



Assets were \$18,379,439,000, at December 31, 2008.

Stockholders' Equity was \$3,133,856,000, or \$118.35 per share.

Life insurance in force totaled \$69,870,857,000, an increase of 1.7% over year-end 2007.

Dividends are currently paid by American National at a rate of \$3.08 per share.

The year 2008 was the 98th consecutive year that dividends have been paid to stockholders.



AMERICAN NATIONAL INSURANCE COMPANY



financial strength ratings



MERICAN NATIONAL INSURANCE COMPANY ("American National") has been assigned strong ratings by nationally recognized, independent rating agencies. The ratings are current as of February 1, 2009.

A.M. BEST FSR: A+ (SUPERIOR)

Second highest of 13 active company ratings¹ "A superior ability to meet their ongoing obligations to policyholders."

STANDARD & POOR'S: AA- (VERY STRONG)

Fourth highest of 20 active company ratings²
"Very strong financial security characteristics,
differing only slightly from those rated higher."

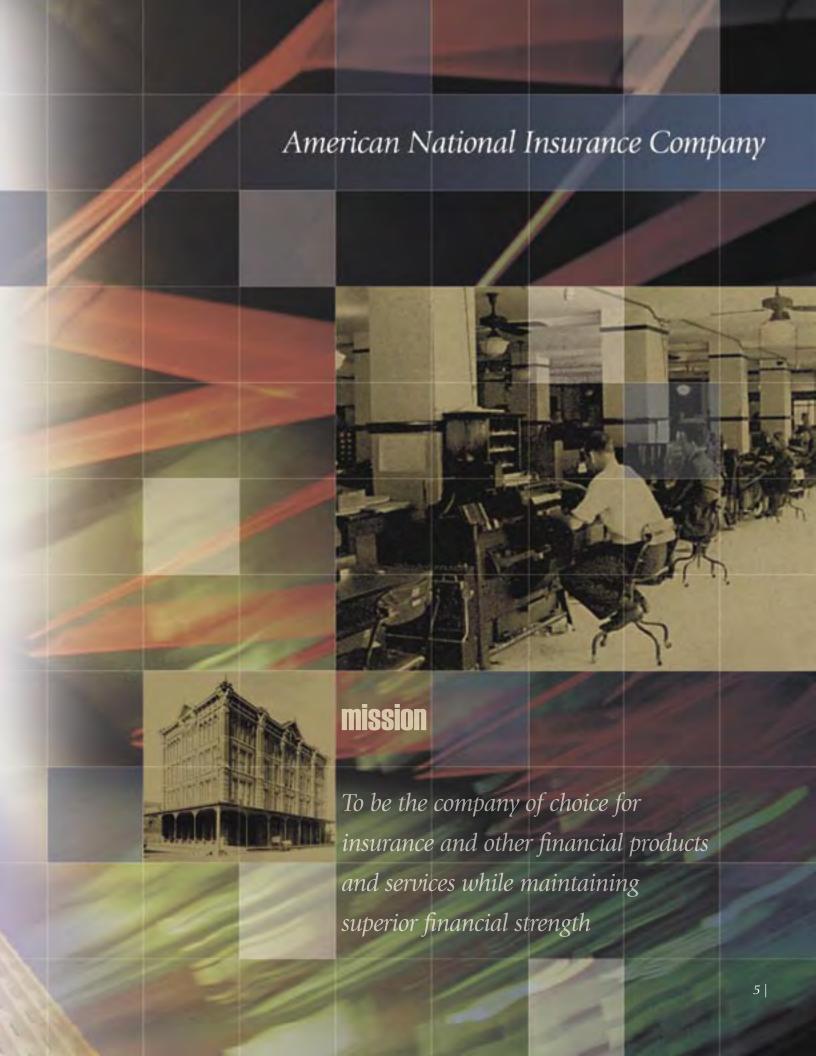
Ratings reflect current independent opinions of the financial capacity of an insurance organization to meet the obligations of its insurance policies and contracts in accordance with their terms.

They are based on comprehensive quantitative and qualitative evaluations of the company and its management strategy. They are not provided as a recommendation by the rating companies to purchase insurance or annuities. These ratings are not a warranty of an insurer's current or future ability to meet its contractual obligations.

Ratings may be changed, suspended, or withdrawn at any time. For the most current information, visit American National's Internet site at www.anico.com.

^{1.} A.M. Best's active company rating scale is: A++ (Superior), A+ (Superior), A+ (Excellent), A- (Excellent), B++ (Very Good), B+ (Very Good), B+ (Adequate), B- (Adequate), C++ (Fair), C+ (Fair), C+ (Marginal), C- (Marginal) and D (Poor).

^{2.} Standard & Poor's active company rating scale is: AAA (Extremely Strong), AA (Very Strong), A (Strong), BB (Good), BB (Marginal), B (Weak); CCC (Very Weak), and CC (Extremely Weak). Plus (+) or Minus (-) modifiers show the relative standing within the categories from AA to CCC.



management message



ROBERT L. MOODY
Chairman of the Board
Chief Executive Officer

G. RICHARD FERDINANDTSEN

President
Chief Operating Officer

MERICAN NATIONAL Insurance Company has evolved to thrive in an ever-changing world. In 1905 our founder, W.L. Moody, Jr., envisioned a company that would flourish for centuries. His conservative business approach created a unique corporate culture that remains the heart of the Company today. This culture has helped American National persevere through wars, hurricanes, economic volatility, extraordinary technological advancements, evolving products and the changing needs of policyholders and agents. As we end a year of unprecedented financial crisis, American National remains financially strong and committed to providing a steady and sure source of financial protection for policyholders and investors alike.

Overall, the Company experienced a \$154.0 million after tax loss during 2008, down \$394.8 million from the prior year gain of \$240.8 million. The largest decrease to earnings was the result of other-than-temporary impairments (OTTI) in the Corporate and Other segment, as required by GAAP accounting rules. American National believes the rules governing OTTI are severely flawed. They require companies to record losses on investments as a function of market

value in a market where the value does not reflect the underlying soundness of the security. These OTTI losses must be recorded as realized even though they were not the result of any actual market transaction. Further, the accounting rules do not allow subsequent gains in value to offset prior recorded losses using the same process. Although American National has and will continue to follow the OTTI rules in accordance with GAAP, we believe they result in a distorted view of the income of the company.

Excluding the OTTI adjustments, the after tax gain was \$84.5 million, down \$160.9 million from prior year earnings excluding OTTI of \$245.4 million. This decrease was largely the result of catastrophe expenses in our property and casualty business. Stockholders' Equity remained healthy at \$3.1 billion, although it was down 16.1% from the prior year value of \$3.7 billion, due largely to the deterioration in the credit market.

W.L. Moody established American National with an initial investment of \$100,000. Since 1905 the Company has grown to more than \$18.3 billion in GAAP assets. Even considering the challenging year we just completed, American National has maintained assets equal to more





than 120% of those required to support the Company's liabilities.

A.M. Best and Standard & Poor's, independent rating agencies well recognized in the insurance industry, continue to recognize American National as a strong insurer. However, Standard & Poor's did lower the Company's rating one notch based partially on impairments taken by the Company during 2008 and the recent decrease in earnings. (A complete discussion of the rating action can be found at www.anico.com). Standard & Poor's assigned American National a rating of AA- (Very Strong). A.M. Best assigned American National a rating of A+ (Superior).

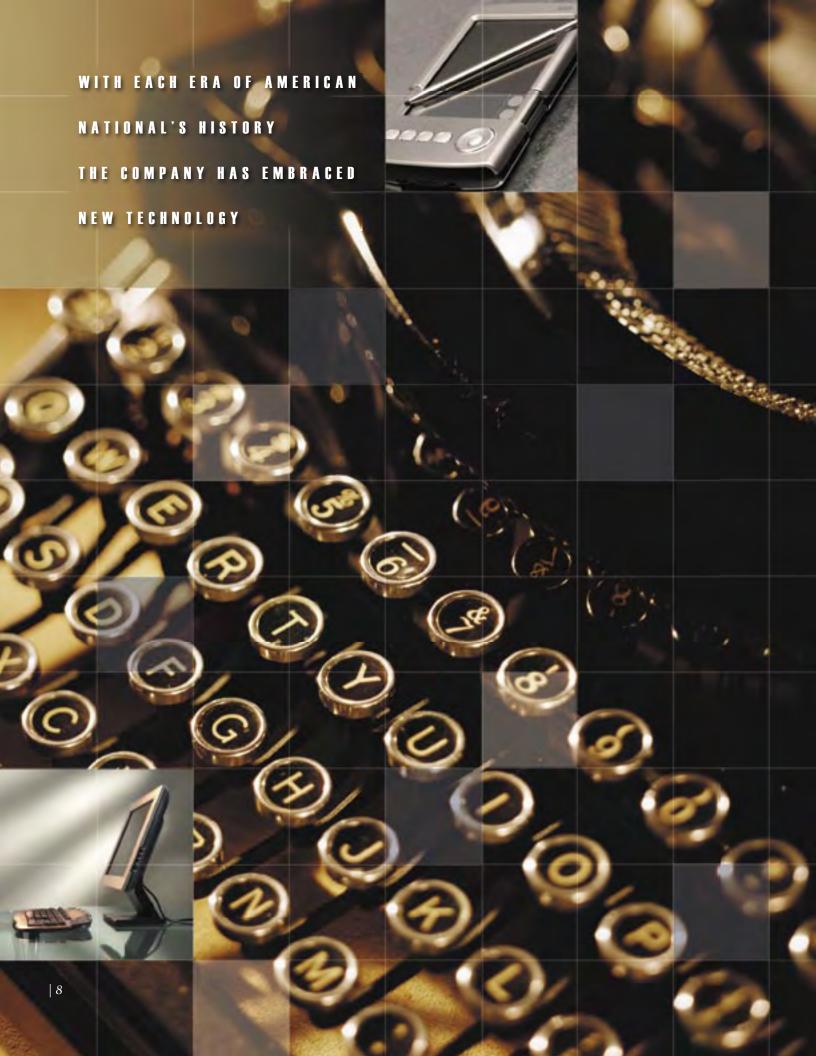
American National was named to the 2008 Ward's 50 group of top performing companies. Further, American National is one of only 13 organizations with affiliated companies in both property-casualty and life-health Ward's 50 groups of companies. According to The Ward Group, "the Ward's 50 are selected for achieving outstanding financial results in the areas of safety, consistency and performance over a five year period (2003–2007)".

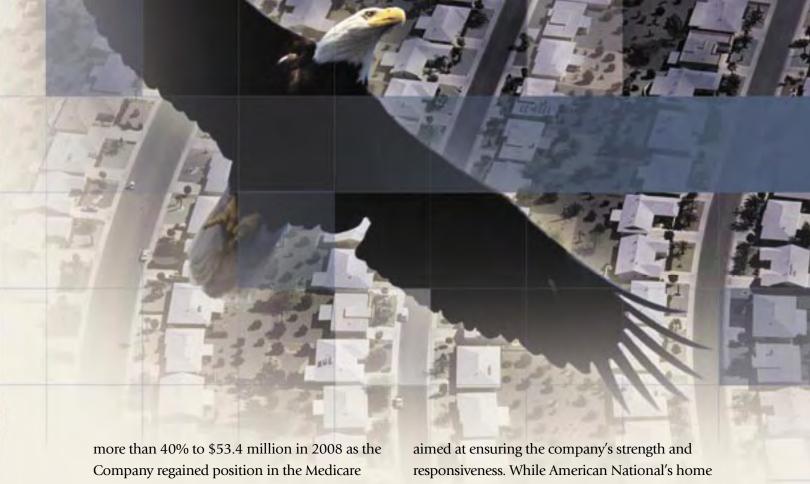
American National paid dividends to stockholders for the 98th consecutive year. The company maintained the prior year annual rate of \$3.08 per share.

American National is now and always has been committed to profitable growth. This allows us to remain strong for our policyholders and shareholders. As such, we have found it necessary to exit particular markets at times. During 2008, we made the decision to exit our operations in Mexico. While we believe there is potential within this market, American National was not successful in making this operation profitable. The sale of the company was completed during the fourth quarter of 2008. This sale will eliminate the negative earnings experienced from these operations in recent years.

Annuity sales were strong at \$1.8 billion, up 59% from the \$1.1 billion achieved in 2007. We attribute this large increase to a "flight to quality" as consumers looked toward safer alternatives for investing money in today's turbulent economic environment. Health insurance sales increased







Supplement market and increased distribution in other markets.

Property and Casualty sales were down 2.1% to \$1.1 billion in 2008, largely due to the softer market and risk initiatives to limit exposures in certain geographic areas.

Weighted life paid premiums, the Company's measure of life insurance sales, were down \$18.3 million to \$109.6 million for the year, partly due to exiting the Mexico operations and an anticipated change in the Company's competitive position in the independent market. Life insurance in force increased slightly from \$68.7 billion to \$69.9 billion in 2008. This represents a 1.7% increase for 2008. Direct earned premiums for life insurance increased 1.5% during 2008 to reach \$494.2 million.

Our strong commitment to policyholders, shareholders, agents and employees led us to take many important actions in 2008,

office building in Galveston was built in 1972, it was designed to meet the dynamic needs of a growing company. Early in 2008 American National set out to strengthen the building by making upgrades to its structural integrity to enable the building to better survive a direct hit from strong storms.

During the second quarter of 2008, we opened a new processing center located in San Antonio, Texas. The center was designed to maintain critical operations and provide the instantaneous support clients and agents have come to expect, as well as support additional business operations in the event Galveston is evacuated due to a catastrophic threat. The center served our clients well during the company's evacuation from Hurricane Ike and we anticipate even better performance in the future as the Company strategically adds personnel and operations to the new location.



With each era of American National's history, the company has embraced new technology in order to better serve policyholders and agents. Today American National has a variety of communication options that range from meeting in person to responding electronically, based on personal preference.

New technology allowed us to better respond to weather events. The residents of Galveston had little prior knowledge of the approaching disastrous storm in 1900. In contrast, management was aware of Hurricane Ike before it entered the Gulf of Mexico. We were able to put previously developed plans into action, enabling the company to stay online even when the hurricane was directly hitting the home office. While no catastrophe can be fully mitigated, we are extremely proud of our ability to react to the challenges we experienced and the incredible responsiveness of our employees, many of whom realized substantial personal loss in the wake of this disaster.

Hurricane Ike was just one of the many catastrophes that impacted American National. In all, 35 natural catastrophes resulted in a net impact of \$132.1 million to the Company. This compares to a \$26.9 million net impact from catastrophes in 2007, an extremely favorable year.

The economic breakdown experienced during the last half of 2008 could also be considered catastrophic. The collapse of the sub-prime market was followed by declines in both the credit and equity markets. Our national and world economies began to experience unprecedented failures and bailouts of industry giants in the financial market, including large banks, investment firms and insurance companies.

American National's 2008 financial results were largely impacted by the \$367.0 million before tax impairment write-downs related to these failures. This compares to \$7.2 million in write-downs taken during 2007. Additionally, all segments have been impacted by lower investment income on supporting assets.

During the year, American National invested substantial resources preparing for our initial SEC registration, which is anticipated in the first half of 2009. We incurred \$19.4 million in 2008 for consultant costs to prepare for Sarbanes-Oxley (SOX) and the registration. Consulting costs are expected to diminish by 2010. Management anticipates the work product efforts to result in efficiencies and better management information.

American National invests in the company's distributions and markets to fuel internal growth. Over the years we have moved from working strictly with career agents to embrace independent and direct distributions as well. During 2008, we devoted resources to further establishing a new marketing program within our Multiple Line division. We are also working to establish a new company and applying for a certificate of authority to sell insurance and annuities in New York through our independent distribution channels. Without a doubt, 2008 was a difficult year for American National on several fronts. Still, we are optimistic about the Company's future as well as the future of the economy and nation at large.



consolidated operations



STEPHEN E. PAVLICEK

Senior Vice President and Chief Financial Officer



2007

American National Insurance Company

Two-Year Financial Comparison

TWELVE MONTHS ENDED DECEMBE	R 31	, 2008									
	TOTAL		CORPORATE AND OTHER		LIFE	ANNUITY		PROPERTY AND CASUALTY		HEALTH	
Gain before allocations											
Capital and Surplus	\$	101,076	\$ 101,076	\$	_	\$	_	\$	_	\$	_
Independent Marketing Group		18,836	_		(2,572)		21,408		_		_
Multiple Line		(27,903)	_		10,036		(124)		(36,476)		(1,339)
Career Sales & Service Division		13,737	_		13,001		(474)		_		1,210
Health Division		(9,646)	1,206		1,902		130		_		(12,884)
Credit Insurance Division		(8,353)	_		(8,366)		_		8,603		(8,590)
Direct Marketing		644	_		556		4		_		84
All Other		(403)	(4,741)		4,317		(969)		_		990
Consolidating adjustments		(7,983)	(7,230)		(59)		_		(666)		(28)
Total gain before allocations		80,005	90,311		18,815		19,975		(28,539)		(20,557)
Earnings of unconsolidated affiliates		7,639	7,639		_		_		_		_
Allocated federal income taxes		(13,668)	(17,069)		(6,209)		(6,592)		9,418		6,784
Gain from operations after tax		73,976	80,881		12,606		13,383		(19,121)		(13,773)
Discontinued operations after tax		18,728	_		18,728		_		_		_
After tax realized gains (losses)	(246,702)	(246,702)								
Net income (loss)	\$ (153,998)	\$ (165,821)	\$	31,334	\$	13,383	\$	(19,121)	\$	(13,773)

TWELVE MONTHS ENDED DECEMBE	R 3	1, 2007						
		TOTAL	ORPORATE ND OTHER	LIFE	1	ANNUITY	PROPERTY D CASUALTY	HEALTH
Gain before allocations								
Capital and Surplus	\$	95,780	\$ 95,780	\$ _	\$	_	\$ _	\$ _
Independent Marketing Group		36,797	_	2,684		34,113	_	_
Multiple Line		139,463	_	24,977		2,674	113,450	(1,638)
Career Sales & Service Division		18,636	_	18,108		(245)	_	773
Health Division		3,633	1,059	1,989		366	_	219
Credit Insurance Division		13,305	_	3,004		_	8,774	1,527
Direct Marketing		4,297	_	4,199		34	_	64
All Other		(989)	(3,722)	3,441		7	_	(715)
Consolidating adjustments		(3,962)	(4,685)	43		_	318	362
Total gain before allocations		306,960	88,432	58,445		36,949	122,542	592
Earnings of unconsolidated affiliates		5,947	5,947	_		_	_	_
Allocated federal income taxes		(93,844)	(21,730)	(19,287)		(12,193)	(40,439)	(195)
Gain from operations after tax		219,063	72,649	39,158		24,756	82,103	397
Discontinued operations after tax		(4,958)	_	(4,958)		_	_	_
After tax realized gains (losses)		26,668	26,668	_		_	_	_
Net income	\$	240,773	\$ 99,317	\$ 34,200	\$	24,756	\$ 82,103	\$ 397



RONALD J. WELCH Senior Executive Vice President, Corporate Risk Officer and Chief Actuary

JAMES E. POZZI Senior Executive Vice President, Chief Administrative Officer

AMERICAN NATIONAL is a family of companies organized into five distinct segments. The Corporate and Other segment includes all non-insurance operations. The remaining segments (Life, Annuity, Property and Casualty, and Health) reflect the insurance operations of the company, which are supported by multiple marketing and shared service areas.

CORPORATE AND OTHER

Corporate and Other comprises non-insurance operations as well as investments not assigned to support insurance liabilities. Pre-tax operating earnings for the segment were \$98.0 million in 2008, an increase of \$3.6 million from the \$94.4

million reported in 2007. These earnings exclude pre-tax net realized investment losses of \$379.7 million in 2008. In 2007, American National reported a pre-tax net realized investment gain of \$41.0 million.

Independent Marketing Croup

SUMMARY	LIFE	Multiple Line Career Sales & Service Division Health/Senior Age Marketing Division Direct Marketing Credit Insurance Division
	ANNUITY	Independent Marketing Group Multiple Line Career Sales & Service Division Health/Senior Age Marketing Division
INSURANCE	PROPERTY AND CASUALTY	Multiple Line Credit Insurance Division
SEGMENTS	HEALTH	Multiple Line Career Sales & Service Division Health/Senior Age Marketing Division Credit Insurance Division
		Con as



American National's investment portfolio contains a higher percentage of equity securities than most comparable insurance companies. This level is possible because of the company's relatively strong capitalization. While earnings on equities are volatile, American National has traditionally realized significant positive contributions from these investments. This was not the case in 2008. American National reported \$367.0 million in OTTIs for the year. These impairments dominated the results of this segment and the company overall. Approximately 43% of the impairments were the result of decreases in the market values of equity holdings. The remaining OTTI charges were taken on investments backing insurance liabilities. The insurance segments allocate a portion of their earnings to this segment to cover such charges.



Despite the impact of the financial market crisis, Stockholders' Equity was \$3.1 billion at the end of 2008. Clearly, American National remains financially strong with assets equal to more than 120% of those required to support the company's liabilities.

American National has investment guidelines designed to create and maintain a diversified investment portfolio. The diversification objectives include specific credit concentration limitations set at conservative levels. However, market disruptions caused by forced mergers and consolidations among a few financial giants late in 2008, created unusually large, but manageable, credit concentrations at year-end. It will take time and more normalized market conditions to restore our concentrations to levels consistent with company guidelines.

LIFE

Life insurance is the foundation of American National. The company sells insurance through career, independent and multiple line exclusive (MLEAs) agents, as well as through direct distributions. American National first entered the life insurance business using the debit model and employee-agents. In the 1950s, the company expanded to sell ordinary insurance. Interest sensitive and variable products were created and introduced in the 1980s.

The life segment reported a pre-tax operating gain of \$18.8 million, down \$39.6 million from the \$58.4 million gain reported in 2007.

(Dollars in thousands)

	2008	2007
Pre-tax gain from operations	18,815	58,445
Life insurance in force	69,870,857	68,683,067
Paid annualized premium from new sales	120,587	140,747
Net retained premiums	299,338	315,893
Revenues	684,732	679,696

Litigation-related expenses accounted for a major portion of the decrease (refer to footnote 16 in the Financial Statements for further discussion of this topic). Other major drivers of the results were lower investment income, increased benefits paid and increased operating expenses associated with investing in new markets and complying with SOX requirements.

Weighted paid annualized premium from new sales was \$109.6 million for 2008. This represents a decrease of \$18.3 million from the \$128.0 million realized in 2007. This decrease is less than anticipated with American National's repositioning in the older age market and the sale of the Mexico operations.

Life insurance in force increased 1.7% from \$68.7 billion at the end of 2007 to \$69.9 billion at the end of 2008. The total amount in force increased despite a \$284.1 million decrease from exiting the Mexico marketplace.





ANNUITY

The Annuity segment has grown into a major segment for American National. The company first offered annuities in the 1920s, albeit on a limited basis. In the early 1990s, American National created a new marketing area focused on distributing products through independent agents. Fixed annuity sales increased dramatically over the following years and remain strong today. However, sales do fluctuate from year to year, depending on various economic and competitive factors.

In 2008, American National received \$1.8 billion of annuity deposits, a 59% increase over 2007. Some of the growth is due to a new paperless submission process available in two of our largest financial institution marketing partners. Still, management believes that much

of the improvement is due to the current financial crisis, which is leading investors to seek safer investment alternatives.

While the majority of products sold are fixed deferred annuities, American National

ANNUITY

	2008	2007
Pre-tax gain from operations	19,975	36,949
Paid annualized premium from new sales	1,781,397	1,120,041
Net retained premiums	1,883,755	1,226,463
Revenues	504,468	612,186





also distributes immediate, variable and indexed annuities. Additionally, pension plans and pension services for small businesses are a significant and growing component of the Annuity segment.

American National is in the process of obtaining a certificate of authority for a new company in New York. Annuity sales through the new company are expected to begin late in 2009.

The Annuity segment reported a \$20.0 million pre-tax gain from operations, a decrease of \$17.0 million from the \$36.9 million reported in 2007. Earnings were negatively impacted by lower investment yields, DAC amortization and increased expenses associated with American National's investment in growth as well as preparation for SEC registration and meeting SOX requirements.

PROPERTY AND CASUALTY

Property and Casualty insurance was first sold by American National in 1974. Since that time, operations have expanded and the company now offers these products in 48 states.

In the early years, property and casualty insurance was focused on selling personal lines of insurance. During the 1990's American National began offering credit-related property and casualty insurance. Credit-related business is a growing portion of the segment, but remains small relative to the traditional lines.

In 2001, American National acquired the Farm Family Insurance group of companies,

which were established by farm bureaus in 1954 to serve farmers, agribusiness and primarily rural communities in the Northeast. The acquisition enabled American National to expand personal line products into the Northeast and enter into the farm and ranch, agribusiness and targeted small commercial markets in all licensed states.

MLEAs provide clients with comprehensive insurance solutions to help them address the multitude of risks they face. American National offers a broad array of products including several unique products and features. Through one such product feature, American National has refunded over \$200 million in premiums to clients in recognition of multiple claim-free years. Targeted products are available for specific markets, such as young families; classic/antique car, motor home, motorcycle, boat, and equine enthusiasts; and farm, ranch, and small business owners.

PROPERTY AND CASUALTY

	2008	2007
Pre-tax gain from operations	(28,539)	122,542
New written premiums	1,058,936	1,081,271
Revenues	1,260,347	1,260,881
Combined loss ratio	109.6%	96.1%



The property and casualty segment reported a \$28.5 million pre-tax operating loss for the year, versus a \$122.5 million gain in 2007. Results of operation for 2008 were primarily impacted by unusually high catastrophe activity. These catastrophes led to the 109.6% combined ratio for the non-credit related property and casualty business, compared to 96.1% for the prior year.

In 2008, American National incurred gross losses of \$187.3 million from a total of 35 catastrophes, including Hurricanes Ike and Gustav, along with \$11.9 million in loss development from prior year catastrophes, mainly from Hurricane Katrina. The total gross loss represents a \$160.4 million increase over the 2007 gross catastrophe loss of \$26.9 million. Losses in 2008 were partially offset by \$60.8 million of reinsurance recoveries.

Other adverse impacts to property and casualty results included lower investment income, adverse agriculture and commercial lines results in the non-Northeast states, rate competition, and litigation costs.

Net written premiums, American National's measure for property and casualty sales, were \$1.0 billion in 2008, down 2.1% from 2007, largely due to the competitive market and actions American National has taken in recent years to limit coastal exposure. Nevertheless, the company is experiencing strong growth with new products, particularly those aimed at young families. American National continues to be a leader in sales providing combined protection for home, auto and life. Additionally, the company has achieved very high client satisfaction ratings leading to better than industry persistency in our property and casualty business.

HEALTH

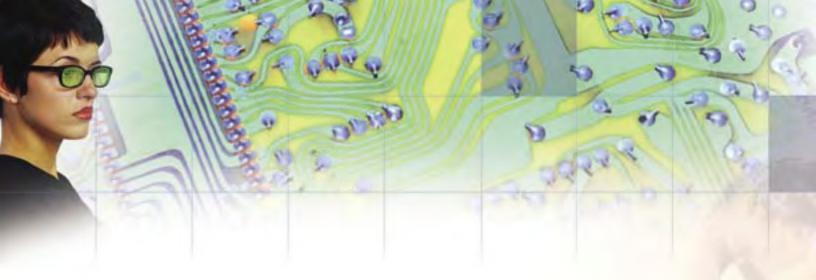
The Health segment distributes and administers health and disability insurance products to employers, individuals and associations. These products have transitioned over the years to meet a changing economy, demographics and regulatory environment.

Health insurance is marketed by American National's Credit Insurance Division, Career Sales & Services Division (CSSD), Health/Senior Age Marketing Division and Multiple Line Division.

The Credit Insurance Division offers disability insurance that pays the insured's monthly

HEALTH

(=)		
	2008	2007
Pre-tax gain from operations	(20,557)	592
Paid annualized premium from new sales	53,424	37,909
Net retained premiums	290,883	283,765
Revenues	320,701	313,523



payment while the insured is disabled. CSSD offers limited benefit products covering cancer and accident, which are administered by the Health Division.

American National entered the Medicare Supplement market after purchasing Standard Life and Accident Insurance Company in 1976. Medicare Supplement products, which offer seniors added protection, are highly regulated. Changing government regulation has caused some profitability challenges in the past, such as subsidized HMOs and Medicare Advantage plans. American National chose to remain focused on traditional plans, which have proven to be viable over many years. Sales for the company, which have suffered in some years due to regulatory changes, began increasing again in 2007 as the industry returned to the traditional plans.

Over the past ten years, American National has moved away from offering the most expensive products to focus on more limited benefit, but affordable products designed to cover more extreme medical expenses. This change is expected to slowly benefit the company's bottom line as legacy lines with guaranteed benefits expire.

The Health segment reported a pre-tax operating loss of \$20.6 million in 2008, largely the result of two independent litigation expenses. This compares to a gain of \$0.6 million for 2007. During 2008, American National wrote down \$8.9 million (\$5.8 million after-tax) of receivables related to 9/11 after an adverse ruling in a case involving a Managing General Underwriter. Additionally, American National incurred expenses on credit health insurance as a result of industry-wide litigation.

Higher loss ratios negatively impacted results for this segment. Benefit costs increased on Medicare Supplement products and some Association Group products that experienced large shock claims. American National is taking steps to strengthen pricing on all blocks of business to bring these loss ratios back to profitable levels.

Health sales, excluding production from Managing General Underwriters, increased 40.9% in 2008 to reach \$53.4 million. Medicare Supplement sales made up approximately 38% of total health sales for the year.









INVESTMENTS

Investments supporting insurance liabilities include fixed maturity securities and mortgage loans. Management balances assets and liabilities to ensure adequate liquidity to meet our policy liabilities under foreseeable interest rate environments. Cash flow testing is used, along with monthly adjustments to crediting rates on new and existing policies and periodic reviews of product pricing assumptions and design features, to balance investments and insurance liabilities. Management also monitors, and may adjust, the composition of fixed maturity securities between Held-to-Maturity and Available-for-Sale.

Fixed income investments (investment-grade bonds, collateralized mortgage obligations [CMOs] and commercial mortgages) are allocated by insurance product type. These portfolios provide empirical support for asset/liability modeling and are utilized to determine renewal crediting rates to meet product pricing objectives. American National's Asset/Liability Management Committee works to ensure the highest return possible on these portfolios commensurate with sound and prudent investment practices.

Fixed maturity securities (principally bonds and CMOs) backing American National's insurance products are high quality (95% investment grade) and well diversified among

issuers. Although the company has no direct exposure to the well publicized problems in the "sub-prime" or "Alt-A" market, the ripple effect from those problems has affected all financial intermediaries. Tight credit markets, tumbling Treasury yields, forced mergers and acquisitions, and the press associated with "bailouts" in the insurance and other industries have caused spreads to widen and prices to fall. Those trends are reflected in the OTTIs American National was required to record for the year.

Commercial Mortgage Lending, yet to experience the defaults or impairments already seen in the equity and bond markets, is, nevertheless, under pressure. Real property values are falling, tenants are contracting, and new commercial loan securitizations are at a standstill. Liquidity and valuation concerns have many traditional mortgage lenders on the sidelines. The outcome must be a further decline in property values and increasing rates of foreclosure. American National will be affected by these powerful forces but, our historically conservative underwriting criteria, diversification discipline, and strong capital position will provide the company the flexibility and therefore the patience to realize the intrinsic collateral value of troubled loans.



looking forward

the variable annuity market, as management has viewed pricing in the marketplace to be inadequate relative to the risk. This concern has also resulted in the company offering limited guarantees on our variable annuities. We do offer some guaranteed death benefits, but they are

largely reinsured.

American National is in the process of forming a company to serve the New York market. We anticipate annuity sales to begin by the end of 2009. Life products and pension related services will likely follow in subsequent years. This investment in internal growth is expected to result in increased life and annuity sales in the coming years. Although it would be difficult to anticipate the increase to our sales in the short term, we expect a 5-10% increase in annuity sales as the company matures, based on the population concentration in the state.

We expect our life segment to primarily focus on increasing distributions and markets, particularly in our Independent, Multiple Line and Direct Marketing areas.

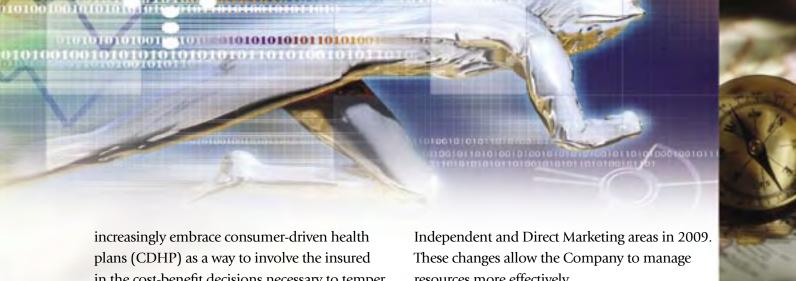
Management at American National believes health insurance will return to basics. Health plans have evolved from hospital and medical expense policies in the early twentieth century largely into comprehensive plans that cover all aspects of a person's health. In moving to enhanced coverages, insured individuals have lost touch with the true cost of medical treatment. This phenomenon, as well as our aging society, has led to years of substantial increases in health care costs. We anticipate that employers will

ANAGEMENT AT AMERICAN NATIONAL

anticipates the economy will remain an important factor and consideration in 2009. We believe there will be continued volatility until either stimulus plans begin to impact consumer behavior or an overall sense of investor security is regained. Either scenario will likely be slow in developing. Fixed annuities may benefit from the continued turbulence, becoming even more attractive to individuals seeking a secure place to invest their money. With a broad portfolio of fixed annuity products, American National is well positioned to provide consumers the longterm guarantees they need in these difficult times. As a result, we expect annuity sales to remain strong during the coming year, but somewhat lower than the extremely favorable results experienced in 2008.

Indexed annuities make up a small fraction of our overall annuity portfolio. This allows American National the flexibility to take a "wait and see" approach with respect to potential new regulation by the SEC and FINRA that would require indexed annuities to become registered products. We continue to monitor developments but do not anticipate resolution during 2009. If regulation does go into effect, American National will reassess the future profitability of the indexed annuity market and could decide to refocus these efforts in the future.

We do not anticipate strong variable annuity sales in the near term as they are tied to market performance. Further, American National has chosen not to become a major player in



in the cost-benefit decisions necessary to temper healthcare costs. The impact of this transition will likely be slow. American National will continue to look for profitable niche opportunities in the health market.

Our core property and casualty products will continue to be auto, homeowners, agribusiness and targeted commercial lines of business. We expect to develop new products packaged specifically for target markets and will work to increase the distribution of all of our products in the coming year. American National strives to become a leader in rate and underwriting sophistication for our property and casualty markets, which we believe will provide us with a distinct advantage in the markets we serve.

We anticipate that credit-related insurance will remain heavily weighted towards the property and casualty product lines. Nevertheless, we expect to see significant growth in our monthly outstanding balance (MOB) coverage in the life and health segments.

We routinely review expenses and make prudent adjustments that will decrease costs without adversely affecting business and operations. Additionally, we recognize the benefits of better coordinating efforts within our operating areas. Management has united our Health and Senior Age Marketing divisions to this end and anticipates beginning a similar process with our resources more effectively.

Management believes that American National is well positioned to respond to future catastrophic threats that could displace home office operations. Still, we plan to build on our recent experience with Hurricane Ike by strategically strengthening the operations in our new San Antonio processing center and satellite offices in League City. This will allow the Company to continue to respond quickly and effectively to challenges.

American National has invested substantial resources over the past few years to become compliant with SOX requirements and register with the SEC. These actions will be completed during 2009.

American National is committed to being the company of choice for insurance and other financial products and services. This requires us to remain financially strong, offer products needed and desired in our markets, and develop the necessary technology and services customers demand. However, our financial strength and security, which allows us to fulfill our commitments to policyholders and stockholders, is the highest priority. Management is increasingly focused on managing capital, operations and expenses to ensure that American National will continue to flourish for the remainder of our 500 year charter.



board of directors



ROBERT L. MOODY

Chairman of the Board and Chief Executive Officer American National Insurance Company Galveston, Texas

Chairman of the Board National Western Life Insurance Company Austin, Texas

President Moody Bancshares, Inc. Galveston, Texas



FRANCES ANNE MOODY-DAHLBERG

Executive Director The Moody Foundation Dallas, Texas



RUSSELL S. MOODY

Investments League City, Texas



G. RICHARD FERDINANDTSENPresident and Chief Operating Officer
American National Insurance Company
Galveston, Texas

W.L. MOODY IV Investments and Ranching Oil and Gas Galveston, Texas



American National Insurance Company

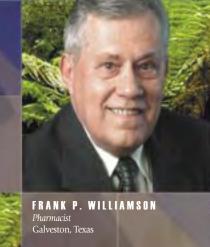


JAMES D. YARBROUGH Galveston County Judge Galveston, Texas

E. DOUGLAS MCLEOD

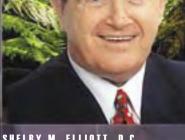
Attorney
Director of Development
The Moody Foundation

Galveston, Texas





ARTHUR O. DUMMER Chairman of the Board American Community Mutual Insurance Company Levonia, Michigan



SHELBY M. ELLIOTT, D.C.

President - Emeritus
Texas Chiropractic College
Pasadena, Texas

R. EUGENE LUCAS

President
Gal-Tex Hotel Corporation
Galveston, Texas

IRWIN M. HERZ, JR.

Attorney Greer, Herz & Adams LLP Galveston, Texas



ADVISORY DIRECTORS



AMERICAN NATIONAL INSURANCE COMPANY

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Ronald J. Welch Senior Executive Vice President, Corporate Risk Officer and Chief Actuary

J. Mark Flippin Secretary

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Richard T. Crawford Vice President and Assistant Controller

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Director of Corporate
Treasury Services

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Donna L. Daulong Assistant Vice President

Larry E. Linares Assistant Vice President

Victor J. Krc Assistant Treasurer

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Frank V. Broll, Jr. Senior Vice President and Actuary

Rex D. Hemme Senior Vice President and Actuary

John O. Norton Vice President and Actuary

Gerald A. SchillaciVice President and Actuary

Joseph J. Cantu Assistant Vice President

and Illustration Actuary **Richard J. Junker** Assistant Vice President

and Annuity Actuary **Sara Lianne Latham**Assistant Vice President and Assistant Actuary

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Deborah K. Janson Assistant Vice President Corporate Research

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Judith L. Regini Assistant Vice President Corporate Compliance

Jeanette E. Cernosek Assistant Secretary

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Carol A. Kratz Assistant Vice President

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James J. Fish Assistant Vice President Criminal Investigations and Corporate Security

Michael S. Nimmons Assistant Vice President Associate General Auditor Corporate Audit Services

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Gordon D. Dixon Senior Vice President Securities Investments

Robert J. Kirchner Vice President Real Estate Investments

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Anne M. LeMire Vice President Fixed Income

E. Vince Matthews IIIVice President
Mortgage Loan Production

Denny W. Fisher, Jr. Assistant Vice President Mortgage Loan Production

LIFE INSURANCE ADMINISTRATION

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Life Policy Administration

D. Lanette Leining Vice President Life New Business

Bradley W. Manning Vice President Life and Annuity Claims

Nancy M. Day Assistant Vice President Pension Administration

Thomas R. LeGrand Assistant Vice President Life and Annuity Claims

M. Scott Marquis Assistant Vice President Life New Business

James A. Tyra Assistant Vice President Life Insurance Systems

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Johnny D. Johnson Senior Vice President and Corporate Chief Information Officer

Julian J. Antkowiak Vice President Director, Computing Division

Donald R. French Vice President Information Security and Enterprise Architecture

Meredith M. Mitchell Vice President Application Development and Support

Barbara J. Huerta Assistant Vice President Enterprise Financial Systems

Kenneth J. Juneau Assistant Vice President Advisory Systems Engineer

James B. McEniry Assistant Vice President Director of Telecommunications

Katherine S. MeisetschlaegerAssistant Vice President
Life and Annuity Systems

Eligio A. MendezAssistant Vice President
Director of Computing
Systems

Deanna L. Walton Assistant Vice President Field Systems

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Gregory V. Ostergren Executive Vice President Director of Multiple Line

Shannon L. Smith Senior Vice President Chief Multiple Line Marketing Officer

Ronald C. Price Senior Vice President Chief Marketing Officer Career Life Agencies

Bernard S. Gerwel Senior Vice President Chief MLEA Administrative Officer

James A. Collura Vice President Chief Life Marketing Officer, MLEA

William C. Ray Vice President Marketing Training and Development, MLEA

J. Wayne Cucco Assistant Vice President Director of Advanced Life Sales

John D. Ferguson Assistant Vice President Creative Services

Emerson V. Unger Assistant Vice President National Business Development Executive

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George W. Williamson Vice President Assistant Director Career Sales & Service Division

Dixie N. McDanielVice President
Career Sales & Service
Division Administration

Douglas N. Fullilove Assistant Vice President Director, Agents Employment

Raymond E. Pittman, Jr. Assistant Vice President Director of Marketing/ Career Development

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George C. Crume Vice President Brokerage Sales

Douglas A. Culp Vice President Financial Institution **Steven L. Dobbe** Vice President Broker Dealer Marketing

Franklin J. Gerren Vice President Payroll Deduction

Robert W. Schefft Vice President Advanced Sales and Marketing

J. Truitt Smith Vice President Pension Sales

CREDIT INSURANCE OPERATIONS

James W. Pangburn Senior Vice President

Thomas A. Carpentier Vice President Special Markets Credit Insurance

Dwight D. Judy Vice President Financial Marketing

HEALTH INSURANCE DIVISION

Steven H. Schouweiler Senior Vice President Health Insurance Operations

William H. Watson IIIVice President
Chief Health Actuary

Debbie S. Fuentes Vice President Health Claims

Joseph F. Grant, Jr. Vice President Group Actuary

Charles J. Jones
Vice President
Health Underwriting/
New Business

Michael C. Paetz Vice President Group and MGU Operations

James P. Stelling Vice President Group/Health Compliance

William J. Hogan Assistant Vice President Health and HIPAA Compliance

Clarence E. Tipton Assistant Vice President and Assistant Actuary

Zeb M. Miller Assistant Vice President Health Administration

Ronald J. Ostermayer Assistant Vice President Director, Health Systems Administration, HIPAA Security Officer

Morris J. Soler Assistant Vice President HIPAA Privacy Officer

officers and directors

AMERICAN NATIONAL LIFE INSURANCE COMPANY OF TEXAS

TEXAS

DIRECTORS

G. Richard Ferdinandtsen William L. Moody IV James E. Pozzi Steven H. Schouweiler Ronald J. Welch Stephen E. Pavlicek

STANDARD LIFE AND ACCIDENT INSURANCE COMPANY OKLAHOMA

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and President

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Ronald J. Welch Senior Vice President

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David A. Behrens Vice President

Frank V. Broll, Jr. Vice President and Actuary

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Vice President and Controller

Gordon D. Dixon
Vice President, Investments

Debbie S. Fuentes Vice President, Health Claims

Rex D. Hemme Vice President and Actuary

Charles J. Jones Vice President Health Underwriting and New Business

Debra R. Knowles Vice President, Chief Senior Age Marketing Officer

Michael W. McCroskey Vice President, Investments

James E. Pozzi Vice President

Michael Shumate
Vice President
and Assistant Actuary

Lames P. Stelling

James P. Stelling Vice President, Health Compliance

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J. Mark Flippin Secretary and Treasurer

D. Lanette Leining Assistant Vice President Life New Business

Larry E. Linares Assistant Vice President

Bradley W. Manning Assistant Vice President Life Claims

Michael C. Paetz Assistant Vice President

E. Bruce Pavelka Assistant Vice President Life Administration

Judith L. Regini Assistant Vice President Corporate Compliance

William H. Watson III Associate Actuary

Richard T. Crawford Assistant Controller

Jeanette E. Cernosek

Assistant Secretary Victor J. Krc Assistant Treasurer

Morris J. Soler HIPAA Privacy Officer

Joseph J. Cantu Illustration Actuary

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President and Chief Executive Officer

Steven H. Schouweiler Executive Vice President and Chief Operating Officer

Stephen E. Pavlicek Vice President and Chief Financial Officer

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J. Mark Flippin Secretary and Treasurer

Dwain A. Akins Vice President Corporate Compliance

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Frank V. Broll, Jr.

Vice President and Actuary **Gordon D. Dixon**

Vice President, Investments **Rex D. Hemme**Vice President and Actuary

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Vice President, Health

Debra R. Knowles Vice President Chief Senior Age Marketing Officer

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Director of Human Resources

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Debbie S. Fuentes Vice President, Health Claims

Michael Shumate Vice President and Assistant Actuary

James P. Stelling
Vice President and Health
Compliance

Clarence E. Tipton
Vice President and Assistant
Actuary

D. Lanette Leining Assistant Vice President Life New Business

Larry E. Linares Assistant Vice President

Bradley W. Manning Assistant Vice President Life Claims

Michael C. Paetz Assistant Vice President

E. Bruce PavelkaAssistant Vice President,
Life Administration

Judith L. Regini
Assistant Vice President

Corporate Compliance
Richard T. Crawford
Assistant Controller

Jeanette E. Cernosek Assistant Secretary

Victor J. Krc Assistant Treasurer

Joseph J. Cantu Illustration Actuary

Morris J. Soler HIPAA Privacy Officer



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

FARM FAMILY LIFE INSURANCE COMPANY

DIRECTORS

Alexander P. Dowse G. Richard Ferdinandtsen Stephen J. George Irwin M. Herz, Jr. John W. Lincoln A. Ingrid Moody Ross R. Moody

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

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Michele M. Bartkowski Senior Vice President Chief Financial Officer and

William T. Conine Senior Vice President Marketing Services

Marketing

Patrick A. Wejrowski Senior Vice President Information Services

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Michael W. McCroskey Vice President

Melissa G. McGrath Vice President

Investments

Matthew R. Ostiguy Vice President Research and Development

Margaret A. Paris Vice President Casualty Compliance

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Gregory V. Ostergren Chairman of the Board

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General Counsel and Secretary

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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. McCroskey Vice President Investments

Melissa G. McGrath Vice President

Brian N. Bright Assistant Vice President Information Services



GARDEN STATE LIFE INSURANCE COMPANY

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G. Richard Ferdinandtsen Irwin M. Herz, Jr. Scott K. Luchesi Lea McLeod Matthews William L. Moody V Edward J. Walsh, Jr. Ronald J. Welch

ADVISORY DIRECTORS

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MISSOURI

DIRECTORS

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SECURITIES MANAGEMENT AND RESEARCH. INC.

A Florida Corporation

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Ronald J. Welch Chairman of the Board

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Lee C. Ferrell Senior Vice President Operations

J. Mark Flippin Secretary and Treasurer

Stephen E. Pavlicek Vice President and Chief Financial Officer

William F. Carlton
Vice President and Controller

Dwain A. Akins Vice President Corporate Compliance

Albert L. Amato, Jr. Vice President

Policy Administration **John R. Barrett** Vice President

Marketing

Frank V. Broll, Jr.

Vice President and Actuary

Gordon D. Dixon Vice President Investments

Rex D. Hemme Vice President and Actuary

Bruce M. LePard Vice President Human Resources

Michael W. McCroskey Vice President

Investments **Larry E. Linares**Assistant Vice President

Bradley W. Manning Assistant Vice President Life Claims

Carrie M. McCord

Assistant Vice President Director, Marketing Production

Michael N. Musselman Assistant Vice President Performance Analysis, E-Commerce and Underwriting

E. Bruce Pavelka Assistant Vice President Life Administration

Judith L. Regini Assistant Vice President Corporate Compliance

Corporate Compliance
Richard T. Crawford

Assistant Controller **Jeanette E. Cernosek** Assistant Secretary

Victor J. Krc
Assistant Treasurer

Joseph J. Cantu Illustration Actuary

OFFICERS

Gregory V. Ostergren Chairman of the Board President and Chief Executive Officer

G. Richard Ferdinandtsen Vice Chairman of the Board

Shannon L. Smith Executive Vice President Chief Marketing Officer ML

Robert J. Campbell Senior Vice President General Counsel Secretary Chief Claims Officer

Bernard S. Gerwel Senior Vice President Multiple Line Exclusive Agency and Chief Field Administration Officer

Janet A. Clark Vice President Underwriting Services

James M. Cybulski Vice President Controller and Treasurer

Deborah A. Foell Vice President Information/General Services

Jerry W. Jones Vice President Claims Services

Michael W. McCroskey Vice President, Investments

Stuart M. Paulson

Vice President Deputy General Counsel Assistant Secretary

Byron W. Smith Vice President and Actuary

Kristee Buff Assistant Vice President Human Resources

Gregory E. Eck Assistant Vice President Assistant Controller

Konrad D. Hendrickson Assistant Vice President Associate General Counsel Commercial-AG Claims Officer

Patrick Leeper Assistant Vice President

Assistant Vice President Licensing and Field Performance Administration

John Y. McCaskill Assistant Vice President Systems Projects and Compliance

Donna M. Pearcy Assistant Vice President Assistant Controller

Charles Swearingen Assistant Vice President Computing and Distribution Services

Linda F. Ward Assistant Vice President Corporate Actuary

J. Mark Flippin Assistant Secretary

OFFICERS

Michael W. McCroskey President Chief Executive Officer

Gordon D. Dixon Senior Vice President Chief Investment Officer

Ronald C. Price Senior Vice President

Teresa E. Axelson Vice President, Secretary Chief Compliance Officer

Brenda T. Koelemay Vice President Treasurer Chief Financial and Administrative Officer

James A. Collura Vice President

Andrew R. DuncanVice President
Derivatives Strategies and
Alternative Investments

T. Brett Harrington Vice President Fund Marketing

Anne M. LeMire Vice President Head of Fixed Income

John S. Maidlow Vice President Head of Portfolio Management

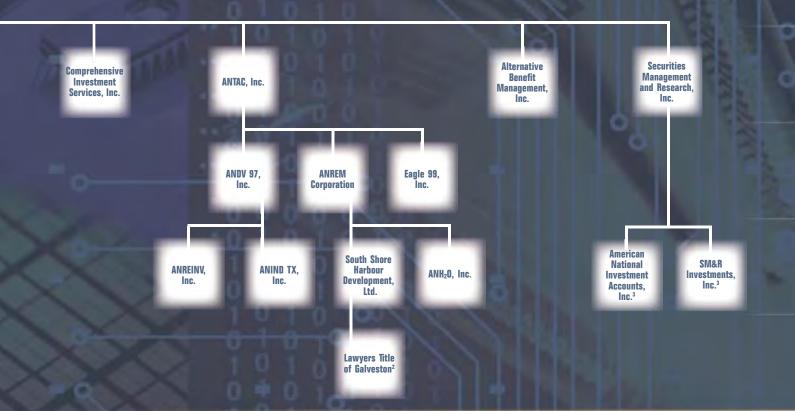
Vicki R. Douglas Assistant Vice President

Steven Douglas Geib Assistant Vice President

Sally F. Praker Assistant Vice President

Michele S. Lord Assistant Secretary





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

The American National Property And Casualty Companies

Property and casualty insurers that write primarily auto and homeowners insurance

The Farm Family Companies

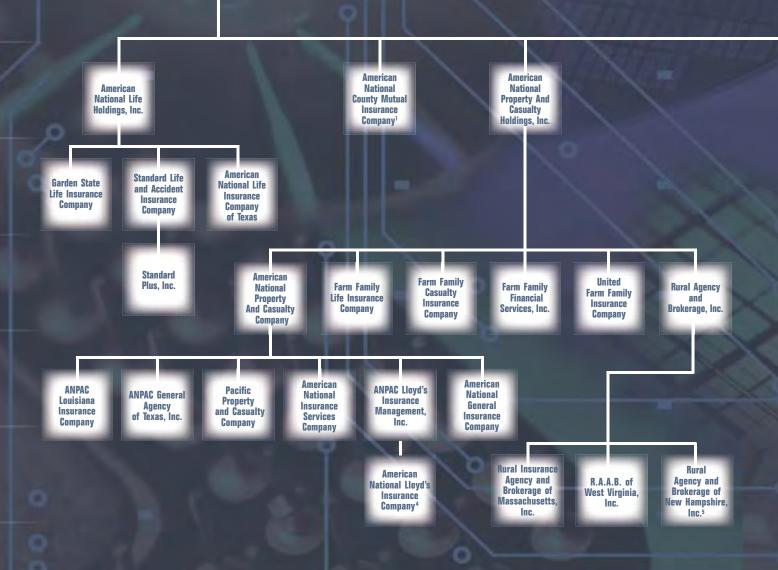
Property and casualty and life insurers concentrating on the New York and Northeast U.S. market

Securities Management and Research, Inc.

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

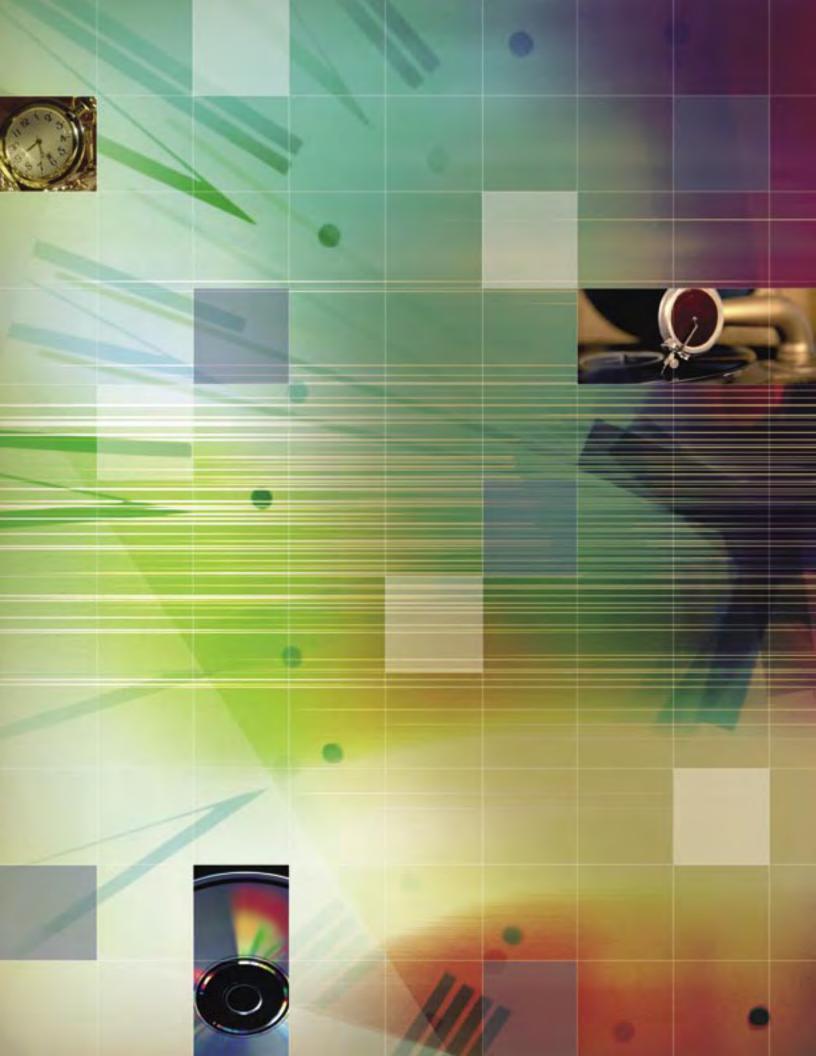


American National Insurance Company



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

- 1 Not a subsidiary company, but managed by American National Insurance Company
- 2 50% owned by South Shore Harbour Development Ltd. and 50% owned by Lawyers Title Company
- 3 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
- 4 Not a subsidiary company, but managed by ANPAC Lloyd's Insurance Management, Inc.
- 5 75% owned by New Hampshire Farm Bureau, and 25% owned by Rural Agency and Brokerage, Inc.



consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME (In thousands, except for per share data)

	2008	2007	2006
PREMIUMS AND OTHER REVENUE			
Premiums:			
Life	\$ 299,338	\$ 315,893	\$ 327,594
Annuity	116,248	222,748	112,455
Accident and health	290,883	283,765	303,285
Property and casualty	1,182,026	1,177,217	1,234,300
Other policy revenues	174,899	155,230	139,605
Net investment income	796,177	812,969	836,017
Realized gains (losses) on investments	(379,709)	41,027	100,256
Other income	38,779	47,224	51,107
Total revenues	2,518,641	3,056,073	3,104,619
BENEFITS, LOSSES AND EXPENSES			
Death and other benefits:			
Life	251,992	239,598	248,428
Annuity	157,102	150,318	130,830
Accident and health	220,848	212,692	227,329
Property and casualty	939,854	818,230	881,806
Increase (decrease) in liability for future policy benefits:			
Life	44,086	34,152	31,775
Annuity	(14,235)	99,560	4,554
Accident and health	2,207	(2,852)	(10,554)
Interest credited to policy account balances	299,833	295,894	297,551
Commissions for acquiring and servicing policies	475,345	456,537	423,291
Other operating costs and expenses	508,800	465,140	455,937
Decrease (increase) in deferred policy acquisition costs	(67,439)	(60,442)	8,385
Total benefits, losses and expenses	2,818,393	2,708,827	2,699,332
Income (loss) from continuing operations before federal income tax, minority interest and equity in earnings of unconsolidated affiliates	(299,752)	347,246	405,287
Provision (benefit) for federal income taxes:			
Current	(34,642)	80,324	119,255
Deferred	(87,388)	25,539	10,584
Minority Interest in income (loss) of consolidated subsidiaries	31	482	(1,300)
Equity in earnings of unconsolidated affiliates	4,965	3,866	4,693
Income (loss) from continuing operations	(172,726)	245,731	278,841
Income (loss) from discontinued operations	18,728	(4,958)	(5,610)
Net income (loss)	\$ (153,998)	\$ 240,773	\$ 273,231
Earnings (loss) per share:			
Basic	\$ (5.82)	\$ 9.09	\$ 10.32
Diluted	\$ (5.82)	\$ 9.04	\$ 10.27
Weighted average common shares outstanding	26,479,832	26,479,832	26,479,832
Weighted average common shares outstanding and			
dilutive potential common shares	26,617,457	26,638,219	26,612,464

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (In thousands)

	Dece	mber 31, 2008	Dece	mber 31, 2007
ASSETS				
nvestments, other than investments in unconsolidated affiliates:				
Fixed securities:				
Bonds held-to-maturity, at amortized cost		6,681,837	\$	6,692,447
Bonds available-for-sale, at market		3,820,837		3,837,988
Preferred stocks, at market		48,822		78,885
Equity securities:				
Common stocks, at market		853,530		1,194,982
Mortgage loans on real estate		1,877,053		1,540,081
Policy loans		354,398		346,002
Investment real estate, net of accumulated depreciation of \$191,435 and \$173,520		528,905		477,458
Short-term investments		295,170		698,262
Other invested assets		85,151		89,791
Total invested assets		14,545,703		14,955,896
Cash		66,096		134,069
Investments in unconsolidated affiliates		154,309		119,856
Accrued investment income		184,801		182,849
Reinsurance ceded receivables		482,846		438,066
Prepaid reinsurance premiums		61,433		66,772
Premiums due and other receivables		325,019		286,600
Deferred policy acquisition costs		1,482,664		1,251,285
Property and equipment, net		92,458		84,403
Current federal income taxes		68,327		3,145
Deferred federal income taxes		195,508		_
Other assets		159,254		156,787
Separate account assets		561,021		781,160
Total assets	\$	18,379,439	\$	18,460,888
LIABILITIES				
Policyholder funds:				
Future policy benefits:				
Life	\$	2,436,001	\$	2,384,818
		664 126		654,595
Annuity		664,136		
Annuity		96,548		94,072
,				94,072 7,636,617
Accident and health		96,548		
Accident and health		96,548 8,295,527		7,636,617
Accident and health		96,548 8,295,527 1,401,960		7,636,617 1,335,742
Accident and health		96,548 8,295,527 1,401,960 149,970		7,636,617 1,335,742 172,206
Accident and health		96,548 8,295,527 1,401,960 149,970 959,134		7,636,617 1,335,742 172,206 977,408
Accident and health Policy account balances Policy and contract claims Participating policyholder share Other policyholder funds		96,548 8,295,527 1,401,960 149,970 959,134		7,636,617 1,335,742 172,206 977,408 13,255,458
Accident and health Policy account balances Policy and contract claims Participating policyholder share Other policyholder funds Total policyholder liabilities Deferred federal income taxes Liability for retirement benefits		96,548 8,295,527 1,401,960 149,970 959,134 14,003,276 — 184,124		7,636,617 1,335,742 172,206 977,408 13,255,458 96,104 125,664
Accident and health Policy account balances Policy and contract claims Participating policyholder share Other policyholder funds Total policyholder liabilities Deferred federal income taxes Liability for retirement benefits Notes payable		96,548 8,295,527 1,401,960 149,970 959,134 14,003,276		7,636,617 1,335,742 172,206 977,408 13,255,458 96,104
Accident and health		96,548 8,295,527 1,401,960 149,970 959,134 14,003,276 — 184,124 111,922 376,863		7,636,617 1,335,742 172,206 977,408 13,255,458 96,104 125,664 128,799 332,380
Accident and health Policy account balances Policy and contract claims Participating policyholder share Other policyholder funds Total policyholder liabilities Deferred federal income taxes Liability for retirement benefits Notes payable Other liabilities Minority interests in subsidiaries		96,548 8,295,527 1,401,960 149,970 959,134 14,003,276 — 184,124 111,922 376,863 8,377		7,636,617 1,335,742 172,206 977,408 13,255,458 96,104 125,664 128,799 332,380 4,539
Accident and health Policy account balances Policy and contract claims Participating policyholder share Other policyholder funds Total policyholder liabilities Deferred federal income taxes Liability for retirement benefits Notes payable Other liabilities Minority interests in subsidiaries Separate account liabilities.		96,548 8,295,527 1,401,960 149,970 959,134 14,003,276 — 184,124 111,922 376,863 8,377 561,021		7,636,617 1,335,742 172,206 977,408 13,255,458 96,104 125,664 128,799 332,380 4,539 781,160
Accident and health Policy account balances Policy and contract claims Participating policyholder share Other policyholder funds Total policyholder liabilities Deferred federal income taxes Liability for retirement benefits Notes payable Other liabilities. Minority interests in subsidiaries Separate account liabilities. Total liabilities.		96,548 8,295,527 1,401,960 149,970 959,134 14,003,276 — 184,124 111,922 376,863 8,377		7,636,617 1,335,742 172,206 977,408 13,255,458 96,104 125,664 128,799 332,380 4,539
Accident and health Policy account balances Policy and contract claims Participating policyholder share Other policyholder funds Total policyholder liabilities Deferred federal income taxes Liability for retirement benefits Notes payable Other liabilities Minority interests in subsidiaries Separate account liabilities Total liabilities STOCKHOLDERS' EQUITY		96,548 8,295,527 1,401,960 149,970 959,134 14,003,276 — 184,124 111,922 376,863 8,377 561,021		7,636,617 1,335,742 172,206 977,408 13,255,458 96,104 125,664 128,799 332,380 4,539 781,160
Accident and health Policy account balances Policy and contract claims Participating policyholder share Other policyholder funds Total policyholder liabilities Deferred federal income taxes Liability for retirement benefits Notes payable Other liabilities. Minority interests in subsidiaries Separate account liabilities. Total liabilities. Total liabilities. STOCKHOLDERS' EQUITY Common stock, \$1.00 par value – Authorized 50,000,000,		96,548 8,295,527 1,401,960 149,970 959,134 14,003,276 — 184,124 111,922 376,863 8,377 561,021		7,636,617 1,335,742 172,206 977,408 13,255,458 96,104 125,664 128,799 332,380 4,539 781,160
Accident and health Policy account balances Policy and contract claims Participating policyholder share Other policyholder funds Total policyholder liabilities Deferred federal income taxes Liability for retirement benefits Notes payable Other liabilities. Minority interests in subsidiaries Separate account liabilities. Total liabilities. Total liabilities. TOCKHOLDERS' EQUITY		96,548 8,295,527 1,401,960 149,970 959,134 14,003,276 — 184,124 111,922 376,863 8,377 561,021 15,245,583		7,636,617 1,335,742 172,206 977,408 13,255,458 96,104 125,664 128,799 332,380 4,539 781,160 14,724,104
Accident and health Policy account balances Policy and contract claims Participating policyholder share Other policyholder funds Total policyholder liabilities Deferred federal income taxes Liability for retirement benefits Notes payable Other liabilities. Minority interests in subsidiaries Separate account liabilities. Total liabilities Total liabilities TOCKHOLDERS' EQUITY Common stock, \$1.00 par value – Authorized 50,000,000, Issued 30,832,449, Outstanding 26,818,833 shares		96,548 8,295,527 1,401,960 149,970 959,134 14,003,276 — 184,124 111,922 376,863 8,377 561,021 15,245,583 30,832		7,636,617 1,335,742 172,206 977,408 13,255,458 96,104 125,664 128,799 332,380 4,539 781,160 14,724,104
Accident and health Policy account balances Policy and contract claims Participating policyholder share Other policyholder funds Total policyholder liabilities Deferred federal income taxes Liability for retirement benefits Notes payable Other liabilities. Minority interests in subsidiaries Separate account liabilities. Total liabilities STOCKHOLDERS' EQUITY Common stock, \$1.00 par value – Authorized 50,000,000, Issued 30,832,449, Outstanding 26,818,833 shares Additional paid-in capital		96,548 8,295,527 1,401,960 149,970 959,134 14,003,276 — 184,124 111,922 376,863 8,377 561,021 15,245,583 30,832 7,552		7,636,617 1,335,742 172,206 977,408 13,255,458 96,104 125,664 128,799 332,380 4,539 781,160 14,724,104
Accident and health Policy account balances Policy and contract claims Participating policyholder share Other policyholder funds Total policyholder liabilities Deferred federal income taxes Liability for retirement benefits Notes payable Other liabilities. Minority interests in subsidiaries Separate account liabilities. Total liabilities STOCKHOLDERS' EQUITY Common stock, \$1.00 par value – Authorized 50,000,000, Issued 30,832,449, Outstanding 26,818,833 shares Additional paid-in capital Accumulated other comprehensive income (loss).		96,548 8,295,527 1,401,960 149,970 959,134 14,003,276 — 184,124 111,922 376,863 8,377 561,021 15,245,583 30,832 7,552 (221,148)		7,636,617 1,335,742 172,206 977,408 13,255,458 96,104 125,664 128,799 332,380 4,539 781,160 14,724,104 30,832 6,080 145,972
Accident and health Policy account balances Policy and contract claims Participating policyholder share Other policyholder funds Total policyholder liabilities Deferred federal income taxes Liability for retirement benefits Notes payable Other liabilities. Minority interests in subsidiaries Separate account liabilities. Total liabilities. Total liabilities STOCKHOLDERS' EQUITY Common stock, \$1.00 par value – Authorized 50,000,000, Issued 30,832,449, Outstanding 26,818,833 shares Additional paid-in capital Accumulated other comprehensive income (loss) Retained earnings		96,548 8,295,527 1,401,960 149,970 959,134 14,003,276 — 184,124 111,922 376,863 8,377 561,021 15,245,583 30,832 7,552 (221,148) 3,414,946		7,636,617 1,335,742 172,206 977,408 13,255,458 96,104 125,664 128,799 332,380 4,539 781,160 14,724,104 30,832 6,080 145,972 3,653,365

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(In thousands, except for per share data)

	2008	2007	2006
COMMON STOCK			
Balance at beginning and end of year	\$ 30,832	\$ 30,832	\$ 30,832
ADDITIONAL PAID-IN CAPITAL			
Balance at beginning of year	6,080	4,160	2,212
Issuance of treasury shares as restricted stock	(1,139)	(79)	_
Amortization of restricted stock	2,611	1,999	1,948
Balance at end of year	7,552	6,080	4,160
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)			
Balance at beginning of year	145,972	141,869	139,024
Change in unrealized gains on marketable securities, net	(331,828)	268	28,935
Foreign exchange adjustments	(247)	(17)	36
Minimum pension liability adjustment	(35,045)	3,852	8,497
Effect of FAS 158 implementation on pension liability, net of tax	_	_	(34,623)
Balance at end of year	(221,148)	145,972	141,869
RETAINED EARNINGS			
Balance at beginning of year	3,653,365	3,498,306	3,305,523
Net income (loss)	(153,998)	240,773	273,231
Cash dividends to common stockholders (\$3.08, \$3.05 and \$3.01 per share)	(82,651)	(81,531)	(80,448)
FIN 48 implementation	_	(4,183)	_
Effect of FAS 158 change in measurement date	(1,770)	_	_
Balance at end of year	3,414,946	3,653,365	3,498,306
TREASURY STOCK			
Balance at beginning of year	(99,465)	(99,544)	(99,544)
Issuance of restricted stock	1,139	79	_
Balance at end of year	(98,326)	(99,465)	(99,544)
STOCKHOLDERS' EQUITY			
Balance at end of year	\$ 3,133,856	\$ 3,736,784	\$ 3,575,623

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (In thousands)

	2008	2007	2006
Net income (loss)	\$ (153,998)	\$ 240,773	\$ 273,231
Other comprehensive income (loss):			
Change in unrealized gains on marketable securities, net	(331,828)	268	28,935
Foreign exchange adjustments	(247)	(17)	36
Minimum pension liability adjustment	(35,045)	3,852	8,497
Total other comprehensive income (loss)	(367,120)	4,103	37,468
Total comprehensive income (loss)	\$ (521,118)	\$ 244,876	\$ 310,699

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(In thousands)			
	2008	2007	2006
OPERATING ACTIVITIES			
Net income (loss)	\$ (153,998)	\$ 240,773	\$ 273,231
Adjustments to reconcile net income to net cash provided by operating activities:	. (, ,		
Realized losses (gains) on investments	379,709	(46,499)	(100,295)
Amortization of discounts and premiums on bonds	16,654	15,619	983
Capitalized interest on policy loans and mortgage loans	3,511	_	_
Depreciation	26,496	35,327	38,146
Interest credited to policy account balances	299,833	295,894	297,551
Charges to policy account balances	(191,238)	(146,555)	(137,802)
Deferred federal income tax (benefit) expense	(87,388)	25,539	10,584
Deferral of policy acquisition costs	(491,342)	(465,362)	(411,141)
Amortization of deferred policy acquisition costs	424,005	405,024	419,642
Equity in earnings of unconsolidated affiliates	(7,639)	(5,947)	(7,220)
Changes in:	(1,033)	(3,547)	(1,220)
Policyholder funds liabilities	88,908	72,663	94,998
Reinsurance ceded receivables	(44,780)	30,549	25,320
Premiums due and other receivables	. ,	9,552	
	(38,419)		(17,082)
Accrued investment income	(1,952)	(8,562)	11,523
Current federal income tax recoverable	(65,182)		22.774
Liability for retirement benefits	6,018	5,963	22,774
Prepaid reinsurance premiums	5,339	9,298	445
Other, net	3,146	(10,363)	(18,164)
Net cash provided by operating activities	171,681	462,913	503,493
INVESTING ACTIVITIES			
Proceeds from sales of:			
Bonds available-for-sale	104,093	68,004	72,252
Stocks	129,270	277,429	191,001
Real estate		84,744	153,101
Mortgage loans	6,794	· _	_
Other invested assets	9,896	104,743	94,562
Proceeds from maturity of:	.,	, ,	, , , ,
Bonds available-for-sale	249,769	287,559	338,598
Bonds held-to-maturity	528,781	547,416	640,787
Principal payments received on:	320,701	317,110	010/101
Mortgage loans	138,035	223,956	157,474
Policy loans	9,459	5,472	13,085
Purchases of investments:	J, 1 3J	3,472	15,005
Bonds available-for-sale	(640 402)	(659 721)	(496,858)
	(640,403) (656,580)	(658,731)	
Bonds held-to-maturity	, ,	(483,722)	(151,883)
Stocks	(290,979)	(364,352)	(228,292)
Real estate	(78,119)	(46,295)	(2,157)
Mortgage loans	(513,964)	(386,137)	(323,207)
Policy loans	(20,447)	(10,237)	(20,589)
Other invested assets	(21,795)	(50,115)	(22,294)
Decrease (increase) in short-term investments, net	403,092	19,881	(558,578)
Decrease (increase) in investment in unconsolidated affiliates, net	(34,453)	(44,826)	915
Increase in property and equipment, net	(12,890)	(11,459)	(6,752)
Net cash used in investing activities	(690,441)	(436,670)	(148,836)
FINANCING ACTIVITIES			
Policyholders' deposits to policy account balances	1,996,836	1,220,022	1,091,608
Policyholders' withdrawals from policy account balances	(1,446,521)	(1,250,266)	(1,195,408)
Increase (decrease) in notes payable	(16,877)	4,724	(14,959)
Dividends to stockholders	(82,651)	(81,531)	(80,448)
Net cash provided by (used in) financing activities	450,787	(107,051)	(199,207)
		`	
Net increase (decrease) in cash	(67,973)	(80,808)	155,450
Cash:			
Beginning of the year	134,069	214,877	59,427
End of the year	\$ 66,096	\$ 134,069	\$ 214,877

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



NATURE OF OPERATIONS

American National Insurance Company and its consolidated subsidiaries (collectively "American National") operate primarily in the insurance industry. Operating on a multiple product 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 of revenues are generated by the insurance business. Business is conducted in all states and the District of Columbia, as well as Puerto Rico, Guam and American Samoa. Various distribution systems are utilized, including home service, multiple line, group brokerage, credit, independent third-party marketing organizations and direct sales to the public.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

These consolidated financial statements ("Financial Statements") have been prepared in conformity with (i) U.S. generally accepted accounting principles ("GAAP"); and (ii) the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") regarding financial reporting. In addition to GAAP accounting literature, specific SEC regulation is also applied to the financial statements issued by insurance companies.

All significant intercompany accounts and 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 preparation of consolidated financial statements in conformity with GAAP requires the use of estimates and assumptions that affect the reported financial statement balances. Actual results could differ from those estimates. The following estimates have been identified as critical in that they involve a high degree of judgment and are subject to a significant degree of variability:

- Other-than-temporary impairment of investment securities;
- Deferred acquisition costs;
- Reserves;
- Reinsurance recoverable:
- Pension and postretirement benefit plans;
- Litigation contingencies; and
- Federal income taxes.

Accounting estimates inherently require the use of judgments relating to a variety of assumptions, in particular, expectations of current and future mortality, morbidity, persistency, losses and loss adjustment expenses, recoverability of receivables, investment returns and interest rates. In developing these estimates, we make subjective and complex judgments that are inherently uncertain and subject to material changes as facts and circumstances develop. Although variability is inherent in these estimates, management believes that the amounts provided are appropriate, based upon the facts available upon compilation of the financial statements. Due to the inherent uncertainty when using assumptions and estimates, the effect of certain accounting policies under different conditions or assumptions could be different from those reported in the consolidated financial statements.

Certain reclassifications have been made to the 2007 and 2006 financial information to conform to the 2008 presentation.

INVESTMENTS

Debt securities

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

Preferred stocks

All preferred stocks are classified as available-for-sale and are carried at fair value.

Common stocks

All common stocks are classified as available-for-sale and are carried at fair value.

Unrealized gains and losses

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

Mortgage loans

Mortgage loans on real estate are recorded at carrying value, which is comprised of the original cost, net of repayments, amortization of premiums, accretion of discounts, unamortized deferred revenue and valuation allowances. 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. The change in valuation allowances is reported in current period income as a realized loss. 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 which approximates fair value.

Investment real estate

Investment real estate is carried at cost, less allowance for depreciation. 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 the property is impaired. If a possible impairment is indicated, the fair 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 value, an impairment is recorded.

Short-term investments

Short-term investments, comprised of commercial paper, are carried at amortized cost which approximates fair value.

Other invested assets

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

Impairments

All marketable securities, real estate and other invested assets are regularly reviewed for impairment based on criteria that include the extent to which cost exceeds fair 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.

Derivative instruments and hedging activities

American National purchases derivative instruments only as hedges of a recognized asset or liability, which are recorded on the consolidated statement of financial position at fair value. The change in fair value of derivative assets is reported as part of net investment income. The change in fair value of embedded derivative liabilities is reported through interest credited to policyholders. Derivative instruments held at December 31, 2008 and 2007 had an immaterial impact on the consolidated statements of income and 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.

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.

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. Revenues 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 (loss).

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.

Reserves for losses and loss expenses

American National establishes property and casualty reserves to provide for the estimated costs of paying claims under insurance policies written by American National. These reserves include estimates for both, case reserves, reserves for incurred but not reported ("IBNR") claims. Case reserves include the liability for claims that were reported to American National, but not yet paid. IBNR reserves include a provision for potential development on case reserves, losses on claims currently closed which may reopen in the future as well as claims which have been incurred but not yet reported to American National. These reserves also include an estimate of the expense associated with settling claims, including legal and other fees and the general expenses of administering the claims adjustment process.

PREMIUM REVENUE AND POLICY BENEFITS

Traditional ordinary life and health

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

Annuities

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

Universal life and single premium whole life

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

Property and casualty

Property and casualty premiums are recognized as revenue proportionately over the contract period. Policy benefits consist of actual claims and the change in reserves for losses and loss adjustment expenses.

PARTICIPATING INSURANCE POLICIES

A portion of the life insurance portfolio is written on a participating basis. Participating business comprised approximately 9% of the life insurance in force at December 31, 2008 and 6% of life premiums in 2008. Of the total participating business, 72% 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 2008. Certain subsidiaries that 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.

American National recognizes tax benefits on uncertain tax positions only if it is "more likely than not" that the tax position will be sustained by taxing authorities, based on the technical merits of the position. Tax benefits recognized in the financial statements are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Tax benefits not meeting the "more likely than not" threshold are included with "Other Liabilities" in the consolidated statements of financial position.

Interest expense is classified as "Other Operating Costs and Expenses" in the consolidated statements of income. Penalties, if applicable, are classified as "Current Federal Income Taxes" in the consolidated statements of income.

STOCK-BASED COMPENSATION

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

SEPARATE ACCOUNT ASSETS AND LIABILITIES

Separate account assets and liabilities represent funds maintained to meet the investment objectives of contract holders who bear the investment risk. 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. Separate accounts are established in conformity with insurance laws and are not chargeable with liabilities that arise from any other business of American National. American National reports separately, as assets and liabilities, investments held in separate accounts and liabilities of the separate accounts if (i) such separate accounts are legally recognized; (ii) assets supporting the contract liabilities are legally insulated from American National's general account liabilities; (iii) investments are directed by the contract holder; and (iv) all investment performance, net of contract fees and assessments, is passed through to the contract holder. The assets of these accounts are carried at fair 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 the consolidated financial statements.

ADOPTION OF NEW ACCOUNTING STANDARDS

In January 2009, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") No. EITF 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20*, ("FSP EITF 99-20-1"). The FSP amends the impairment guidance of Emerging Issues Task Force ("EITF") Issue No. 99-20, *Recognition of Interest Income and Impairment of Purchased Beneficial Interest and Beneficial Interest that Continue to Be Held by a Transferor in Securitized Financial Assets,* by removing the exclusive reliance upon market participant assumptions about future cash flows when evaluating impairment of securities within its scope. FSP EITF 99-20-1 requires companies to follow the impairment guidance in Statement of Financial Accounting Standards ("SFAS") No. 115, *Accounting for Certain Investments in Debt and Equity Securities* ("SFAS 115"), which permits the use of reasonable management judgment of the probability that the holder will be unable to collect all amounts due. The FSP is effective prospectively for interim and annual reporting periods ending after December 15, 2008. American National adopted the FSP on December 31, 2008 and the adoption did not have a material effect on American National's consolidated financial statements.

On January 1, 2008, American National adopted SFAS No. 157, Fair Value Measurements, ("SFAS 157") which was issued by the FASB in September 2006. American National also adopted on January 1, 2008 the SFAS 157 related FASB Staff Positions ("FSPs"). For financial statement elements currently required to be measured at fair value, SFAS 157 redefines fair value, establishes a framework for measuring fair value under U.S. Generally Accepted Accounting Principles and enhances disclosures about fair value measurements. The new definition of fair value focuses on the price that would be received to sell an asset or paid to transfer a liability regardless of whether an observable liquid market price exists (an exit price). An exit price valuation will include margins for risk even if they are not observable. As a company is released from risk, the margins for risk will also be released through net realized capital gains or losses in net income. SFAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels (i.e. Level 1, 2, and 3). Also, SFAS 157 provides guidance on how to measure fair value, when required, under existing accounting standards. See further disclosure regarding accounting under FAS 157 in Note 5.

American National has adopted FAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* ("SFAS 158"). This statement requires employers to recognize, on the statement of financial position, the overfunded or underfunded status of a defined benefit postretirement plan, measured as the difference between the fair value of plan assets and the benefit obligation. Employers must also recognize as a component of other comprehensive income, net of tax, the actuarial and experience gains and losses and the prior service costs and credits. These recognition standards of this statement were effective for public entities for years ending after December 15, 2006. The statement also required employers to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position with this date change effective for periods ending after December 15, 2008. American National adopted the provisions of this statement on the required effective dates and the adoption of this statement did not have a material impact on American National's consolidated financial statements.

As of January 1, 2008, American National adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159"). This statement provides an option, on specified election dates, to report selected financial assets and liabilities, including insurance contracts, at fair value. Subsequent changes in fair value for designated items are reported in income in the current period. The adoption of SFAS 159 did not impact the consolidated financial statements, as no items were elected for measurement at fair value upon initial adoption. American National will continue to evaluate eligible financial assets and liabilities on their election dates. Any future elections will be disclosed in accordance with the provisions outlined in the statement.

In June of 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No.* 109. This statement clarifies the criteria for recognizing tax benefits under FASB Statement No. 109, *Accounting for Income Taxes*. It also requires additional disclosures about uncertain tax positions. This statement was effective for fiscal years beginning after December 15, 2006. The adoption of FIN 48 and the related FSP's on January 1, 2007 did not have a material impact on American National's consolidated financial statements.

In September of 2005, the Accounting Standards Executive Committee issued Statement of Position ("SOP") No. 05-01, Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts ("SOP 05-01"). This SOP provides guidance on accounting for deferred acquisition costs on internal replacements of insurance contracts. SOP 05-01 was effective for internal replacements occurring in fiscal years beginning after December 15, 2006. American National adopted SOP 05-01 on January 1, 2007. The adoption of SOP 05-01 did not have a material impact on American National's consolidated financial statements.

FUTURE ADOPTION OF NEW ACCOUNTING STANDARDS

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51* ("SFAS 160"). This Statement requires changes to the reporting of noncontrolling interests in

subsidiaries to improve the relevance, comparability, and transparency of financial information provided in consolidated statements. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008. Earlier adoption is prohibited. The adoption of SFAS 160 on January 1, 2009, is not expected to have a material effect on American National's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations* ("SFAS 141R"). This statement, which addresses the accounting for business acquisitions, is effective for fiscal years beginning on or after December 15, 2008, with early adoption prohibited, and generally applies to business acquisitions completed after December 31, 2008. Among other things, the new standard requires that all acquisition-related costs be expensed as incurred, and that all restructuring costs related to acquired operations be expensed as incurred. This new standard also addresses the current and subsequent accounting for assets and liabilities arising from contingencies acquired or assumed and, for acquisitions both prior and subsequent to December 31, 2008, requires the acquirer to recognize changes in the amount of its deferred tax benefits that are recognizable because of a business combination either in income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. The adoption of SFAS 141R on January 1, 2009, is not expected to have a material effect on American National's consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No.* 133 ("SFAS 161"). SFAS 161 amends and expands disclosures about an entity's derivative and hedging activities with the intent of providing users of financial statements with an enhanced understanding of (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. SFAS 161 encourages, but does not require, comparative disclosures. American National will adopt SFAS 161 on January 1, 2009. The adoption of SFAS 161 is expected to result in expanded disclosures related to derivative instruments and hedging activities.

In April 2008, the FASB issued FSP No. 142-3, *Determination of the Useful Life of Intangible Assets* ("FSP 142-3"). This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"). This change is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(R) and other GAAP. FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. American National will apply FSP 142-3 prospectively to and intangible assets acquired as of, and subsequent to, January 1, 2009.

In November 2008, the FASB issued EITF 08-6, *Equity Method Investment Accounting Considerations* ("EITF 08-6"). EITF 08-6 addresses the effects of the issuances of SFAS 141(R) and SFAS 160 on the application of the equity method under Accounting Principles Board ("APB") Opinion 18, *The Equity Method of Accounting for Investments in Common Stock.* EITF 08-6 requires that (a) an entity determine the initial carrying value of an equity method investment by applying the cost accumulation model; (b) an entity shall use the other-than-temporary impairment model of APB Opinion 18; however, investors should adjust any impairments' recorded by an investee for existing differences between the investor's basis and the underlying investees' basis in such impaired assets; (c) share issuances by an investee should be accounted for as if the equity method investor had sold a proportionate share of its investment; and (d) when an investment is no longer within the scope of equity method accounting and instead is within the scope of cost method accounting or SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities* ("SFAS 115"), the investor should prospectively apply the provisions of APB Opinion 18 or SFAS 115 and use the current carrying amount of the investment as its initial cost. The EITF is effective on a prospective basis in fiscal years beginning on or after December 15, 2008 and interim periods within those fiscal years, consistent with the effective dates of SFAS No. 141(R) and SFAS No. 160. The adoption of EITF 08-6 on January 1, 2009 is not expected to have a material effect on American National's consolidated financial statements.

In December 2008, the FASB issued FSP No. FAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets* ("FSP 132(R)-1"). FSP 132(R)-1 amends SFAS No. 132(R), *Employers' Disclosures about Pensions and Other Postretirement Benefits*, to enhance the transparency surrounding the types of assets and associated risks in an employer's defined benefit pension or other postretirement plan. FSP 132(R)-1 requires an employer to disclose information about the valuation of plan assets similar to that required under SFAS 157. This FSP is effective for fiscal years ending after December 15, 2009. American National will provide the required disclosure in accordance with the effective date.

The amortized cost and estimated fair values of investments in held-to-maturity and available-for-sale securities are shown below (in thousands):

December 31, 2008	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
DEBT SECURITIES				
Bonds held-to-maturity:				
U.S. Government and agencies	\$ 166,010	\$ 2,292	\$ (3)	\$ 168,299
States and political subdivisions	157,907	4,662	(1,611)	160,958
Foreign governments	4,338	1,618	_	5,956
Public utilities	380,766	1,218	(25,877)	356,107
All other corporate bonds	5,173,926	47,954	(507,577)	4,714,303
Other	30,130	_	(4,932)	25,198
Mortgage-backed securities	768,760	13,499	(64,377)	717,882
Total bonds held-to-maturity	6,681,837	71,243	(604,377)	6,148,703
Bonds available-for-sale:				
U.S. Government and agencies	8,027	1,063	_	9,090
States and political subdivisions	584,268	6,278	(18,311)	572,235
Foreign governments	916	_	(87)	829
Public utilities	206,499	7,222	(9,791)	203,930
All other corporate bonds	3,023,131	24,014	(435,847)	2,611,298
Other	100	2	_	102
Mortgage-backed securities	436,619	4,475	(17,741)	423,353
Total bonds available-for-sale	4,259,560	43,054	(481,777)	3,820,837
Total debt securities	10,941,397	114,297	(1,086,154)	9,969,540
MARKETABLE EQUITY SECURITIES				
Preferred stock	60,718	3,609	(15,505)	48,822
Common stock	820,908	115,692	(83,070)	853,530
Total marketable equity securities	881,626	119,301	(98,575)	902,352
Total investments in securities	\$ 11,823,023	\$ 233,598	\$ (1,184,729)	\$ 10,871,892

December 31, 2007	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
DEBT SECURITIES				
Bonds held-to-maturity:				
U.S. Government and agencies	\$ 219,804	\$ 1,444	\$ (312)	\$ 220,936
States and political subdivisions	228,122	4,052	(469)	231,705
Foreign governments	5,868	664	_	6,532
Public utilities	411,353	5,985	(4,457)	412,881
All other corporate bonds	5,122,513	89,488	(96,508)	5,115,493
Mortgage-backed securities	704,787	4,542	(11,703)	697,626
Total bonds held-to-maturity	6,692,447	106,175	(113,449)	6,685,173
Bonds available-for-sale:				
U.S. Government and agencies	30,616	501	_	31,117
States and political subdivisions	416,425	3,830	(512)	419,743
Foreign governments	800	_	(23)	777
Public utilities	192,333	8,714	(1,604)	199,443
All other corporate bonds	2,784,555	35,486	(83,992)	2,736,049
Mortgage-backed securities	458,553	2,966	(10,660)	450,859
Total bonds available-for-sale	3,883,282	51,497	(96,791)	3,837,988
Total debt securities	10,575,729	157,672	(210,240)	10,523,161
MARKETABLE EQUITY SECURITIES				
Preferred stock	87,422	1,742	(10,279)	78,885
Common stock	866,371	375,402	(46,791)	1,194,982
Total marketable equity securities	953,793	377,144	(57,070)	1,273,867
Total investments in securities	\$ 11,529,522	\$ 534,816	\$ (267,310)	\$ 11,797,028

DEBT SECURITIES

The amortized cost and estimated fair value, by contractual maturity, of debt securities at December 31, 2008, are shown below (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.

		Bonds Held	-to-Ma	turity	Bonds Available-for-Sale			
		ortized Cost	_	Estimated Fair Value	A	mortized Cost	_	Sstimated Fair Value
Due in one year or less	\$	335,885	\$	334,044	\$	154,877	\$	153,727
Due after one year through five years	2	,880,344		2,674,238		1,359,792		1,237,037
Due after five years through ten years	2	,722,138		2,436,099		2,012,462		1,733,270
Due after ten years		737,619		700,052		722,153		689,786
	6	,675,986		6,144,433		4,249,284		3,813,820
Without single maturity date		5,851		4,270		10,276		7,017
	6	,681,837		6,148,703		4,259,560		3,820,837

Available-for-sale securities are sold throughout the year for various reasons. Proceeds from the disposals of these securities, with the gains and losses realized, are shown below (in thousands).

	2008	2007	2006
Proceeds from sales of available-for-sale securities	\$ 118,905	\$ 166,493	\$ 425,033
Gross gains realized	22,478	34,033	73,541
Gross losses realized	30,388	2,069	8,040

In 2008, securities with an amortized cost of \$91,418,000 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 \$67,383,000 was established at the time of the transfer.

In 2007, securities with an amortized cost of \$27,239,000 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 \$98,000 was established at the time of the transfer.

In 2006, securities with an amortized cost of \$69,631,000 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 \$6,822,000 was established at the time of the transfer.

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

In accordance with various government and state regulations, American National and its insurance subsidiaries had bonds with an amortized value of \$53,941,000 at December 31, 2008, on deposit with appropriate regulatory authorities.

UNREALIZED GAINS AND LOSSES ON SECURITIES

Unrealized gains (losses) on marketable equity securities and bonds available-for-sale, presented in the stockholders' equity section of the consolidated statements of financial position, are net of deferred tax liabilities or (assets) of (\$84,029,000), \$101,244,000, and \$101,114,000 for 2008, 2007, and 2006, respectively.

The change in the net unrealized gains (losses) on investments for the years ended December 31 are summarized as follows (in thousands):

	2008	2007	2006
Bonds available-for-sale	\$ (393,429)	\$ (4,443) \$	(38,062)
Preferred stocks	(3,359)	(9,544)	150
Common stocks	(295,988)	11,161	70,520
Amortization of deferred policy acquisition costs	164,937	3,080	13,675
	(527,839)	254	46,283
(Provision) benefit for federal income taxes	185,273	(130)	(16,189)
	\$ (342,566)	\$ 124 \$	30,094
Change in unrealized gains of investments			
attributable to participating policyholders' interest	10,738	144	(1,159)
Total	\$ (331,828)	\$ 268 \$	28,935

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, as of December 31, 2008, are summarized as follows (in thousands):

December 31, 2008	Less than	12 months	12 mont	hs or more	Total		
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	
DEBT SECURITIES							
Bonds held-to-maturity:							
U.S. Government and agencies	\$ 3	\$ 3,181	\$	\$ _	\$ 3	\$ 3,181	
States and political subdivisions	1,571	21,104	40	383	1,611	21,487	
Public utilities	13,951	249,289	11,926	67,505	25,877	316,794	
All other corporate bonds	267,069	2,443,246	240,508	860,680	507,577	3,303,926	
Other	4,932	25,197	_	_	4,932	25,197	
Mortgage-backed securities	51,899	173,371	12,478	74,270	64,377	247,641	
Total held-to-maturity	339,425	2,915,388	264,952	1,002,838	604,377	3,918,226	
Bonds available-for-sale:							
States and political subdivisions	14,285	269,042	4,026	34,572	18,311	303,614	
Foreign governments	19	107	67	723	87	830	
Public utilities	5,052	80,772	4,739	46,342	9,791	127,114	
All other corporate bonds	245,231	1,618,374	190,616	610,305	435,847	2,228,679	
Mortgage-backed securities	9,847	111,517	7,895	46,536	17,741	158,053	
Total available-for-sale	274,434	2,079,812	207,343	738,478	481,777	2,818,290	
Total debt securities	613,859	4,995,200	472,295	1,741,316	1,086,154	6,736,516	
Marketable equity securities:							
Preferred stock	1,238	7,853	14,267	31,835	15,505	39,688	
Common stock	77,791	299,512	5,279	18,493	83,070	318,005	
Total marketable equity securities	79,029	307,365	19,546	50,328	98,575	357,693	
Total investments in securities	\$ 692,888	\$ 5,302,565	\$ 491,841	\$ 1,791,644	\$ 1,184,729	\$ 7,094,209	

December 31, 2007	Less than	12 months	12 mont	hs or more	Total			
	Unrealized Losses			Fair Value	Unrealized Losses	Fair Value		
DEBT SECURITIES								
Bonds held-to-maturity:								
U.S. Government and agencies	\$ 110	\$ 110,254	\$ 202	\$ 38,697	\$ 312	\$ 148,951		
States and political subdivisions	252	217,143	217	19,208	469	236,351		
Public utilities	12	17,070	4,445	185,592	4,457	202,662		
All other corporate bonds	12,911	262,789	83,597	2,612,728	96,508	2,875,517		
Mortgage-backed securities	813	66,636	10,890	478,611	11,703	545,247		
Total held-to-maturity	14,098	673,892	99,351	3,334,836	113,449	4,008,728		
Bonds available-for-sale:								
U.S. Government and agencies	_	8,053	_	_	_	8,053		
States and political subdivisions	336	366,116	176	38,309	512	404,425		
Foreign governments	_	_	23	777	23	777		
Public utilities	(1,953)	4,604	3,557	129,595	1,604	134,199		
All other corporate bonds	7,728	164,151	76,264	1,469,709	83,992	1,633,860		
Mortgage-backed securities	185	1,381,105	10,475	338,970	10,660	1,720,075		
Total available-for-sale	6,296	1,924,029	90,495	1,977,360	96,791	3,901,389		
Total debt securities	20,394	2,597,921	189,846	5,312,196	210,240	7,910,117		
Marketable equity securities:								
Preferred stock	10,279	64,223	_	_	10,279	64,223		
Common stock	46,791	472,595		_	46,791	472,595		
Total marketable equity securities	57,070	536,818			57,070	536,818		
Total investments in securities	\$ 77,464	\$ 3,134,739	\$ 189,846	\$ 5,312,196	\$ 267,310	\$ 8,446,935		

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. However, it is possible that the investee's ability to meet future contractual obligations may be different than what the Company determined during its analysis, which may lead to a different impairment conclusion in future periods.

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 a market price recovery is not expected in the near term. 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. However, it is possible that the investee's ability to perform in the future may be different than what the Company determined during its analysis, which may lead to a different impairment conclusion in future periods.

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, 2008, mortgage loans have fixed rates from 5.00% to 12.00% and variable rates from 2.48% to 9.00%. The majority of the mortgage loan contracts require periodic payments of both principal and interest, and have amortization periods of 6 months to 30 years.

American National has investments in first lien mortgage loans on real estate with carried values of \$1,877,053,000 and \$1,540,081,000 at December 31, 2008 and 2007, respectively. Problem loans, on which valuation allowances were established, totaled \$13,824,000 and \$9,693,000 at December 31, 2008 and 2007, respectively. The valuation allowances on those loans totaled \$1,793,000 at December 31, 2008 and \$1,053,000 at December 31, 2007.

POLICY LOANS

All of American National's policy loans carried interest rates ranging from 3.00% to 8.00% at December 31, 2008.

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 follows (in thousands):

	Investment Income							Gains (Losses) on Investments				
		2008		2007		2006		2008		2007		2006
Bonds	\$	623,356	\$	620,035	\$	610,268	\$	(157,272)	\$	366	\$	3,192
Preferred stocks		5,687		4,561		3,356		(49,172)		_		(6)
Common stocks		28,977		27,002		28,641		(164,407)		23,913		62,872
Mortgage loans		118,067		103,627		104,052		_		_		_
Real estate		114,198		126,926		151,099		1,005		18,563		26,888
Other invested assets		12,123		40,994		56,386		(5,977)		(40)		53
Investment in unconsolidated affiliates		_		_		_		_		_		
		902,408		923,145		953,802		(375,823)		42,802		92,999
Investment expenses		(106,231)		(110,176)		(117,785)		_		_		_
Decrease (increase) in valuation allowances		_		_		_		(3,886)		(1,775)		7,257
	\$	796,177	\$	812,969	\$	836,017	\$	(379,709)	\$	41,027	\$	100,256

Included in the realized losses are write-downs, before federal income taxes, of available-for-sale securities due to other-than-temporary declines in the value of the securities. The write-downs, before tax, totaled \$367,036,000 in 2008, \$7,166,000 in 2007, and \$8,667,000 in 2006.

CREDIT RISK MANAGEMENT

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, 2008 and 2007 is summarized at right:

	2008	2007
AAA	16%	20%
AA	10%	10%
A	40%	36%
BBB	29%	29%
BB	2%	2%
Below BB	3%	3%
	100%	100%

COMMON STOCK

American National's stock portfolio by market sector distribution at December 31 is summarized as follows:

	2008	2007
Consumer goods	20%	19%
Financials	16%	24%
Energy and utilities	13%	13%
Information technology	13%	13%
Health care	13%	11%
Mutual funds	10%	6%
Industrials	8%	8%
Communications	5%	3%
Materials	2%	3%
	100%	100%

MORTGAGE LOANS AND INVESTMENT REAL ESTATE

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

Mortgage loans and investment real estate by property type distribution at December 31 are summarized as follows:

	Mortgag	ge Loans	Investment Real Estate			
	2008	2007	2008	2007		
Office buildings	30%	25%	18%	20%		
Industrial	25%	24%	45%	43%		
Shopping centers	21%	24%	23%	23%		
Hotels/motels	17%	15%	2%	2%		
Other	4%	3%	11%	11%		
Commercial	3%	9%	1%	1%		
	100%	100%	100%	100%		

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

	Mortgag	e Loans	Investment	Real Estate
	2008	2007	2008	2007
West South Central	22%	23%	64%	60%
East North Central	22%	15%	6%	6%
South Atlantic	17%	16%	16%	17%
Pacific	13%	16%	2%	3%
Middle Atlantic	10%	11%	_	_
Mountain	5%	5%	1%	1%
New England	5%	7%	_	_
East South Central	4%	4%	10%	11%
West North Central	2%	3%	1%	2%
	100%	100%	100%	100%

The carrying amounts and estimated fair values of financial instruments at December 31 are as follows (in thousands):

	200	08	2007			
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value		
FINANCIAL ASSETS						
Bonds:						
Held-to-maturity	\$ 6,681,837	\$ 6,148,703	\$ 6,692,447	\$ 6,685,173		
Available-for-sale	3,820,837	3,820,837	3,837,988	3,837,988		
Preferred stock	48,822	48,822	78,885	78,885		
Common stock	853,530	853,530	1,194,982	1,194,982		
Options	6,157	6,157	23,071	23,071		
Mortgage loans on real estate	1,877,053	1,891,895	1,540,081	1,549,488		
Policy loans	354,398	354,398	346,002	346,002		
Short-term investments	295,170	295,170	698,262	698,262		
FINANCIAL LIABILITIES						
Investment contracts	6,626,561	6,626,561	5,927,300	5,927,300		
Liability for embedded derivatives of equity indexed annuities	6,208	6,208	22,758	22,758		
Notes payable	111,922	111,922	128,799	128,799		

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability. A fair value hierarchy is used to determine fair value based on a hypothetical transaction at the measurement date from the perspective of a market participant. An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The input levels are defined as follows:

- **Level 1** Unadjusted quoted prices in active markets for identical assets or liabilities. American National defines active markets based on average trading volume for equity securities. The size of the bid/ask spread is used as an indicator of market activity for fixed maturity securities.
- **Level 2** Quoted prices in markets that are not active or inputs that are observable either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities other than quoted prices in Level 1; quoted prices in markets that are not active; or other inputs that are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.
- **Level 3** Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Unobservable inputs reflect American National's own assumptions about the assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose values are determined using pricing models and third-party evaluation, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

American National has analyzed the third-party pricing services valuation methodologies and related inputs, and has also evaluated the various types of securities in its investment portfolio to determine an appropriate fair value hierarchy level based upon trading activity and the observability of market inputs. Based on the results of this evaluation and investment class analysis, each price was classified into Level 1, 2, or 3. Most prices provided by third-party pricing services are classified into Level 2 because the inputs used in pricing the securities, such as available trade, bid, cash flow, and loan performance data are market observable.

Due to a general lack of transparency in the process that brokers use to develop prices, most valuations that are based on brokers' prices are classified as Level 3. Some valuations may be classified as Level 2 if the price can be corroborated. Internally priced securities, primarily consisting of certain private placement debt, are classified as Level 3. The pricing of certain private placement debt includes significant non-observable inputs, the internally determined credit rating of the security and an externally provided credit spread.

Some assets and liabilities do not fit the hierarchical model for determining fair value. For policy loans, the carrying amount approximates their fair value, because the policy loans cannot be separated from the policy contract. The fair value of investment contract liabilities is determined in accordance with GAAP rules on insurance products and 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 fair value. The carrying amount for notes payable approximates their fair value.

The following table provides quantitative disclosures regarding the fair value hierarchy measurements of our financial assets and liabilities at December 31, 2008 (in thousands):

		Fair Value Measurement at December 31, 2008							
	Fair Value at ember 31, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Und	gnificant observable ts (Level 3)		
Financial Assets:		,							
Bonds	\$ 9,969,539	\$	_	\$	9,900,796	\$	68,743		
Preferred stocks	48,822		33,366		_		15,456		
Common stocks	853,530		853,530		_		_		
Options	6,157		_		_		6,157		
Short-term investments	295,170		_		295,170		_		
Mortgage loans	1,891,895		_		1,891,895		_		
Total	\$ 13,065,113	\$	886,896	\$	12,087,861	\$	90,356		
Financial Liabilities:									
Liability for embedded derivatives of equity indexed annuities	\$ 6,208		_		_	\$	6,208		

For assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the period, a reconciliation of the beginning and ending balances, is as follows (in thousands):

	Fair Value Measurements Using Significant Unobservable Inputs
	Level 3 Totals
Beginning balance	\$ 98,519
Net losses included in other comprehensive income (loss)	(30,658)
Net fair value change for derivatives included in net income (loss)	(11,932)
Purchases, sales, and settlements of derivatives (net)	11,568
Transfers in (out) of Level 3	16,651
Ending balance	\$ 84,148

The unrealized losses for the year ended December 31, 2008 of Level 3 assets were \$30,658,000. There were no unrealized gains in Level 3 assets at December 31, 2008.

The following table lists each major category of assets and liabilities measured at fair value on a nonrecurring basis during the period (in thousands):

	Fair Value at December 31, 2008		Level 1		1	Level 2	Level 3	
Bonds held-to-maturity	\$	24,035	\$	_	\$	24,035	\$	_
Mortgage loans		3,743		_		3,743		_
Total	\$	27,778	\$	_	\$	27,778	\$	_

Certain assets and liabilities are measured at fair value on a non-recurring basis. The assets subject to non-recurring fair value adjustment usually result from application of lower of cost or fair value accounting or recognition of other-than-temporary-impairment of assets.

As of December, 31 2008 American National impaired bonds held-to-maturity that were initially measured at cost and were written down to fair value as a result of impairment. These assets were transferred to available-for-sale bonds and were measured at fair value of \$24 million on a non-recurring basis. American National also recorded non-recurring fair value adjustments of \$3.7 million to mortgage loans that were deemed impaired. Both of these instruments were classified in Level 2, based on the observable inputs.

6 DEFERRED POLICY ACQUISITION COSTS

Deferred policy acquisition costs and premiums for the years ended December 31, 2008, 2007, and 2006 are summarized as follows (in thousands):

	Life and Annuity	Accident and Health	Property and Casualty	Total
Balance at December 31, 2005	\$ 975,193	\$ 91,796	\$ 115,724	\$ 1,182,713
Additions	151,023	16,799	243,319	411,141
Amortization	(158,848)	(22,929)	(237,865)	(419,642)
Effect of change in unrealized gains on available-for-sale securities	13,675		_	13,675
Net change	5,850	(6,130)	5,454	5,174
Foreign exchange effect	(8)	_	_	(8)
Balance at December 31, 2006	\$ 981,035	\$ 85,666	\$ 121,178	\$ 1,187,879
Additions	216,660	18,735	232,138	467,533
Amortization	(156,017)	(24,508)	(224,499)	(405,024)
Effect of change in unrealized gains on available-for-sale securities	3,080	_	_	3,080
Net change	63,723	(5,773)	7,639	65,589
Acquisitions	(2,170)	_	_	(2,170)
Foreign exchange effect	(13)	_	_	(13)
Balance at December 31, 2007	\$ 1,042,575	\$ 79,893	\$ 128,817	\$ 1,251,285
Additions	225,575	22,762	243,005	491,342
Amortization	(162,884)	(27,785)	(233,336)	(424,005)
Effect of change in unrealized gains on available-for-sale securities	164,937	_	_	164,937
Net change	227,628	(5,023)	9,669	232,274
Acquisitions	(729)	_	_	(729)
Foreign exchange effect	(166)	_	_	(166)
Balance at December 31, 2008	\$ 1,269,308	\$ 74,870	\$ 138,486	\$ 1,482,664
2008 premiums	\$ 415,586	\$ 290,883	\$ 1,182,026	\$ 1,888,495
2007 premiums	\$ 538,641	\$ 283,765	\$ 1,177,217	\$ 1,999,623
2006 premiums	\$ 440,049	\$ 303,285	\$ 1,234,300	\$ 1,977,634

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.

Prior to its sale (see note 17), acquisition costs for American National's Mexican subsidiary were 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 was due to differences in the exchange rate applied to the balance from period to period. The entire amount of this difference was reported in the shareholders' equity section of the consolidated statement of financial position.

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LIABILITY FOR FUTURE POLICY BENEFITS AND POLICYHOLDER ACCOUNT BALANCES

American National establishes liabilities for amounts payable under insurance policies, including traditional life insurance, traditional annuities and non-medical health insurance. Generally, amounts are payable over an extended period of time and related liabilities are calculated as the present value of future expected benefits to be paid reduced by the present value of future expected premiums. Such liabilities are established based on methods and underlying assumptions in accordance with GAAP and applicable actuarial standards. Principal assumptions used in the establishment of liabilities for future policy benefits are mortality, morbidity, policy lapse, renewal, retirement, disability incidence, disability terminations, investment returns, inflation, expenses and other contingent events as appropriate to the respective product type. Utilizing these assumptions, liabilities are established on a block of business basis.

Future policy benefits for non-participating traditional life insurance policies are equal to the aggregate of the present value of expected future benefit payments and related expenses, less the present value of expected future net premiums. Assumptions as to mortality and persistency are based upon American National's experience when the basis of the liability is established. Interest rates for the aggregate future policy benefit liabilities range from 3% to 8%.

Future policy benefit liabilities for acquired participating traditional life insurance policies are equal to the aggregate of (i) net level premium reserves for death and endowment policy benefits (calculated based upon the non-forfeiture interest rate, ranging from 2.5% to 6%) and mortality rates guaranteed in calculating the cash surrender values described in such contracts; and (ii) the liability for terminal dividends. Participating business represented approximately 9% of American National's life insurance in force at December 31, 2008.

Future policy benefit liabilities for individual fixed annuities after annuitization are equal to the present value of expected future payments. The interest rate used in establishing such liabilities is 5% for all policies in force.

Future policy benefit liabilities for non-medical health insurance are calculated using the net level premium method and assumptions as to future morbidity, withdrawals and interest, which provide a margin for adverse deviation. Interest rates used in establishing such liabilities range from 3.5% to 8%.

Future policy benefit liabilities for disabled lives are estimated using the present value of benefits method and experience assumptions as to claim terminations, expenses and interest. Interest rates used in establishing such liabilities range from 3% to 7.5%.

Liabilities for unpaid claims and claim expenses for property and casualty insurance are included in the liability for policy and contract claims and represent the amount estimated for claims that have been reported but not settled and claims incurred but not reported. Liabilities for unpaid claims are estimated based on American National's historical experience and other actuarial assumptions that consider the effects of current developments, anticipated trends and risk management programs, reduced for anticipated salvage and subrogation. The effects of changes in such estimated liabilities are included in the results of operations in the period in which the changes occur.

Liabilities for universal life secondary guarantees and paid-up guarantees are determined by estimating the expected value of death benefits payable when the account balance is projected to be zero and recognizing those benefits ratably over the accumulation period based on total expected assessments. American National regularly evaluates estimates used and adjusts the additional liability balances, with a related charge or credit to benefit expense, if actual experience or other evidence suggests that earlier assumptions should be revised. The assumptions used in estimating the secondary and paid-up guarantee liabilities are consistent with those used for amortizing DAC, and are thus subject to the same variability and risk. The assumptions of investment performance and volatility for variable products are consistent with historical S&P experience. The benefits used in calculating the liabilities are based on the average benefits payable over a range of scenarios.

American National periodically reviews its estimates of actuarial liabilities for future policy benefits and compares them with its actual experience. Differences between actual experience and the assumptions used in pricing these policies, guarantees and riders and in the establishment of the related liabilities result in variances in profit and could result in losses. The effects of changes in such estimated liabilities are included in the results of operations in the period in which the changes occur.

Policyholder account balances relate to investment-type contracts and universal life-type policies. Investment-type contracts principally include traditional individual fixed annuities in the accumulation phase and non-variable group annuity contracts. Policyholder account balances are equal to (i) policy account values, which consist of an accumulation of gross premium payments; (ii) credited interest, ranging from 2.1% to 6.5% (some annuities also offer a first-year bonus ranging from 1% to 8%), less expenses, mortality charges, and withdrawals; and (iii) fair value adjustments relating to business combinations.

8 LIABILITY FOR UNPAID CLAIMS AND CLAIM ADJUSTMENT EXPENSES

Activity in the liability for accident and health and property and casualty unpaid claims and claim adjustment expenses is summarized as shown below (in thousands):

	2008	2007	2006
Balance at January 1	\$ 1,256,698	\$ 1,308,603	\$ 1,359,452
Less reinsurance recoverables	363,140	421,737	454,872
Net beginning balance	893,558	886,866	904,580
Incurred related to:			
Current year	1,158,452	1,073,249	1,085,736
Prior years	(43,045)	(93,524)	(29,238)
Total incurred	1,115,407	979,725	1,056,498
Paid related to:			
Current year	709,705	636,234	645,777
Prior years	366,680	336,799	428,435
Total paid	1,076,385	973,033	1,074,212
Net balance at December 31	932,580	893,558	886,866
Plus reinsurance recoverables	377,692	363,140	421,737
Balance at December 31	\$ 1,310,272	\$ 1,256,698	\$ 1,308,603

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

Estimates for ultimate incurred losses and loss adjustment expenses attributable to insured events of prior years decreased by approximately \$43,000,000 in 2008 and \$94,000,000 in 2007 as a result of re-estimation of unpaid losses and loss adjustment expenses. These changes were generally the result of ongoing analysis of loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

9 REINSURANCE

As is customary in the insurance industry, American National reinsures portions of certain insurance policies written, thereby providing a greater diversification of risk and managing exposure on larger risks. The maximum amount that would be retained by one life insurance company (American National) would be \$700,000 individual life, \$250,000 individual accidental death, \$100,000 group life and \$125,000 credit life (total \$1,175,000). If individual, group and credit were in force in all companies at the same time, the maximum risk on any one life could be \$2,325,000.

For property and casualty, American National retains the first \$1 million of loss per risk, reinsurance then covers the next \$5 million of property and liability losses per risk. Additional excess property per risk coverage is purchased to cover risks up to \$15 million, and excess casualty clash coverage is maintained to cover losses up to \$50 million. Corporate catastrophe coverage is also in place for up to a \$500 million event.

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, 2008, amounts recoverable from reinsurers with a carrying value of \$33,271,997 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 reinsurers totaling \$30,033,333. 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 had amounts receivable from reinsurers totaling \$482,846,000 at December 31, 2008. None of the total amount receivable is the subject of litigation or is in dispute with the reinsurers involved. Management believes that any dispute that may arise would not have a material impact on American National's consolidated financial position.

Premiums, premium-related reinsurance amounts and reinsurance recoveries for the years ended December 31 are summarized as follows (in thousands):

	2008	2007	2006
Direct premiums	\$ 2,117,400	\$ 2,134,669	\$ 2,117,722
Reinsurance premiums assumed from other companies	215,189	176,357	198,116
Reinsurance premiums ceded to other companies	(444,094)	(302,650)	(329,108)
Net premiums	\$ 1,888,495	\$ 2,008,376	\$ 1,986,730
Reinsurance recoveries	\$ 301,397	\$ 198,553	\$ 591,731

Life insurance in force and related reinsurance amounts at December 31 are summarized as follows (in thousands):

	2008	2007	2006
Direct life insurance in force	\$ 68,820,212	\$ 67,604,695	\$ 65,008,408
Reinsurance risks assumed from other companies	1,050,645	1,078,371	982,412
Total life insurance in force	69,870,857	68,683,066	65,990,820
Reinsurance risks ceded to other companies	(31,241,255)	(29,635,648)	(26,557,877)
Net life insurance in force	\$ 38,629,602	\$ 39,047,418	\$ 39,432,943

10 NOTES PAYABLE

At December 31, 2008, American National's real estate holding companies were partners in affiliates that had notes payable to third-party lenders totaling \$111,922,000. These notes have interest rates ranging from 5.15% to 8.07% and maturities from 2010 to 2014. Each of these notes are secured by the real estate owned through the respective affiliated entity, and American National's liability for these notes are limited to the amount of its investment in the respective affiliate, which totaled \$13,226,000 at December 31, 2008.

1 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 follows (in thousands, except percentages):

	2008		2007		2006	
	Amount	Rate	Amount	Rate	Amount	Rate
Income tax on pre-tax income	\$ (105,021)	(35.0) %	\$ 121,536	35.0 %	\$ 141,850	35.0 %
Tax-exempt investment income	(8,791)	(2.9)	(6,360)	(1.8)	(5,187)	(1.3)
Dividend exclusion	(12,028)	(4.0)	(6,589)	(1.9)	(7,028)	(1.7)
Miscellaneous tax credits, net	(5,835)	(1.9)	(3,862)	(1.1)	(2,284)	(0.5)
Foreign operations	_	_	1,735	0.5	1,967	0.5
Other items, net	9,645	3.1	(597)	(0.2)	521	0.1
	\$ (122,030)	(40.7) %	\$ 105,863	30.5 %	\$ 129,839	32.1 %

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2008 and December 31, 2007 are as follows (in thousands):

	2008	2007
DEFERRED TAX ASSETS		
Marketable securities, principally due to net unrealized losses (gains)	\$ 146,191	\$ (96,441)
Marketable securities, principally due to impairment losses	138,487	25,661
Investment in real estate and other invested assets, principally due to		
investment valuation allowances	1,279	9,614
Policyholder funds, principally due to policy reserve discount	187,277	190,778
Policyholder funds, principally due to unearned premium reserve	30,716	31,066
Non-qualified pension	27,630	25,693
Participating policyholders' surplus	28,615	32,198
Pension	36,968	18,127
Commissions and other expenses	24,395	15,850
Other assets	8,518	3,306
Net deferred tax assets	\$ 630,076	\$ 255,852
DEFERRED TAX LIABILITIES		
Investment in bonds, principally due to accrual of discount on bonds	(18,221)	(13,395)
Deferred policy acquisition costs, due to difference between GAAP		
and tax amortization methods	(410,970)	(332,328)
Property, plant and equipment, principally due to difference between		
GAAP and tax depreciation method	(5,377)	(6,233)
Net deferred tax liabilities	(434,568)	(351,956)
Total deferred tax	\$ 195,508	\$ (96,104)

Management believes that a sufficient level of taxable income will be achieved to utilize the net deferred tax assets and therefore no material valuation allowance is necessary.

In accordance with FIN No. 48, "Accounting for Uncertainty in Income Taxes", American National maintains a reserve for unrecognized tax benefits. The reserve is included with the "Other liabilities" in the Consolidated Statements of Financial Position. The change in the reserve during the year is as follows (in thousands):

	2008
UNRECOGNIZED TAX POSITIONS	
Balance at beginning of year	\$ 4,618
Tax positions related to prior years	_
Current year tax positions	_
Settlements during the year	(3,564)
Lapse in statute of limitations	_
Balance at end of year	\$ 1,054

American National recognizes penalties and interest as appropriate related to uncertain tax positions, however no such provisions have been recognized on the unrecognized tax positions.

Within the next twelve months, the reserve for unrecognized tax benefits is expected to decrease by approximately \$1,054,000 due to settlements, and will have no impact on the company's effective tax rate. However, management believes that it is possible that certain tax benefits could be recognized within the next twelve months that would decrease the company's effective tax rate. The amount of such tax benefits is undeterminable at this time but would be immaterial to the company's financial position.

The statute of limitations for the examination of federal income tax returns by the Internal Revenue Service for years 2002 to 2007 has either been extended or has not expired. In the opinion of management, all prior year deficiencies have been paid or adequate provisions have been made for any tax deficiencies that may be upheld.

Federal income taxes totaling approximately \$14,572,000, \$101,333,000, and \$126,494,000 were paid to the Internal Revenue Service in 2008, 2007 and 2006, respectively.

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COMPONENTS OF COMPREHENSIVE INCOME (LOSS)

The items included in comprehensive income (loss), other than net income (loss), are unrealized gains and losses on available-for-sale securities (net of deferred acquisition costs), foreign exchange adjustments and pension liability adjustments. The details on the unrealized gains and losses included in comprehensive income (loss), and the related tax effects thereon, are as follows (in thousands):

	Before Federal Income Tax		Federal Income Tax Expense		Feder	Net of al Income Tax
December 31, 2008						
Unrealized losses	\$	(138,311)	\$	(48,409)	\$	(89,902)
Less reclassification adjustment for net losses realized in net income		(372,194)		(130,268)		(241,926)
Net unrealized loss component of comprehensive income	\$	(510,505)	\$	(178,677)	\$	(331,828)
<u>December 31, 2007</u>						
Unrealized losses	\$	(20,082)	\$	(7,029)	\$	(13,053)
Less reclassification adjustment for net gains realized in net income		20,494		7,173		13,321
Net unrealized gain component of comprehensive income	\$	412	\$	144	\$	268
December 31, 2006						
Unrealized losses	\$	(21,145)	\$	(7,401)	\$	(13,744)
Less reclassification adjustment for net gains realized in net income		65,660		22,981		42,679
Net unrealized gain component of comprehensive income	\$	44,515	\$	15,580	\$	28,935



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 follows:

	2008	2007	2006
COMMON STOCK			
Shares issued	30,832,449	30,832,449	30,832,449
Treasury shares	4,013,616	4,099,617	4,105,617
Restricted shares	339,001	253,000	247,000
Unrestricted outstanding shares	26,479,832	26,479,832	26,479,832

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 2,900,000 shares, and no more than 200,000 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. Six awards of restricted stock have been granted, with a total of 234,000 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 \$2,694,000 in 2008, \$2,000,000 in 2007, and \$1,948,000 in 2006.

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 \$16,000 and \$1,874,000 at December 31, 2008 and 2007, respectively. Compensation expense or (income) was recorded totaling (\$1,777,000), \$1,376,000, and \$560,000 for the years ended December 31, 2008, 2007, and 2006, respectively.

SAR and Restricted Stock (RS) information for 2008, 2007 and 2006 follows:

	SAR Shares	SAR Weighted-Average Price per Share	RS Shares	RS Weighted-Average Price per Share
Outstanding at December 31, 2005	157,375	\$ 94.04	247,000	\$ 4.51
Granted	2,500	119.25	_	_
Exercised	(22,713)	90.18	_	_
Canceled	(4,463)	97.81	_	
Outstanding at December 31, 2006	132,699	\$ 95.05	247,000	\$ 4.51
Granted	4,500	130.52	6,000	_
Exercised	(34,795)	91.36	_	_
Canceled	(5,680)	98.20	_	
Outstanding at December 31, 2007	96,724	\$ 97.84	253,000	\$ 4.40
Granted	96,917	115.92	86,001	_
Exercised	(4,109)	81.30	_	_
Canceled	_	_	_	_
Outstanding at December 31, 2008	189,532	\$ 107.44	339,001	\$ 3.28

The weighted-average contractual remaining life for the 189,532 SAR shares outstanding as of December 31, 2008, is 7.6 years. The weighted-average exercise price for these shares is \$107.44 per share. Of the shares outstanding, 55,018 are exercisable at a weighted-average exercise price of \$94.79 per share.

The weighted-average contractual remaining life for the 339,001 Restricted Stock shares outstanding as of December 31, 2008, is 5.6 years. The weighted-average exercise price for these shares is \$3.28 per share. None of the shares outstanding was exercisable.

EARNINGS (LOSS) 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 follows for years 2007 and 2006. Due to the net losses incurred in 2008, diluted earnings per share are equal to basic earnings per share.

	2008	2007	2006
Unrestricted shares outstanding	26,479,832	26,479,832	26,479,832
Incremental shares from restricted stock	137,625	158,387	132,632
Total shares for diluted calculations	26,617,457	26,638,219	26,612,464
Diluted earnings (losses) per share	\$ (5.82)	\$ 9.04	\$ 10.27

DIVIDENDS

American National's payment of dividends to stockholders is restricted by statutory regulations. Generally, the restrictions require life insurance companies to maintain minimum amounts of capital and surplus, and in the absence of special approval, limit the payment of dividends to statutory net gain from operations on an annual, non-cumulative basis. Additionally, insurance companies are not permitted to distribute the excess of stockholders' equity, as determined on a GAAP basis over that determined on a statutory basis. At December 31, 2008 American National's statutory capital and surplus was \$1,804,712,000.

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, 2008, approximately \$1,297,226,000 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

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, 2008 and 2007.

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. Minority interests were a net liability of \$1,627,000 and a net asset of \$2,211,000 in 2008 and 2007, respectively.

14 SEGMENT INFORMATION

American National and its subsidiaries are engaged principally in the insurance business. Management organizes the business into five operating segments:

- The Life segment markets whole, term, universal and variable life insurance on a national basis primarily through employee and multiple line agents, direct marketing channels and independent third-party marketing organizations.
- The Annuity segment develops, sells and supports fixed, equity-indexed, and variable annuity products. These products are primarily sold through independent agents and brokers, but are also sold through financial institutions and multiple line agents.
- The Health segment's primary lines of business are Medicare Supplement, medical expense, employer medical stop loss, true group, other supplemental health products and credit disability insurance. Health products are typically distributed through independent agents and Managing General Underwriters.
- The Property and Casualty segment writes auto, homeowners, agribusiness and credit-related property insurance. These products are primarily sold through multiple line agents and independent agents.
- The Corporate and Other business segment consists of net investment income on the capital not allocated to the insurance lines and the operations of non-insurance lines of business. This segment also provides mutual fund products.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Many of the principal factors that drive the profitability of each operating segment are separate and distinct. All income and expense amounts specifically attributable to policy transactions are recorded directly to the appropriate operating segment. Income and expenses not specifically attributable to policy transactions are allocated to each segment as follows:

- Net investment income from fixed income assets (bonds and mortgage loans) is allocated based on the funds generated by each line of business 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 operating segments in accordance with the amount of equity invested in each segment, with the remainder going to Corporate and Other.
- Expenses are allocated to the lines based upon various factors, including premium and commission ratios within the respective operating segments.
- Realized gains or losses on investments are allocated to Corporate and Other.
- Equity in earnings of unconsolidated affiliates are allocated to Corporate and Other.
- 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 Corporate and Other.

Segment operating income provides pertinent and advantageous information to investors, as it represents the basis on which American National's business performance is internally assessed by its chief operating decision makers. During the third quarter of 2008, the chief operating decision makers redefined the segment reporting structure to better align it with their current processes for assessing business performance and allocating resources. In previous financial reporting periods, operating segments were aggregated based on marketing distribution channels. In accordance with the performance measurements used by the chief operating decision makers, the segment reporting has been reorganized into five operating segments according to the type of insurance products sold or services rendered. The segment reporting for prior periods has been restated to reflect the change in business segments.

The following tables summarizes American National's key financial measures used by the chief operating decision makers, including operating results and allocation of assets as of and for the years ended December 31, 2008, 2007 and 2006 (in thousands):

2008	Life	Annuity	Health	Property d Casualty	orporate nd Other	TOTAL
Premiums and other revenues:						
Premiums	\$ 299,338	\$ 116,248	\$ 290,883	\$ 1,182,026	\$ _	\$ 1,888,49
Other policy revenues	154,984	19,915	_	-		174,899
Net investment income	226,643	374,023	16,566	69,348	109,597	796,17
Other income	3,767	(5,718)	13,252	8,973	18,505	38,779
Total operating revenues	684,732	504,468	320,701	1,260,347	128,102	2,898,350
Realized gains (losses) on investments					(379,709)	(379,709
Total revenues	684,732	504,468	320,701	1,260,347	(251,607)	2,518,64
Benefits, losses and expenses:						
Policy benefits	296,078	142,867	223,055	939,854	_	1,601,854
Interest credited to policy account balances	62,221	237,612	_	_	_	299,833
Commissions for acquiring and servicing policies	126,813	79,213	43,219	226,100		475,345
Other operating costs and expenses	222,908	45,491	69,961	132,601	37,839	508,800
Decrease (increase) in deferred policy acquisition costs	(42,103)	(20,690)	5,023	(9,669)		(67,439
Total benefits, losses and expenses	665,917	484,493	341,258	1,288,886	37,839	2,818,39
Income before other items and federal income taxes	18,815	19,975	(20,557)	(28,539)	(289,446)	(299,752
Benefit (provision) for federal income taxes	(6,209)	(6,592)	6,784	9,418	118,629	122,03
Minority interest in income (loss) of consolidated subsidiaries	_	_	_	_	31	3
Equity in earnings of unconsolidated affiliates					4,965	4,96
Income (loss) from continuing operations	12,606	13,383	(13,773)	(19,121)	(165,821)	(172,726
Income (loss) from discontinued operations, net of income tax	18,728	_	_	_	_	18,72
Net income (loss)	\$ 31,334	\$ 13,383	\$ (13,773)	\$ (19,121)	\$ (165,821)	\$ (153,998
Selected data:						
Total assets	\$ 4,823,465	\$ 8,265,270	\$ 759,089	\$ 2,248,514	\$ 2,283,101	\$ 18,379,43
Return on equity	4.36%	2.67%	(9.67%)	(3.95%)	(28.17%)	(13.99%
2007	Life	Annuity	Health	Property d Casualty	orporate nd Other	TOTAL
Premiums and other revenues:						
Premiums	\$ 315,893	\$ 222,748	\$ 283,765	\$ 1,177,217	\$ _	\$ 1,999,62
Other policy revenues	130,744	24,486	_	_	_	155,23
Net investment income	229,092	364,607	16,710	75,041	127,519	812,96
Other income	3,967	345	13,048	8,623	21,241	47,22
Total operating revenues	679,696	612,186	313,523	1,260,881	148,760	3,015,04
Realized gains (losses) on investments	_	_	_	_	41,027	41,02
Total revenues	679,696	612,186	313,523	1,260,881	189,787	3,056,07
Benefits, losses and expenses:						
Policy benefits	273,750	249,878	209,840	818,230	_	1,551,69
Interest credited to policy account balances	63,289	232,605	_	_	_	295,89
Commissions for acquiring and corriging policies	141,517	58,635	39,342	217,043	_	456,53
Commissions for acquiring and servicing policies				110 705		465 14
Other operating costs and expenses	200,361	35,030	57,975	110,705	61,069	
Other operating costs and expenses Decrease (increase) in deferred policy acquisition costs	(57,666)	(911)	57,975 5,774	(7,639)	61,069	465,140 (60,442
Other operating costs and expenses					61,069 — 61,069	

(19,287)

39,158

(4,958)

6.44%

34,200 \$

4,836,221 \$ 7,464,512 \$

(12,193)

24,756

24,756 \$

5.29%

(195)

397

397 \$

0.28%

(40,439)

82,103

82,103

16.40%

752,863 \$ 2,036,372 \$ 3,370,920 \$ 18,460,888

(33,749)

482

99,317 \$

5.81%

3,866

99,317

Benefit (provision) for federal income taxes.....

Minority interest in income (loss) of consolidated subsidiaries......

Equity in earnings of unconsolidated affiliates.....

Income (loss) from continuing operations

Net income (loss)

Return on equity.....

Total assets\$

Income (loss) from discontinued operations, net

Selected data:

of income tax

6.85%

(105,863)

482

3,866

245,731

(4,958)

240,773

2006	Life	I	Annuity	Health	Property d Casualty	orporate nd Other	TOTAL
Premiums and other revenues:							
Premiums	\$ 327,594	\$	112,455	\$ 303,285	\$ 1,234,300	\$ _	\$ 1,977,634
Other policy revenues	115,082		24,523	_	_	_	139,605
Net investment income	231,414		353,157	18,964	72,759	159,723	836,017
Other income	4,577		(595)	17,204	7,524	22,397	51,107
Total operating revenues	678,667		489,540	339,453	1,314,583	182,120	3,004,363
Realized gains (losses) on investments						100,256	100,256
Total revenues	678,667		489,540	339,453	1,314,583	282,376	3,104,619
Benefits, losses and expenses:							
Policy benefits	280,203		135,384	216,775	881,806	_	1,514,168
Interest credited to policy account balances	66,910		230,641	_	_	_	297,551
Commissions for acquiring and servicing policies	96,612		53,966	42,097	230,616	_	423,291
Other operating costs and expenses	185,752		33,139	61,699	109,940	65,407	455,937
Decrease (increase) in deferred policy acquisition costs	4,233		3,475	6,131	(5,454)		8,385
Total benefits, losses and expenses	633,710		456,605	326,702	1,216,908	65,407	2,699,332
Income before other items and federal income taxes	44,957		32,935	12,751	97,675	216,969	405,287
Benefit (provision) for federal income taxes	(14,835)		(10,869)	(4,208)	(32,234)	(67,694)	(129,839)
Minority interest in income (loss) of consolidated subsidiaries	_		_	_	_	(1,300)	(1,300)
Equity in earnings of unconsolidated affiliates						4,693	4,693
Income (loss) from continuing operations	30,122		22,066	8,543	65,441	152,669	278,841
Income (loss) from discontinued operations, net	(5 (10)						(5 (10)
of income tax	(5,610)						(5,610)
Net income (loss)	\$ 24,512	\$	22,066	\$ 8,543	\$ 65,441	\$ 152,669	\$ 273,231
Selected data:							
Total assets	\$ 4,736,711	\$	7,210,400	\$ 791,052	\$ 2,064,943	\$ 3,129,065	\$ 17,932,171
Return on equity	5.10%		4.95%	5.08%	13.21%	9.92%	8.17%

15 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 Career Sales & Service Division 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.

As discussed in note 2, effective December 31, 2006, American National adopted the recognition and disclosure provisions of FAS 158. Statement 158 requires companies to recognize the funded status of defined benefit pension and other postretirement plans as a net asset or liability on their consolidated statement of financial position. Effective with the financial statements for 2008, Statement 158 also requires companies to use a measurement date for their defined benefit plans that is the same as their fiscal year end. As a result of this requirement, American National changed its measurement date from September 30 to December 31, using the alternative method specified in Statement 158, for the one qualified plan that was not already using a December 31 date. The effect of the change was an additional periodic benefit cost of \$1,770,000 (net of tax) which was charged directly to retained earnings.

Combined activity in the defined benefit pension plans was as follows (in thousands):

	2008	2007	2006
Reconciliation of benefit obligation:			
Obligation at beginning of year	\$ 302,657	\$ 283,344	\$ 277,877
Service cost benefits earned during period	12,319	9,326	9,633
Interest cost on projected benefit obligation	22,077	16,483	15,474
Participant contributions	746	730	751
Actuarial gain (loss)	6,015	8,461	(6,247)
Benefits paid	(15,031)	(15,687)	 (14,144)
Obligation at end of year	\$ 328,783	\$ 302,657	\$ 283,344
Reconciliation of fair value of plan assets:			
Fair value of plan assets at beginning of year	\$ 183,018	\$ 167,478	\$ 158,141
Actual return on plan assets	(38,552)	15,979	9,231
Employer contributions	19,689	14,580	13,499
Participant contributions	746	731	751
Benefits paid	(15,027)	(15,750)	(14,144)
Fair value of plan assets at end of year	\$ 149,874	\$ 183,018	\$ 167,478
Funded status at end of year	\$ (178,909)	\$ (119,639)	\$ (115,866)

Amounts recognized in the consolidated statement of financial position consist of (in thousands):

	2008	2007
Assets	\$ —	\$ —
Liabilities	(178,909)	(119,639)
	\$ (178,909)	\$ (119,639)

The components of the combined net periodic benefit cost for the defined benefit pension plans were as follows (in thousands):

	2008	2007	2006
Service cost	\$ 9,974	\$ 9,366	\$ 9,664
Interest cost	19,003	16,483	15,474
Expected return on plan assets	(13,571)	(12,375)	(11,808)
Amortization of prior service cost	3,469	3,666	4,613
Amortization of transition obligation	_	117	47
Amortization of net gain (loss)	4,412	6,197	4,784
Net periodic benefit cost	\$ 23,287	\$ 23,454	\$ 22,774

Amounts related to the defined benefit pension plans recognized as a component of other comprehensive income (loss) were as follows (in thousands):

	2008	2007	2006
Prior service cost	\$ 3,469	\$ 3,711	\$ (12,973)
Net actuarial loss	(57,385)	2,215	26,045
Deferred tax benefit (expense)	18,871	(2,074)	(4,575)
Other comprehensive income (loss), net of tax	\$ (35,045)	\$ 3,852	\$ 8,497

Amounts recognized as a component of accumulated other comprehensive income (loss) as of year end that have not been recognized as a component of the combined net periodic benefit cost of the defined benefit pension plans are presented in the following table (in thousands). The estimated net loss and prior service cost for the plan that will be amortized from accumulated other comprehensive income into the net periodic benefit cost over the next fiscal year are \$11,700,000 and \$3,500,000, respectively.

	2008	2007
Prior service cost	\$ (5,793)	\$ (9,262)
Net actuarial loss	(100,759)	(43,374)
Deferred tax benefit	37,293	18,423
Amounts included in accumulated other comprehensive income (loss)	\$ (69,259)	\$ (34,213)

The assumptions used in the measurement of the company's benefit obligation are shown in the following table (in thousands):

	Pension Benefits						
	Used for Net Benefit Cost in Fiscal Year 1/1/2008 to 12/31/2008	Used for Benefit Obligations as of 12/31/2008					
Discount rate	6.10%	6.17%					
Rate of compensation increase	4.20%	4.20%					
Long-term rate of return	7.65%	7.65%					

American National's 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. American National contributed \$19,700,000 and \$14,600,000 to the qualified retirement plan in 2008 and 2007, respectively.

American National and its affiliates expect to contribute \$10,400,000 to its qualified pension plan in fiscal year 2009.

The following table shows benefit payments, which reflect expected future service as appropriate, that are expected to be paid (in thousands):

Year	Pensi	on Benefits
2009	\$	17,983
2010		20,997
2011		25,024
2012		24,787
2013		28,593
2014-18		164,030

The pension plan asset allocations at December 31, 2008 and December 31, 2007 by asset category are as follows:

	Plan Assets at December 31,						
	2008	2007					
Asset category							
Equity securities	33.8%	36.5%					
Debt securities	47.6%	48.0%					
Other	18.6%	15.5%					
Total	100.0%	100.0%					

The investment policy for the qualified retirement plan assets is designed to provide the highest return possible commensurate with sound and prudent underwriting practices. The investment diversification goals are to have investments in cash from zero to 15%, debt securities from 40% to 80% and equity securities from 20% to 60% of the total invested plan assets. The amount invested in any particular investment is limited based on credit quality, and no single investment is allowed to be more than 5% of the total invested assets.

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.

POSTRETIREMENT LIFE AND 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 postretirement benefit obligation, included in the liability for retirement benefits, was \$5,200,000 and \$6,000,000 at December 31, 2008 and 2007, respectively. These amounts were approximately equal to the unfunded accumulated postretirement 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 postretirement benefit obligation.

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.

SAVINGS PLANS

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 (401(k) plan) allows employees to contribute up to the maximum allowable amount as determined by the Internal Revenue Service. American National does not contribute to the defined contribution plan. Company contributions are made under the incentive savings plan for the Farm Family companies, with a discretionary portion based on the profits earned by the Farm Family companies. The expense associated with this plan was \$2,800,000 for 2008, \$2,700,000 for 2007 and \$2,800,000 for 2006.

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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, 2008, were approximately \$3,844,000.

In the ordinary course of their operations, the companies also had commitments outstanding at December 31, 2008, to purchase, expand or improve real estate, to fund mortgage loans, and to purchase other invested assets aggregating \$203,710,000, of which \$182,463,000 is expected to be funded in 2009. The remaining balance of \$21,247,000 will be funded in 2010 and beyond. As of December 31, 2008, 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, 2008, was approximately \$206,513,000, while the total cash values of the related life insurance policies was approximately \$212,028,000.

LITIGATION

American National is the defendant in a class action lawsuit which contends that American National allegedly failed to refund credit life and disability insurance premiums to persons who paid the underlying indebtedness prior to the insured loan's maturity. A settlement class has been certified. Additionally, American National has reached a settlement with the State of Texas in a similar action regarding this situation. American National has reserved \$27 million for settlement of these cases, including payment of attorneys' fees, and believes that any additional amounts that may be necessary will not be material to the consolidated financial statements.

American National is a defendant in a lawsuit related to the defection of another company's insurance agents. The jury reached a verdict adverse to American National, and the court reduced the amount of such verdict to approximately \$7.6 million. Post-trial motions are being filed, with appeal to be taken thereafter. American National has accrued an appropriate amount for resolution of this case, including attorneys' fees, and believes that any additional amounts that may be necessary will not be material to the consolidated financial statements.

American National is a defendant in a lawsuit which proposes to certify one or more classes of persons who contend that American National allegedly violated various provisions of the California Labor Code, engaged in unfair business practices, fraud and deceit, conversion, and negligent misrepresentation with respect to certain of its sales agents. The plaintiff has posited that she may seek a nationwide class for alleged violations of the Federal Fair Labor Standards Act at some point in the future. Currently, the plaintiff seeks statutory penalties, restitution, interest, penalties, attorneys' fees, punitive damages and injunctive relief in an unspecified amount. American National believes that it has meritorious defenses; however, no determination can be made at this time as to the probability of any recovery against American National.

American National and subsidiaries 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.

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 consolidated 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.

17 DISCONTINUED OPERATIONS

On December 4, 2008, our life insurance business in Mexico, American National de México, Compañía de Seguros de Vida, S.A. de C.V., along with non-insurance affiliates Servicios de Administracíon American National S.A. de C.V. and American National Promotora de Ventas S.A. de C.V. were sold to a third-party for approximately \$2,400,000. Accordingly, the business is accounted for as a discontinued operation within the life operating segment, and its results of operations, financial position and cash flows are separately reported for all periods presented.

Assets sold at the closing date included \$8,400,000 of invested assets, \$700,000 of deferred policy acquisition costs, and \$500,000 of other assets. The liabilities sold at the closing date included \$5,900,000 of reserves, \$400,000 of policy account balances, and \$500,000 of other liabilities.

The Mexico operation reported \$3,330,000 in pretax losses for 2008. The sale resulted in a loss from discontinued operations of \$1,890,000 before taxes. As part of the sale, a \$22,059,000 income tax benefit was reported in 2008 because the tax basis of the investment in American National de México exceeded the financial statement carrying value.

INDEPENDENT AUDITORS' 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, 2008 and 2007, and the related consolidated statements of income, changes in stockholders' equity, comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2008. 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008 in conformity with U.S. generally accepted accounting principles.

KPMG LLPMarch 30, 2009
Houston, Texas



(In millions, except per share data and ratios)

For the Years Ended December 31,	2008		2007	2006		2005	2	2004	2003		2002	2001	2	2000	1	1999
OPERATING RESULTS		_														
Revenues (a)	\$ 2,527	\$		\$ 3,114		3,045	\$	2,879			2,221	\$ 2,138	\$	1,834	\$	1,890
Operating earnings (a) (b)	93		214	208	3	181		220	161		102	61		125		166
Realized capital gains (losses) (c)	(247))	27	65	,	55		36	21		(85)	4		15		101
Net income (loss)	(154))	241	273	,	236		256	182		17	65		140		267
Operating earnings per share, diluted (a) (b) (d)	3.50		7.90	7.82		6.79		8.30	6.07	,	3.87	2.29		4.73		6.26
Realized capital gains (losses) per share, diluted (c) (d)	(9.32))	1.14	2.45	,	2.08		1.33	0.81		(3.23)	0.16		0.56		3.81
Net income (loss) per share, diluted (d)	(5.82))	9.04	10.27	_	8.87		9.63	6.88	3	0.64	2.45		5.29		10.07
FINANCIAL POSITION																
Assets	\$ 18,379	\$	18,461	\$ 17,932	9	17,493	\$	16,571	\$ 15,140	\$	12,237	\$ 11,258	\$	9,270	\$	9,090
Investments	14,546		14,956	14,526	,	14,257		13,365	11,962		9,173	8,280		6,990		7,254
Liabilities	15,245		14,724	14,357	,	14,115		13,275	12,028	3	9,363	8,322		6,247		6,027
Policyholder liabilities	14,003		13,255	13,027	,	12,876		12,212	11,062	2	8,467	7,516		5,590		5,368
Total equity	3,134		3,737	3,575	;	3,378		3,296	3,112		2,874	2,936		3,023		3,063
Total equity, excluding SFAS 115	3,420		3,766	3,601		3,379		3,246	3,057	,	2,839	2,926		3,062		3,075
INSURANCE PRODUCTION INFORMATION		Г														
Life insurance sales	\$ 11,244	\$	12,368	\$ 11,263	\$	12,077	\$	13,021	\$ 12,373	\$	12,874	\$ 11,821	\$	11,487	\$	11,224
Life insurance in force (e)	69,871		68,683	65,991		64,051		61,404	58,736		56,504	54,414		48,777		46,953
Policy account deposits	1,997		1,220	1,092		1,212		1,554	2,695	i	936	588		325		310
COMMON STOCK STATISTICS		T														
Market close	\$ 73.73	\$	121.24	\$ 114.11	. 9	116.99	\$	104.16	\$ 84.48	\$	82.02	\$ 84.10	\$	73.00	\$	63.75
Book value per share, basic	118.35		141.12	135.03	,	127.57		124.46	117.52	2	108.52	110.89		114.19		115.68
Dividends per share	3.08		3.05	3.01		2.97		2.96	2.96		2.96	2.92		2.86		2.78
Shares outstanding (000's) (f)	26,480		26,480	26,480)	26,480		26,480	26,480)	26,480	26,480		26,479		26,479
FINANCIAL RATIOS		Ī														
Return on equity (g)	(14.0)		6.9	8.2	2	4.7		8.4	11.0)	0.5	(0.3)		1.2		7.6
Operating return on equity (h)	2.7		5.9	6.1		5.6		7.2	5.7	,	3.5	2.0		4.1		5.7
Dividend payout (i)	89.2		38.1	38.7	,	43.9		35.8	49.0)	76.8	127.8		60.5		44.5
Assets per \$100 of liabilities	\$ 121	\$	125	\$ 125	; \$	124	\$	125	\$ 126	\$	131	\$ 135	\$	148	\$	151

- (a) Includes discontinued operation amounts to preserve comparability with prior year data
 (b) After tax and excluding gains from sale of investments
 (c) After tax gains from sale of investments
 (d) 2008 net (loss) basic per share
 (e) Includes insurance acquired of \$4,125 million in 2001

- (f) Number of unrestricted shares outstanding at year end
- (g) Change in total equity before dividends to stockholders, FIN 48 implementation and stock options divided by total equity at the beginning of the year (h) Operating earnings per share divided by book value per share at the beginning of the year, adjusted to exclude the effect of SFAS 115 (i) Total dividends paid to stockholders divided by operating earnings

American National Insurance Company

afe 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 forwardlooking statements for events or circumstances after the date on which such statement is made.



