 2004. Of this total, \$41,000,000 represents amounts that are the subject of litigation or are in dispute with the reinsurers involved. Management believes these disputes will not have a significant effect on American National's financial position.

As a result of the September 11, 2001 terrorist attack on the United States, American National accrued losses (primarily on reinsurance assumed) as of December 31, 2001 totaling \$239,406,000, with reinsurance in place providing coverage of \$218,606,000 on those claims. During subsequent years, claims were paid and reinsurance recovered, reducing the amount accrued to \$195,143,000, with \$177,252,000 of reinsurance in place as of December 31, 2004. American National has evaluated the reinsurers providing the coverage for these claims, and management believes that all the ceded amounts are recoverable. The failure of any single reinsurer to meet its obligations for these claims would not have a significant effect on American National's financial position.

Premiums, premium-related reinsurance amounts and reinsurance recoveries for the years ended December 31 are summarized as shown in TABLE 15 (in thousands).

TABLE 15				
	2004	2003	2002	
Direct premiums	\$ 2,010,400	\$ 1,844,723	\$ 1,742,624	
Reinsurance premiums assumed from other companies	262,786	395,549	513,109	
Reinsurance premiums ceded to other companies	(367,010)	(443,067)	(637,559)	
Net premiums	\$ 1,906,176	\$ 1,797,205	\$ 1,618,174	
Reinsurance recoveries	\$ 229,816	\$ 236,469	\$ 399,556	
Reinsurance recoveries	\$ 229,816	\$ 236,469	\$ 399,556	

Life insurance in force and related reinsurance amounts at December 31 are summarized as shown in TABLE 16 (in thousands).

TABLE 16				
	2004	2003	2002	
Direct life insurance in force	\$ 60,675,600 726,927	\$ 58,301,547 434,863	\$ 55,642,502 861,159	
Total life insurance in force	61,402,527 (21,539,440)	58,736,410 (18,767,137)	56,503,661 (16,278,521)	
Net life insurance in force	\$ 39,863,087	\$ 39,969,273	\$40,225,140	

10 · NOTES PAYABLE

At December 31, 2004, American National's subsidiaries had notes payable to third-party lenders totaling \$128,503,000. Of this balance, \$3,687,000 represents the balance of one note owed by a subsidiary. This note has an interest rate of 7%, and does not require payment of principle or interest until maturity in 2006. The remaining notes payable balance totaling \$124,816,000 is comprised of seven notes owed by various joint ventures, in which American National's real estate holding companies are partners, and which are consolidated in these financial statements. These joint venture notes have interest rates ranging from 5.00% to 8.07% and maturities from 2008 to 2027. All of these notes are secured by the joint ventures, and American National's liability for these notes is limited to the amount of its investment in the joint ventures, which totaled \$27,320,000 at December 31, 2004.

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 17 (in thousands, except percentages).

	2004		20	03	2002		
	Amount	Rate	Amount	Rate	Amount	Rate	
Income tax on pre-tax income	\$ 131,252	35.00 %	\$ 95,104	35.00 %	\$ 9,392	35.00 %	
Tax-exempt investment income	(4,027)	(1.07)	(3,883)	(1.43)	(3,416)	(12.73)	
Dividend exclusion	(5,908)	(1.58)	(5,701)	(2.10)	(4,629)	(17.25)	
Adjustment to deferred taxes	_	_	_	_	4,599	17.14	
Miscellaneous tax credits, net	(1,435)	(0.38)	(1,837)	(0.68)	(1,843)	(6.87)	
Losses on foreign operations	2,373	0.63	2,649	0.97	3,201	11.93	
Other items, net	(2,842)	(0.76)	3,228	1.19	2,676	9.97	
	\$ 119,413	31.84 %	\$ 89,560	32.95 %	\$ 9,980	37.19 %	

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2004 and December 31, 2003 are as shown in TABLE 18 (in thousands).

	2004	2003
DEFERRED TAX ASSETS:		
Marketable securities, principally due to impairment losses	\$ 35,835	\$ 34,178
Investment in real estate and other invested assets, principally due to		
investment valuation allowances	13,230	8,739
Policyholder funds, principally due to policy reserve discount	209,897	182,182
Policyholder funds, principally due to unearned premium reserve	37,222	34,180
Notes payable	25,011	22,969
Non-qualified pension	19,406	16,824
Other assets	11,326	17,819
Net deferred tax assets	\$ 351,927	\$ 316,891
DEFERRED TAX LIABILITIES: Marketable counties principally due to not unrealized gains	\$ (140.099)	\$ (135.164 <u>)</u>
Marketable securities, principally due to net unrealized gains	(56.102)	(42.108)
Investment in bonds, principally due to accrual of discount on bonds	(9,359)	(11,408)
Deferred policy acquisition costs, due to difference between GAAP	(3,333)	(11,700)
Deferred pointy acquisition costs, due to uniference between dazar	(290.632)	(270.204)
and tay amortization methods		
and tax amortization methods	(230,032)	(270,204)
Property, plant and equipment, principally due to difference between	(, ,	, , ,
Property, plant and equipment, principally due to difference between	(9,965)	(270,204) (7,984)
Property, plant and equipment, principally due to difference between	(, ,	(7,984)
Property, plant and equipment, principally due to difference between	(9,965)	, , ,

Management believes that a sufficient level of taxable income will be achieved to utilize 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 was taxed at regular corporate tax rates. In 2004, tax law was changed to allow distribution of this deferred income (designated by federal law as "policyholders' surplus") without taxation as long as it is distributed by December 31, 2006. No provision for deferred federal income taxes applicable to such untaxed income has been made, because management intends to distribute the deferred amount to stockholders before the December 2006 deadline. There was no change in the "policyholders' surplus" between December 31, 2003 and December 31, 2004, and the cumulative balance was approximately \$63,000,000 at both dates.

Federal income taxes totaling approximately \$112,853,000, \$44,564,000 and \$52,380,000 were paid to the Internal Revenue Service in 2004, 2003 and 2002, respectively. The statute of limitations for the examination of federal income tax returns through 1998 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 1998. 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, the change in fair value of an interest rate swap and subsidiary minimum pension liability adjustment. The details on the unrealized gains included in comprehensive income, and the related tax effects thereon are as shown in TABLE 19 (in thousands).

	Before Federal Income Tax	Federal Income Tax Expense	Net of Federal Income Tax
December 31, 2004		-	
Unrealized losses	\$ (46,171)	\$ (16,160)	\$ (30,011)
Less: reclassification adjustment for net gains realized in net income	56,343	19,720	36,623
Net unrealized gain component of comprehensive income	\$ 10,172	\$ 3,560	\$ 6,612
December 31, 2003			
Unrealized gains	\$ 174,183	\$ 60,964	\$ 113,219
Less: reclassification adjustment for net gains realized in net income	31,202	10,921	20,281
Net unrealized gain component of comprehensive income	\$205,385	\$71,885	\$133,500
December 31, 2002			
Unrealized gains	\$ 137,895	\$ 48,263	\$ 89,632
Less: reclassification adjustment for net losses realized in net income	(140,449)	(49,157)	(91,292)
Net unrealized loss component of comprehensive income	\$ (2,554)	\$ (894)	\$ (1,660)

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 20.

STOCK-BASED COMPENSATION

American National has one stock-based compensation 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

TABLE 20			
Common stock:	2004	2003	2002
Shares issued	30,832,449	30,832,449	30,832,449
Treasury shares	4,191,617	4,197,617	4,197,617
Restricted shares	161,000	155,000	155,000
Outstanding shares	26,479,832	26,479,832	26,479,832

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. Three awards of restricted stock have been granted, with a total of 142,000 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 \$1,034,000 in 2004, \$1,011,000 in 2003, and \$621,000 in 2002.

The plan provides for the award of Stock Appreciation Rights (SAR). The SAR's 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 \$1,424,000 and \$1,221,000 at December 31, 2004 and 2003 respectively. Compensation expense was recorded totaling \$1,655,000, \$346,000, and \$717,000 for the years ended December 31, 2004, 2003, and 2002, respectively.

SAR and Restricted Stock (RS) information for 2004, 2003 and 2002 is shown in TABLE 21.

The weighted-average contractual remaining life for the 94,350 SAR shares outstanding as of December 31, 2004, is 6.6 years. The weighted-average exercise price for these shares is \$84.06 per share. Of the shares outstanding, 33,150 are exercisable at a weighted-average exercise price of \$77.38 per share.

The weighted-average contractual remaining life for the 161,000 Restricted Stock shares outstanding as of December 31, 2004, is 7.0 years. The weighted-average exercise price for these

	SAR Shares	SAR Weighted- Average Price per Share	RS Shares	RS Weighted- Average Price per Share
Outstanding at December 31, 2001	73,550	\$58.14	79,000	\$14.09
Granted	83,000	88.00	76,000	_
Exercised	(18,000)	57.11	_	_
Canceled	_	_	_	_
Outstanding at December 31, 2002	138,550	\$76.16	155,000	\$ 7.18
Granted	15,000	88.35	_	_
Exercised	(7,425)	57.00	_	_
Canceled	_	_	_	_
Outstanding at December 31, 2003	146,125	\$78.39	155,000	\$ 7.18
Granted	_	_	6,000	_
Exercised	(48,591)	66.84	_	_
Canceled	(3,184)	86.59	_	_
Outstanding at December 31, 2004	94,350	\$84.06	161,000	\$ 6.92

shares is \$6.92 per share. None of the shares outstanding was exercisable.

TABLE 21

EARNINGS PER SHARE

Basic earnings per share was calculated using a weighted average number of shares outstanding of 26,479,832. The Restricted Stock resulted in diluted earnings per share as summarized in TABLE 22.

DIVIDENDS

American National's payment of dividends to stockholders is restricted by statutory regulations. Generally, the restrictions require life insurance

	2004	2003	2002
Unrestricted shares outstanding	26,479,832	26,479,832	26,479,832
Incremental shares from restricted stock	72,762	50,525	41,673
Total shares for diluted calculations	26,552,594	26,530,357	26,521,505
Diluted earnings per share	\$9.63	\$6.87	\$0.64

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, 2004, approximately \$1,243,732,000 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 \$1,085,000 and \$1,250,000 at December 31, 2004 and 2003, respectively. These preferred stock issues 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 can not be sold or otherwise traded by the officers for a period of eight years. The total value of these preferred shares was \$2,378,000 and \$1,561,000 at December 31, 2004 and 2003, respectively.

American National County Mutual Insurance Company (County Mutual) is a mutual insurance company that is owned by its policyholders. However, the company has a management agreement which effectively gives complete control of County Mutual to American National. As a result, County Mutual is included in the consolidated financial statements. The interest that the policyholders of County Mutual have in the financial position of County Mutual is reflected as a minority interest totaling \$6,750,000 at December 31, 2004 and 2003.

American National's subsidiary, ANTAC, Inc., is a partner in various joint ventures. ANTAC exercises significant control or ownership of these joint ventures, resulting in their consolidation into the American National consolidated financial statements. As a result of the consolidation, the interest of the other partners of the joint ventures is shown as a minority interest. The joint ventures had receivable balances from the other partners totaling \$14,143,000 and \$2,013,000 at December 31, 2004 and 2003, respectively.

14 · 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/health, and property/casualty products marketed through American National, ANTEX, ANPAC, ANGIC, ANPAC Lloyds, Farm Family Life, Farm Family Property Casualty and United Farm Family.

HOME SERVICE DIVISION

This segment derives its revenues from the sale of individual life, annuity and accident/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 lines marketed through independent marketing organizations.

HEALTH DIVISION

This segment derives its revenues primarily from the sale of accident/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/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 insurance products.

CAPITAL AND SURPLUS

This segment derives its revenues principally from investment instruments.

ALL OTHER

This category comprises segments that are too small to show individually. 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 the marketing segments in accordance with the amount of equity invested in each segment, with the remainder going to capital and surplus.
- 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 23 summarizes net income and various components of net income by operating segment for the years ended December 31, 2004, 2003, and 2002 (in thousands).

TABLE 23

	Premiums and Other Policy Revenue	Net Investment Income and Realized Gains		Expenses and Benefits	Uncor	uity in Isolidated Iliates	Gain (Loss) From Operations Before Federal Income Taxes	Federal Income Tax Expense (Benefit)	Inco	Net ome (Loss)
<u>2004</u>										
Multiple Line	\$ 1,244,26	0 \$ 173,602	\$	1,241,349	\$	_	\$ 176,513	\$ 58,249	\$	118,264
Home Service Division	210,40	7 107,072		292,416		_	25,063	8,271		16,792
Independent Marketing	67,07	0 302,601		344,603		_	25,068	8,272		16,796
Senior Age Marketing	199,65	7 18,652		197,523		_	20,786	6,859		13,927
Direct Marketing	37,81	7 3,308		37,615		_	3,510	1,158		2,352
Credit Insurance Division	144,49	5 19,747		165,642		_	(1,400)	(462)		(938)
Health Division	139,13	2 4,125		143,764		_	(507)	(167)		(340)
Capital & Surplus	90	0 131,081		12,885		6,143	125,239	36,991		88,248
All Other	41,87			74,872		196	734	242		492
	\$ 2,085,61	1 \$ 793,725	\$	2,510,669	\$	6,339	\$ 375,006	\$ 119,413	\$	255,593
2003										
Multiple Line	\$ 1,136,96	0 \$ 171.878	\$	1,188,507	\$	_	\$ 120,331	\$ 39.709	\$	80.622
Home Service Division	212,63		,	298,655	,	_	26,074	8,604	,	17,470
Independent Marketing	,	,		250,101		_	10.625	3.506		7.119
Senior Age Marketing		,		211,854		_	14,057	4,639		9,418
Direct Marketing				39,590		_	(511)	(169)		(342)
Credit Insurance Division				101,562		_	15,158	5.002		10.156
Health Division	192.74	, , , , , , , , , , , , , , , , , , , ,		192,449		_	9.423	3.110		6.313
Capital & Surplus	97	. ,		13,277		4,017	73,280	24,074		49,206
All Other	34,54	,		65,323		310	3,288	1,085		2,203
	\$ 1,964,46	5 \$ 664,251	\$	2,361,318	\$	4,327	\$ 271,725	\$ 89,560	\$	182,165
2002										
Multiple Line	\$ 991,20	3 \$ 165,405	\$	1,111,150	\$	_	\$ 45,458	\$ 15,001	\$	30,457
Home Service Division	212,20	7 113,582		293,521		_	32,268	10,648		21,620
Independent Marketing				161,810		_	7,617	2,514		5,103
Senior Age Marketing		,		202,957		_	5,141	1,697		3,444
Direct Marketing				33,922		_	2,106	695		1,411
Credit Insurance Division	73,60			76,454		_	15,085	4,978		10,107
Health Division	225,30			225,326		_	9,180	3,029		6,151
Capital & Surplus	1,01			16,796		(10,487)	(93,955)	(29,881)		(64,074)
All Other	35,08			61,670		362	3,935	1,299		2,636
	\$ 1,787,80	9 \$ 432,757	\$	2,183,606	\$	(10,125)	\$ 26,835	\$ 9,980	\$	16,855

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 provide essentially the same types of products. TABLE 24 provides revenues within each segment by line of business for the years ended December 31, 2004, 2003, and 2002 (in thousands).

TABLE 24: TOTAL REVENU	

IABLE 24: IUIAL REVENUES	Life	Annuity	Accident and Health	Property and Casualty	Credit	All Other	Total Revenues
2004							
Multiple Line Marketing	\$ 204,560	\$ 33,657	\$ 16,728	\$ 1,162,917	\$ —	\$ —	\$ 1,417,862
Home Service Division	302,838	3,652	10,989	_	_	_	317,479
Independent Marketing	52,182	317,489	_	_	_	_	369,671
Senior Age Marketing	26,912	3,003	188,394	_	_	_	218,309
Direct Marketing	40,739	92	294	_	_	_	41,125
Credit Insurance Division	_	_	_	_	164,242	_	164,242
Health Division	2,585	_	140,672	_	_	_	143,257
Capital & Surplus	_	_	_	_	_	131,981	131,981
All Other	28,180	19,323	3,340	_	_	24,567	75,410
	\$ 657,996	\$ 377,216	\$ 360,417	\$ 1,162,917	\$ 164,242	\$ 156,548	\$ 2,879,336
2003							
Multiple Line Marketing	\$ 206,948	\$ 35,923	\$ 17,888	\$ 1,048,079	\$ —	\$ —	\$ 1,308,838
Home Service Division	309,811	3,898	11,020	_	_	_	324,729
Independent Marketing	43,406	217,320	_	_	_	_	260,726
Senior Age Marketing	28,819	2,966	194,126	_	_	_	225,911
Direct Marketing	38,613	111	355	_	_	_	39,079
Credit Insurance Division	_	_	_	_	116.720	_	116,720
Health Division	2,628	_	199,245	_	_	_	201,873
Capital & Surplus	· —	_	_	_	_	82,539	82,539
All Other	28,683	16,323	3,894	_	_	19,401	68,301
	\$ 658,908	\$ 276,541	\$ 426,528	\$ 1,048,079	\$ 116,720	\$ 101,940	\$ 2,628,716
2002							
Multiple Line Marketing	\$ 204,466	\$ 35,545	\$ 18,772	\$ 897,825	\$ —	\$ —	\$ 1,156,608
Home Service Division	310,532	4,576	10,681	_	_	_	325,789
Independent Marketing	32,433	136,994	_	_	_	_	169,427
Senior Age Marketing	30,401	2,537	175,161	_	_	_	208,099
Direct Marketing	35,524	109	395	_	_	_	36,028
Credit Insurance Division	_	_	_	_	91,539	_	91,539
Health Division	2,688	_	231,818	_	_	_	234,506
Capital & Surplus		_	_	_	_	(66,671)	(66,671)
All Other	31,727	14,171	4,481	_	_	14,862	65,241
	\$ 647,771	\$ 193,932	\$ 441,308	\$ 897,825	\$ 91,539	\$ (51,809)	\$ 2,220,566

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 25 summarizes assets by operating segment for the years ended December 31, 2004 and 2003 (in thousands).

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 financial statements, and allocations of revenues, expenses and gains or losses have been included when determining reported segment profit or loss.

_		_	_	_	_	_
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	2004		2003
Multiple Line	\$ 3,852,370	\$	3,698,006
Home Service Division	1,895,931		1,867,163
Independent Marketing	6,350,877		5,229,124
Senior Age Marketing	399,464		402,828
Direct Marketing	113,890		105,530
Credit Insurance Division	483,328		448,474
Health Division	485,662		595,663
Capital & Surplus	2,138,249		1,917,681
All Other	851,056		875,765
	\$ 16,570,827	\$ 1	5,140,234

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. Of the total net premium revenue and policy account deposits during 2004, approximately 8% was written through that organization, which is included in the Independent Marketing operating segment. This compares with 23% and 11% in 2003 and 2002, respectively. Of the total business written by this one organization, the majority was policy account deposits for annuities.

15 • 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 a GAAP basis.

Reconciliation 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 26 (in thousands).

	2004	2003	2002
Statutory net income of insurance companies	\$ 271,043	\$ 71,386	\$ 413,775
Net gain (loss) of non-insurance companies	37,099	(14,479)	(134,667)
Combined net income	\$ 308,142	\$ 56,907	\$ 279,108
Increases/(decreases):			
Deferred policy acquisition costs	71,135	197,559	43,606
Policyholder funds	(104,653)	(56,044)	(17,282)
Deferred federal income tax benefit	16,792	4,751	12,071
Premiums deferred and other receivables	75	(2,764)	(90)
Gain on sale of investments	(5,785)	(3,244)	(297,221)
Change in interest maintenance reserve	(3,047)	1,817	6,871
Asset valuation allowances	(1,991)	5,100	(6,125)
Investment income	(1,954)	(3,037)	(4,467)
Other adjustments, net	(5,323)	(19,066)	(7,371)
Consolidating eliminations and adjustments	(17,798)	186	7,755
Net income reported herein	\$ 255,593	\$ 182,165	\$ 16,855
	2004	2003	2002
Statutory capital and surplus of insurance companies	\$ 2,948,000	\$ 2,631,329	\$ 2,483,320
Stockholders' equity of non-insurance companies	310,285	286,264	17,372
Combined capital and surplus	\$ 3,258,285	\$ 2,917,593	\$ 2,500,692
Increases/(decreases):			
Defended in the control of the contr	1,133,031	1,065,958	874,495
Deferred policy acquisition costs	36,259	121,050	173,790
Policyholder funds	30,233		(150,903)
• • •	(184,956)	(222,070)	(.50,505)
Policyholder funds	,	(222,070) (90,456)	(87,707)
Policyholder funds Deferred federal income taxes	(184,956)		
Policyholder funds	(184,956) (90,974)	(90,456)	(87,707)
Policyholder funds	(184,956) (90,974) 42,566	(90,456) 50,697	(87,707) 60,129
Policyholder funds	(184,956) (90,974) 42,566 398,725	(90,456) 50,697 360,410	(87,707) 60,129 322,125
Policyholder funds	(184,956) (90,974) 42,566 398,725 15,858	(90,456) 50,697 360,410 17,231	(87,707) 60,129 322,125 14,244
Policyholder funds Deferred federal income taxes Premiums deferred and other receivables Reinsurance in "unauthorized companies" Statutory asset valuation reserve Statutory interest maintenance reserve Asset valuation allowances Investment market value adjustments	(184,956) (90,974) 42,566 398,725 15,858 (15,759)	(90,456) 50,697 360,410 17,231 (8,398)	(87,707) 60,129 322,125 14,244 (27,151)
Policyholder funds Deferred federal income taxes Premiums deferred and other receivables Reinsurance in "unauthorized companies" Statutory asset valuation reserve Statutory interest maintenance reserve Asset valuation allowances	(184,956) (90,974) 42,566 398,725 15,858 (15,759) 79,844	(90,456) 50,697 360,410 17,231 (8,398) 91,376	(87,707) 60,129 322,125 14,244 (27,151) 102,990

In accordance with various government and state regulations, American National and its insurance subsidiaries had bonds with an amortized value of \$110,399,000 at December 31, 2004, on deposit with appropriate regulatory authorities.

16 · 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 cost of \$12,627,000 for 2002, \$15,346,000 for 2003, and \$21,789,000 for 2004.

The pension cost for the years ended December 31, are as shown in TABLE 27 (in thousands).

TABLE 28 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			
	2004	2003	2002
Service cost—benefits earned during period	\$ 8,753	\$ 8,029	\$ 7,211
Interest cost on projected benefit obligation	13,705	13,248	12,999
Expected return on plan assets	(10,319)	(10,780)	(10,960)
Amortization of past service cost	3,630	3,715	2,921
Amortization of transition asset	93	5	4
Amortization of actuarial loss	5,927	1,129	452
Total pension cost	\$ 21,789	\$ 15,346	\$ 12,627

TABLE 28

	20	04	2003					
	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets				
Vested benefit obligation	\$ (120,663)	\$ (86,011)	\$ (115,644)	\$ (76,042)				
Accumulated benefit obligation	\$ (123,556)	\$ (86,011)	\$ (119,066)	\$ (76,042)				
Projected benefit obligation	\$ (146,146) 136,720	\$(105,227) 20,365	\$ (136,590) 138,247	\$ (93,337) 19,872				
Funded status: Plan assets in excess of projected benefit obligation	(9,426) 26,883 — — — — — — \$ 17,457	(84,862) 11,704 22,199 — (14,662) 9,783 \$ (55,838)	1,657 23,885 — — — — — \$ 25,542	(73,465 5,021 20,258 — (12,040 12,040 \$ (48,186				
Assumptions used at December 31 to determine benefit obligations:		2004	2003	2002				
Weighted-average discount rate on benefit obligation Expected long-term rate of return on plan assets		5.84% 7.00%	6.00% 7.06%	6.72% 7.06%				
Assumptions used at December 31 to determine benefit costs:		2004	2003	2002				
Weighted-average discount rate on benefit obligation Rate of increase in compensation levels Expected long-term rate of return on plan assets		6.00% 3.69% 7.06%	6.72% 3.86% 7.06%	6.96% 4.20% 7.14%				

		Assets ember 31, 2003
Asset Category	2004	2003
Equity securities	31.9%	26.2%
Debt securities	57.4%	69.8%
Other	10.7%	4.0%
Total	100.0%	100.0%

American National Employees Retirement Plan weighted-average asset allocations at December 31, 2004 and 2003, by asset category, are as summarized in TABLE 29.

The overall expected long-term rate-of-return-on-assets assumption is based upon a building-block method, whereby the expected rate of return on each asset class is broken down into three components: (1) inflation, (2) the real risk-free rate of return (i.e., the long-term estimate of future returns on default-free U.S. government securities), and (3) the risk premium for each asset class (i.e., the expected return in excess of the risk-free rate). All three components are based primarily on historical data.

While the precise expected return derived using the above approach will fluctuate somewhat from year to year, American National's policy is to hold this long-term assumption constant as long as it remains within a reasonable tolerance from the derived rate.

TABLE 30	
Year	Pension Benefits
2005	10,191,573
2006	12,732,667
2007	13,391,450
2008	14,543,309
2009	10,595,576
2010 - 2014	120.641.408

American National is not expected to contribute to the Retirement Plan in 2005, because the plan is overfunded.

The benefit payments, which reflect expected future service, as appropriate, are summarized as in TABLE 30.

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 \$7,253,000 and \$7,427,000 at December 31, 2004 and 2003, 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 401K 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 \$2,444,000 for 2004, \$2,205,000 for 2003, and \$2,271,000 for 2002.

17 · COMMITMENTS AND CONTINGENCIES

COMMITMENTS

American National and its subsidiaries lease insurance sales office space in various cities. The remaining long-term lease commitments at December 31, 2004, were approximately \$4,796,000.

In the ordinary course of their operations, the companies also had commitments outstanding at December 31, 2004, to purchase, expand or improve real estate, to fund mortgage loans, and to purchase other invested assets aggregating \$147,030,000, all of which are expected to be funded in 2005. As of December 31, 2004, all of the mortgage loan commitments have interest rates that are fixed.

GUARANTEES

In the normal course of business, American National has guaranteed bank loans for customers of a third-party marketing operation. The bank loans are used to fund premium payments on life insurance policies issued by American National. The loans are secured by the cash values of the life insurance policies. If the customer were to default on the bank loan, American National would be obligated to pay off the loan. However, since the cash value of the life insurance policies always equals or exceeds the balance of the loans, management does not foresee any loss on the guarantees. The total amount of the guarantees outstanding as of December 31, 2004, was approximately \$332,330,000, while the total cash values of the related life insurance policies was approximately \$340,478,000.

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 the lawsuits and that the ultimate outcome of this litigation will not have a significant adverse effect on the financial condition of American National.

In addition to the litigation, the pricing and sales practices on which the lawsuits are based have also been the focus of investigations by the various state insurance departments. In 2004, American National reached a settlement with a group of insurance departments led by the Texas Insurance Department which resolved the investigations. The total cost of the settlement was approximately \$4,000,000.

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. 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 a lawsuit alleging fraud in the sale and pricing of a health insurance policy in Mississippi. Management believes that the companies have meritorious legal defenses against this lawsuit. Therefore, no provision for possible loss on this case has been recorded in the consolidated financial statements.

American National is a defendant in a lawsuit alleging misleading sales practices and alleged improper policy surcharges in the sale and pricing of universal life policies. This lawsuit was filed in California as a putative class action. Management believes that the company has meritorious legal defenses against this lawsuit. Therefore, no provision for possible losses on this case 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, continue 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.

Independent Auditor's Report

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

We have audited the accompanying consolidated statements of financial position of American National Insurance Company and subsidiaries (The Company) as of December 31, 2004 and 2003, and the related consolidated statements of income, changes in stockholders' equity, comprehensive income and cash flows for each of the years in the three-year period ended December 31, 2004. 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 audits.

We conducted our audits 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. 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 audits provide 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, 2004 and 2003, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

March 11, 2005 Houston, Texas

Ten-Year Financial Highlights for the YEARS ENDED DECEMBER 31,

(In millions, except per share data and ratios)	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Operating Results										
Revenues	\$ 2,879	\$ 2,629	\$ 2,221	\$ 2,138	\$ 1,834	\$ 1,890	\$ 1,745	\$ 1,740	\$ 1,550	\$ 1,471
Operating earnings (a)	220	161	102	61	125	166	155	182	178	157
Realized capital gains (b)	36	21	(85)	4	15	101	42	66	37	49
Net income	256	182	17	65	140	267	197	248	216	206
Operating earnings per share (a)	8.32	6.07	3.87	2.29	4.73	6.26	5.86	6.88	6.74	5.95
Realized capital gains per share (b)	1.33	0.81	(3.23)	0.16	0.56	3.81	1.59	2.50	1.40	1.84
Net income per share	9.65	6.88	0.64	2.45	5.29	10.07	7.45	9.38	8.14	7.79
Financial Position										
Assets	\$ 16,571	\$ 15,140	\$ 12,237	\$ 11,258	\$ 9,270	\$ 9,090	\$ 8,816	\$ 8,483	\$ 7,989	\$ 7,140
Investments	13,365	11,962	9,173	8,280	6,990	7,254	7,143	6,982	6,566	5,821
Liabilities	13,275	12,028	9,363	8,322	6,247	6,027	5,901	5,778	5,515	4,819
Policyholder liabilities	12,212	11,062	8,467	7,516	5,590	5,368	5,283	5,261	5,046	4,364
Total equity	3,296	3,112	2,874	2,936	3,023	3,063	2,915	2,705	2,474	2,321
Total equity, excluding SFAS 115	3,246	3,057	2,839	2,926	3,062	3,075	2,884	2,681	2,458	2,291
Insurance Production Information										
Life insurance sales	\$ 13,021	\$ 12,373	\$ 12,874	\$ 11,821	\$ 11,487	\$ 11,224	\$,	\$ 10,091	\$ 10,134	\$ 10,135
Life insurance in force (c)	61,404	58,736	56,504	54,414	48,777	46,953	44,848	43,805	42,529	41,490
Policy account deposits	1,554	2,695	936	588	325	310	290	392	757	867
Common Stock Statistics										
Market close	\$ 104.16	\$ 84.48	\$ 82.02	\$ 84.10	\$ 73.00	\$ 63.75	\$ 82.75	\$ 93.00	\$ 73.75	\$ 66.50
Book value per share	124.46	117.52	108.52	110.89	114.19	115.68	110.07	102.17	93.43	87.66
Dividends per share	2.96	2.96	2.96	2.92	2.86	2.78	2.70	2.62	2.54	2.40
Shares outstanding (000's) (d)	26,480	26,480	26,480	26,480	26,479	26,479	26,479	26,479	26,479	26,479
Financial Ratios										
Return on equity (e)	8.4%	11.0%	0.5%	(0.3)%	1.2%	7.6%	10.4%	12.2%	9.5%	15.1%
Operating return on equity (f)	7.2%	5.7%	3.5%	2.0%	4.1%	5.7%	5.8%	7.4%	7.8%	7.6%
Dividend payout (g)	35.8%	49.0%	76.8%	127.8%	60.5%	44.5%	46.1%	38.1%	37.7%	40.3%
Assets per \$100 of liabilities	\$ 125	\$ 126	\$ 131	\$ 135	\$ 148	\$ 151	\$ 149	\$ 147	\$ 145	\$ 148

⁽a) After-tax and excluding gains from sale of investments

⁽b) After-tax gains from sale of investments

⁽c) Includes insurance acquired of \$4,125 million in 2001

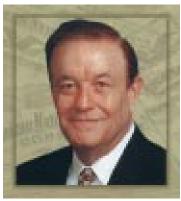
⁽d) Number of unrestricted shares outstanding at year end

⁽e) Change in total equity before dividends to stockholders divided by total equity at the beginning of the year

⁽f) Operating earnings per share divided by book value per share at the beginning of the year, adjusted to exclude the effect of SFAS 115

⁽g) Total dividends paid to stockholders divided by operating earnings

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Chairman of the Board

National Western Life Insurance Company
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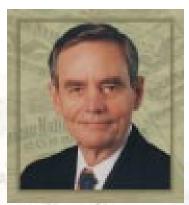
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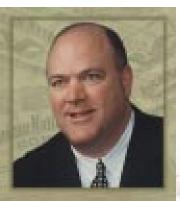
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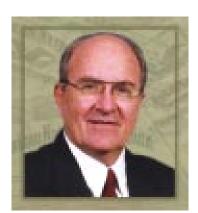
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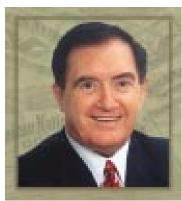
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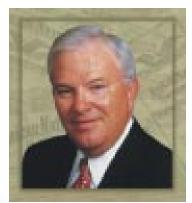
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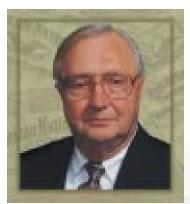
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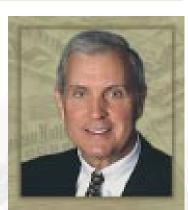


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Edward J. Muhl
Gregory V. Ostergren
James E. Pozzi
Victoria M. Stanton Timothy A. Walsh Ronald J. Welch

OFFICERS

Gregory V. Ostergren Chairman of the Board

G. Richard Ferdinandtsen Vice Chairman of the Board

Timothy A. Walsh

President, Chief Executive Officer

James J. Bettini Executive Vice President Operations

Victoria M. Stanton

Executive Vice President General Counsel and Secretary

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Senior Vice President

William T. Conine

Lewis E. Dufort Senior Vice President

Richard E. Long Senior Vice President

Patrick A. Wejrowski Senior Vice President Information Services

Roy S. Davies Vice President Accounting

Gordon D. Dixon Vice President Investments

Thomas E. Kelley Vice President Casualty Claims

Michael W. McCroskey Vice President Investments

Melissa G. McGrath Vice President Legal

Margaret A. Paris Vice President Casualty Compliance

Barry L. Bablin Casualty Actuarial Services

Michele M. Bartkowski Senior Vice President Chief Financial Officer and Treasurer

Senior Vice President Casualty Operations

Marketing

Casualty Claims

G. Richard Ferdinandtsen Vice Chairman of the Board

OFFICERS

Timothy A. Walsh President, Chief Executive Officer

James J. Bettini Executive Vice President Operations

FARM FAMILY LIFE

DIRECTORS

INSURANCE COMPANY

G. Richard Ferdinandtsen Stephen J. George Irwin M. Herz, Jr.

Clark W. Hinsdale III John W. Lincoln

A. Ingrid Moody
Ross R. Moody
Edward J. Muhl
Gregory V. Ostergren
James E. Pozzi

Victoria M. Stanton

Gregory V. Ostergren

Chairman of the Board

Timothy A. Walsh Ronald J. Welch

Victoria M. Stanton Executive Vice President General Counsel and Secretary

Michele M. Bartkowski Senior Vice President Chief Financial Officer and Treasurer

Lewis E. Dufort Senior Vice President Marketing

Patrick A. Wejrowski Senior Vice President Information Services

John A. Cole Vice President Life Operations

Roy S. Davies Vice President Accounting

Gordon D. Dixon Vice President Investments

Kathryn Lentivech Vice President Life Actuarial Services

Michael W. McCroskev Vice President Investments

Melissa G. McGrath Vice President Legal





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 organizations

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**

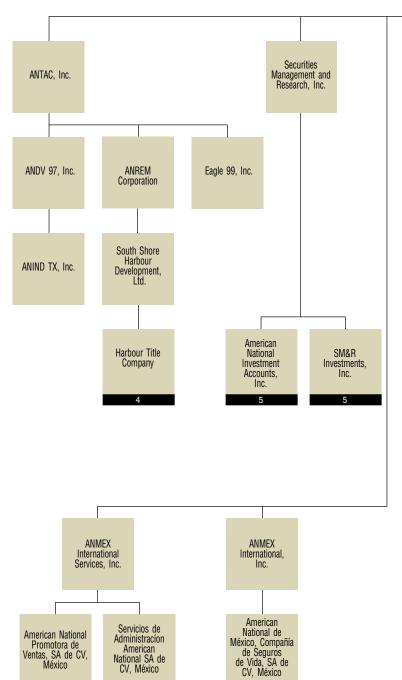
Property/casualty insurers that write primarily auto and homeowners insurance

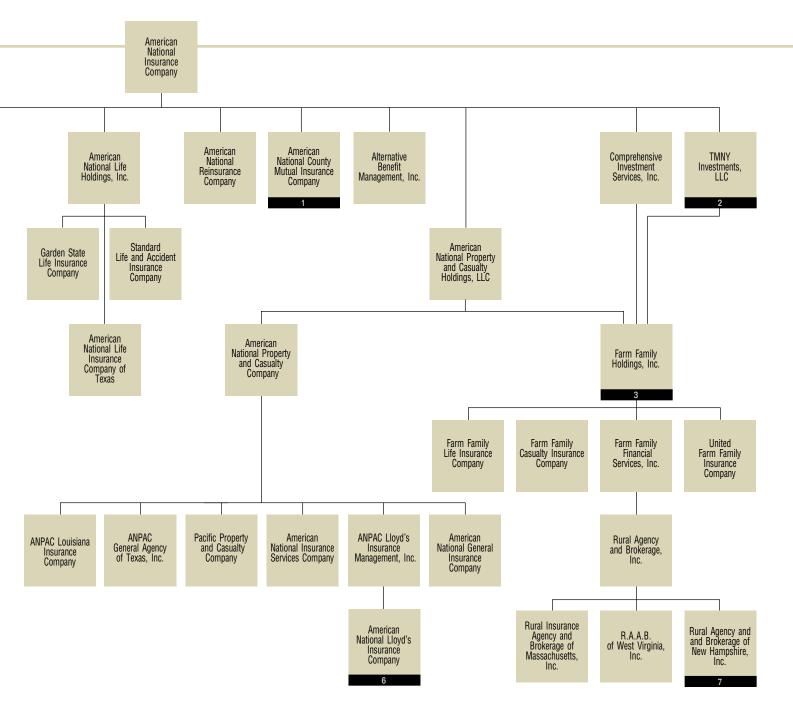
FARM FAMILY HOLDINGS, INC.

Property/casualty and life insurers concentrating on the New York and Northeast U.S. market

SECURITIES MANAGEMENT AND RESEARCH, INC.

A broker-dealer, member NASD, SIPC, investment advisor





Note: All subsidiaries are 100% owned by indicated parent except as otherwise noted.

- Not a subsidiary company, but managed by American National Insurance Company
- 2 17% owned by American National Insurance Company, 17% owned by ANPAC and 66% owned by employees
- 94.3% owned by American National Property and Casualty Holding Company, LLC., 5% owned by TMNY Investments, LLC, and 0.7% owned by Comprehensive Investment Services, Inc.
- 4 50% owned by South Shore Harbour Development Ltd. and 50% owned by Lawyers Title Company
- Not subsidiaries, but mutual funds managed by Securities Management and Research, Inc. (SM&R) in which SM&R and/or American National Insurance Company may have investments from time to time
- 6 Not a subsidiary company, but managed by ANPAC Lloyd's Insurance Management, Inc.
- 75% owned by New Hampshire Farm Bureau, and 25% owned by Rural Agency and Brokerage, Inc.



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

Best's Rating: A+ (Superior)

A.M. Best Company, independent analysts focusing on the insurance industry since 1899, has awarded American National Insurance Company its rating of A+ (Superior) based on the company's superior capitalization, good quality asset portfolio, and product and distribution diversity.

Standard & Poor's Rating: AA (Very Strong)

Standard & Poor's has assigned its AA Rating (Very Strong) of insurer financial strength to American National Insurance Company, reflecting extremely strong capitalization and very strong operating performance, liquidity and market position.

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, sexual orientation or national origin. The company is basically committed to the principles of equal employment opportunity because of its concern to further the development of human resources.

Forward-Looking Hadement

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 Report 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 a similar expression or statement 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 Report are not guarantees of future events or performance and are subject to a number of important risks and uncertainties, many of which are 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.





To be a leading provider of financial products and services for current and future generations



To be the company of choice for insurance and other financial products and services while maintaining superior financial strength

