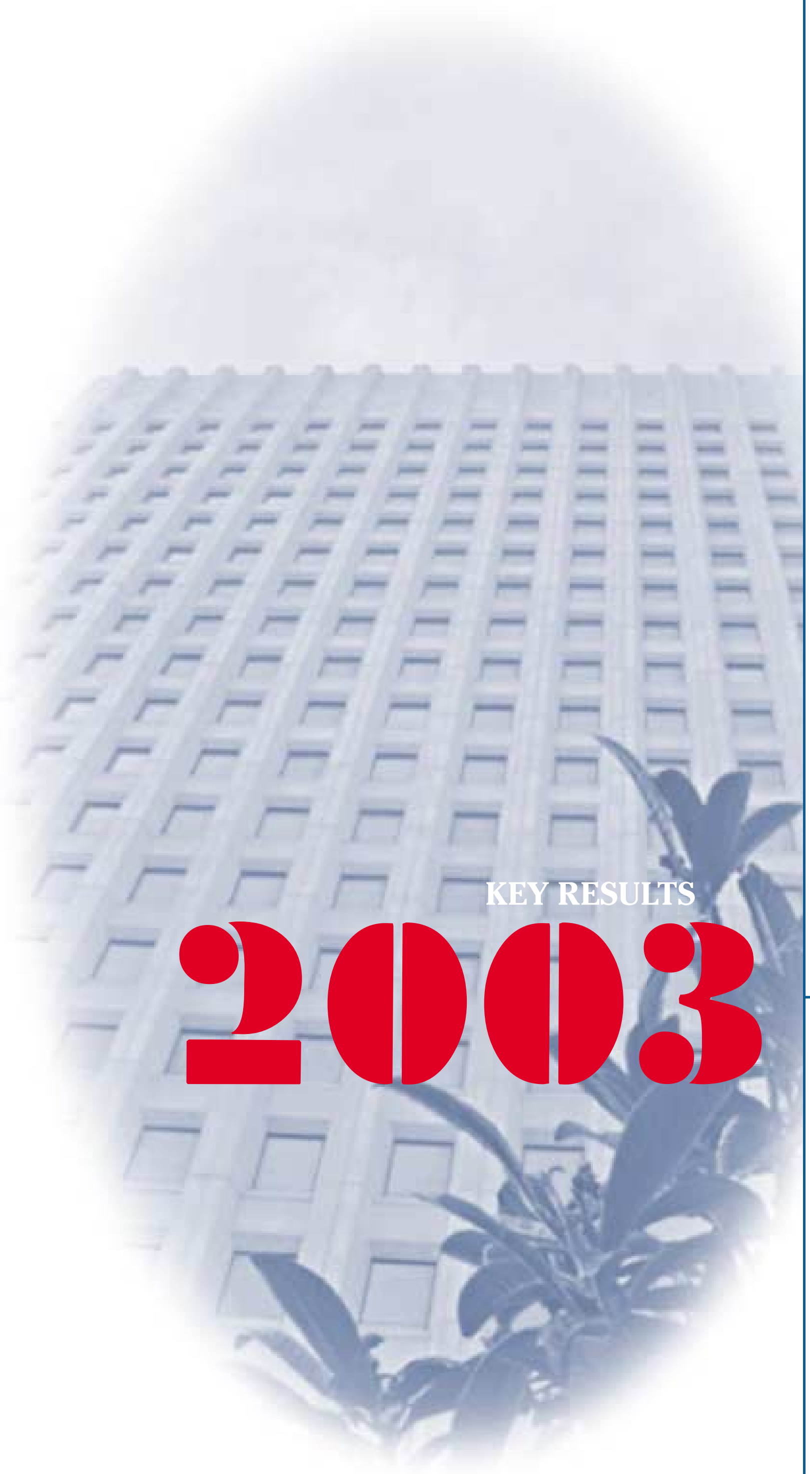
AMERICAN NATIONAL INSURANCE COMPANY

2003 ANNUAL REPORT



KEY RESULTS

2003

Assets reached $15,140,234,000, an increase of 23.7% over year-end 2002.

Annuity sales, measured by policy account deposits received, totaled $2,390,633,000.

Life insurance sales, measured by the face amount of life insurance sold, totaled $12,373,357,000.

Life insurance in force totaled $58,747,854,000 at year-end 2003, an increase of 4.0% over year-end 2002.

Dividends are currently paid by American National at a rate of $2.96 per share. The year 2003 was the 93rd consecutive year in which dividends have been paid to stockholders.

TABLE OF CONTENTS

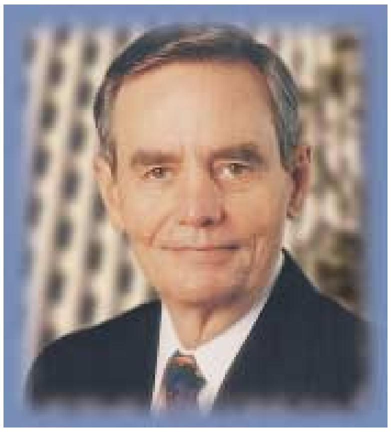
In 1968, American National embarked on the most ambitious building project in Galveston Island's history. By embracing innovative construction techniques to build atop the island's sandy soil, the company's home office tower steadily rose to dominance over the city landscape. More than three decades later, the 358-foot tower remains Galveston Island's tallest structure and most prominent landmark.

Throughout a century of operations, the company's conservative yet dynamic business philosophy has led to expansion across the United States and into Mexico. The American National family of companies now includes affiliates in League City, Texas; Springfield, Missouri; Albany, New York and Monterrey, Mexico.

With a clear vision and ambitious blueprint, the American National family has extended its reach from Galveston Island, to the American Southwest, and across North America. Along the way, American National has helped thousands of families throughout America – and beyond – extend their own horizons and build the firm foundation needed for a secure financial future.

MANAGEMENT MESSAGE

ROBERT L. MOODY
Chairman of the Board
Chief Executive Officer



G. RICHARD FERDINANDTSEN
President and Chief Operating Officer

On balance, 2003 was the best year in the history of American National. Very strong net income and record growth in revenue combined to make it a high water mark year. For 2003, consolidated net income was $182.2 million, or $6.88 per share. This compares with $16.9 million, or $0.64 per share for 2002. After-tax net gain from operations for 2003, which excludes after-tax realized gains, was $160.8 million, or $6.07 per share, compared with $102.5 million, or $3.87 per share for 2002.

The dramatic increase in net income in 2003 is primarily the result of two factors: significant improvement in the profitability of the property/casualty and Medicare Supplement insurance lines, and a rebound in the equity markets. The improvement in insurance results was largely due to initiatives focused on the external challenges to compete profitably in these lines of business.

A primary objective of American National is to achieve sustainable, profitable growth. Revenues increased almost 20% during 2003, and an average of 13.7% over the past three years. Over this same period, life and annuity sales increased at a compound annual growth rate of almost 29%, with a 70% increase realized in 2003 alone. Property/casualty net written premiums achieved consistent annual growth rates between 16% and 22% over the past three years. In contrast, accident/health premiums decreased to almost half the 2000 level as a result of management decisions to exit lines unable to sustain profitability.

STRENGTHS

American National's strengths have historically included strong capitalization and operating performance. Through the planning and development efforts undertaken over the past several years, these strengths have been expanded to include a strong business profile and diversification of product lines and revenue sources.

The financial strength of American National provides the flexibility to invest in equity securities while maintaining strong liquidity to meet obligations. More recently, capital has been used for new business opportunities with high long-term growth potential.

An additional, often overlooked strength of American National is its closely-held status. American National has been, and continues to be, managed with a long-term view, which provides stability uncommon among publicly held companies, particularly during volatile times and economic downturns.

RATINGS

A.M. Best and Standard & Poor's provide financial strength ratings for American National. These ratings represent independent opinions of the company's ability to meet policy obligations and commitments based on rigorous quantitative and qualitative analysis of the corporation and its management.

American National is rated "A+" (Superior) by A.M. Best. The rating is considered stable, and is based on strong capitalization, a good quality asset portfolio and product and distribution channel diversity.

Standard & Poor's rates American National Insurance Company "AA" (Very Strong), citing extremely strong capitalization and operating performance and a very strong liquidity and business position.

COMPLIANCE

New and revised laws and regulations have the potential to significantly impact the insurance industry. The legal environment is monitored closely to determine actions needed to satisfy compliance obligations, such as those arising from new Nasdaq requirements and NAIC requirements that will follow as a result of the Sarbanes-Oxley Act.

INSURANCE OPERATIONS

Through seven distinct but coordinated marketing divisions, American National offers a broad range of products. Each distribution channel has specific products to serve its markets. In addition, the company is achieving greater efficiency by making a variety of products available for sale through multiple distribution channels. Among all divisions, American National currently has more than 35,000 producers under contract. In the coming year, an additional 10,000 producers are expected to be added.

MULTIPLE LINE

Multiple Line's combined life, health and property/casualty operating earnings more than doubled from 2002. While property/casualty profitability is cyclical, strong management of expenses, loss ratios and persistency overcame substantial catastrophe losses, enabling the division to exceed historic profit levels. Based on analysis by Ward Group, Multiple Line's property/casualty expense ratio continues to be among the lowest in the industry.

During 2003, Multiple Line continued to increase life and property/casualty sales. Shared product distribution opportunities among property/casualty subsidiaries has resulted in significant growth. A large part of this growth has been the expansion into rural markets, most notably in the sale of agribusiness products.

HOME SERVICE DIVISION

The Home Service Division remains a strong contributor to earnings, with $26.1 million in pre-tax gain from operations during 2003. This includes a $7.6 million pre-tax loss from Mexico operations, which was an improvement of $2.1 million over 2002. The division's earnings were negatively affected by depressed interest rates and expenses related to the implementation of administrative systems. These factors were partially offset by favorable life insurance mortality experience and improved health insurance results.

Home Service Division maintains market position by remaining committed to its agency force by improving service and updating technology and products. Policy persistency and agent retention are strengths of the division's domestic operation. The goal in Mexico is to achieve the same level of policy persistency and agent productivity currently maintained in the domestic operation.

INDEPENDENT MARKETING

Based on sales, Independent Marketing is the fastest-growing division of American National, providing diverse distribution opportunities for the corporation. Sales for 2003 were exceptional, with annuity deposits reaching $2.3 billion for the year. Life and annuity statutory reserves each increased threefold over the three-year period ending December 31, 2003.

In this period of rapid growth, the division remained profitable, with an increase in pre-tax gain from operations to $10.6 million, compared with $7.6 million in 2002. This growth presented several challenges. Actions taken to meet these challenges include modification of products and enhanced focus on asset/liability management.

DIRECT MARKETING

Direct Marketing's increased level of sales achieved for the years 2000-2002 was maintained in 2003. Continued growth in sales was impacted by significant increases in television advertising rates and resource commitments to technology upgrades.

Adverse claim fluctuations, coupled with increased marketing and technology costs resulted in a pre-tax loss of $0.5 million in 2003.

Direct Marketing is now able to receive applications online, automatically underwrite and accept the first premium, and issue coverage, all via the Internet. This is one of the most advanced uses on the Internet in the life insurance marketplace. Innovative direct marketing approaches such as this will support the resumption of profitable growth in this marketing channel.

SENIOR AGE MARKETING

Senior Age Marketing continues to maintain its place as one of the leading providers of Medicare Supplement insurance in the industry. While health sales have been scaled back in other segments of the market, management believes that the Medicare Supplement market can be maintained on a profitable basis.

A $14.5 million pre-tax gain from operations for Senior Age Marketing was more than double the gain realized in 2002. Medicare Supplement insurance results increased significantly due primarily to an improvement in claims experience.

Over the last three years, the division has undertaken periodic rate adjustments and refinement of underwriting standards. The result has been a lower level of sales, but improved profitability.

CREDIT INSURANCE DIVISION

During 2003, the Credit Insurance Division assumed a block of property/casualty business and its associated sources of production. These new sources have already added significantly to the sales of the division.

As the market for credit life and disability insurance products sold through banks declines, the division's emphasis continues to shift toward the more profitable property/casualty lines. These sales accounted for more than 40% of the division's business during 2003.

HEALTH DIVISION

The Health Division posted a $9.4 million gain from business marketed and sold directly through the division. This division also manages the health insurance business produced by other divisions. Operating gain from health insurance business produced by all divisions was an impressive 6% of earned premium in 2003.

Numerous actions have been taken to improve profitability of health insurance business, including exiting some lines and re-pricing and redesigning others. Management will continue to scrutinize the health business to maintain and build upon profitability.

BUILDING AMERICAN NATIONAL'S FUTURE

American National is building on core competencies and established financial strength to create a strong foundation for the future. In order to support these developments, American National is investing in infrastructure, expanding distribution, and refining products and processes.

Management is committed to prudent use of capital and active asset/liability management to maintain the company's strong capitalization and stockholder value. Risk and returns will continue to be carefully evaluated, and appropriate action will be taken to ensure profitable growth.

AMERICAN NATIONAL

CONSOLIDATED OPERATIONS

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

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

LIFE INSURERS

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

PROPERTY/CASUALTY INSURERS

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

OTHER OPERATIONS

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

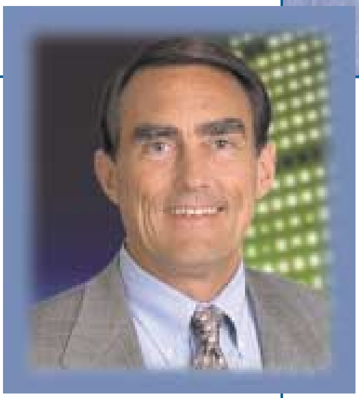
- Securities Management and Research, Inc. (SM&R)
- Comprehensive Investment Services (CIS)
- ANTAC, Inc.

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

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

2003
Gain before allocations
Life and health companies
American National
Other life and health companies
Property/casualty companies
Non-insurance companies
Consolidating adjustments
Total gain before allocations
Earnings of unconsolidated affiliates
Allocated federal income taxes
Gain from operations after tax
After-tax realized gains (losses)
Net income (loss)
2002
Gain before allocations
Life and health companies
American National
Other life and health companies
Property/casualty companies
Non-insurance companies
Consolidating adjustments
Total gain before allocations
Earnings of unconsolidated affiliates
Allocated federal income taxes
Gain from operations after tax
After-tax realized gains (losses)
Net income (loss)

TOTAL	CAPITAL AND SURPLUS	MULTIPLE LINE	HOME SERVICE DIVISION	INDEPENDENT MARKETING	HEALTH DIVISION	CREDIT INSURANCE DIVISION	SENIOR AGE MARKETING	DIRECT MARKETING	ALL OTHER
$ 155,319	$ 58,546	$ 22,299	$ 33,659	$ 10,625	$ 6,142	$ 15,143	$ —	$ —	$ 8,905
33,407	11,300	11,492	(7,585)	—	3,281	15	15,038	(447)	313
94,334	5,949	88,385	—	—	—	—	—	—	—
(48,930)	(42,312)	—	—	—	—	—	—	—	(6,618)
402	1,541	(472)	—	—	—	—	(539)	(64)	(64)
234,532	35,024	121,704	26,074	10,625	9,423	15,158	14,499	(511)	2,536
4,327	4,017	—	—	—	—	—	—	—	310
(78,057)	(12,118)	(40,162)	(8,604)	(3,506)	(3,110)	(5,002)	(4,785)	169	(939)
160,802	26,923	81,542	17,470	7,119	6,313	10,156	9,714	(342)	1,907
21,363	21,363	—	—	—	—	—	—	—	—
$ 182,165	$ 48,286	$ 81,542	$ 17,470	$ 7,119	$ 6,313	$ 10,156	$ 9,714	$ (342)	$ 1,907
$ 169,188	$ 73,021	$ 17,716	$ 41,963	$ 7,617	$ 4,652	$ 15,094	$ —	$ —	$ 9,125
33,164	15,723	13,173	(9,695)	—	4,528	(9)	6,903	2,164	377
22,731	6,916	15,815	—	—	—	—	—	—	—
(57,238)	(50,460)	—	—	—	—	—	—	—	(6,778)
858	2,262	(433)	—	—	—	—	(777)	(58)	(136)
168,703	47,462	46,271	32,268	7,617	9,180	15,085	6,126	2,106	2,588
(10,125)	(10,487)	—	—	—	—	—	—	—	362
(56,090)	(15,961)	(15,269)	(10,648)	(2,514)	(3,029)	(4,978)	(2,022)	(695)	(974)
102,488	21,014	31,002	21,620	5,103	6,151	10,107	4,104	1,411	1,976
(85,633)	(85,633)	—	—	—	—	—	—	—	—
$ 16,855	$ (64,619)	$ 31,002	$ 21,620	$ 5,103	$ 6,151	$ 10,107	$ 4,104	$ 1,411	$ 1,976



MICHAEL W. McCROSKEY
Executive Vice President
Investments
Treasurer
American National Insurance Company

INVESTMENTS

In 2003, investors focused on an improving economy, with advancing equity markets and falling long-term interest rates. Long-term interest rates reached historic lows by mid-year. Buoyed by the upward trend in the stock market, the company enjoyed dramatically improved investment results in its equity portfolio.

FIXED MATURITY SECURITIES

American National again added substantially to its portfolio of fixed income securities to keep pace with record annuity sales. Although credit quality issues that were so dominant in 2002 remained of concern in 2003, the company was able to match its growing annuity liabilities with quality assets, maintaining its asset quality standards. The rate of return on new bond investments fell during the year, but the overall portfolio yield remained an attractive 5.95%.

COMMON STOCK PORTFOLIO

The company's confidence in a conservative, disciplined approach to the equity markets was rewarded in 2003, as most major indexes scored significant gains. American National's equity portfolio outperformed the S&P 500. As might be expected in a rising equity market, "other than temporary impairments" were substantially reduced from 2002 levels and, in the aggregate, were significantly outpaced by unrealized gains in the value of other equity securities.

MORTGAGE LOANS

The company's investment in mortgage loans decreased slightly in 2003. Although new loan production increased, prepayments also increased as borrowers continued to take advantage of historically low rates. Because of these trends, the portfolio rate of return continued to decline, ending at an overall rate of 7.82%. By the end of 2003, the prepayment trend seemed to be abating.

Also at the end of 2003, delinquencies were below 1% of the portfolio, in line with historically low levels that were established between 1999 and 2002. The company expects to increase investments in mortgage loans in 2004 to balance continued annuity sales.

ASSET/LIABILITY MANAGEMENT

With today's complex insurance products, asset/liability management has become critical to the company's long-term success. American National is refining a program to manage the duration of assets and liabilities within the framework of desired return on investment. In 2003, in recognition of increasing sales, particularly in annuities, the company established a committee to psrovide additional focus on the subject of asset/liability management. This focus will supplement the existing and ongoing evaluation of American National's investment position for each major product type.

GREGORY V. OSTERGREN
Executive Vice President
Director of Multiple Line

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

MULTIPLE LINE

Multiple Line's exclusive agency force markets a variety of life and property/casualty insurance products to individuals and families at all income levels throughout the United States and Puerto Rico, and to U.S. military personnel in Western Europe.

2003 RESULTS

Multiple Line achieved record profitability in 2003, despite unprecedented catastrophe losses in the property/casualty lines. Improvement in operating gain was the result of an upward trend in the property/casualty business cycle as well as actions taken across all product lines and subsidiary companies.

The most significant management actions contributing to the improvement were property/casualty rate adjustments, continued focus on controlling home office expenses, mold peril exclusions in homeowners insurance products, and utilization of a "best practices" model to monitor and measure the performance of the exclusive agency force.

The percentage of tri-line clients — those who purchase life, home and auto insurance through Multiple Line — increased from 17.5% in December of 2002 to 19% in December of 2003, a reflection of an emphasis on insuring lives-to-value by utilizing a complete financial needs

TWO-YEAR FINANCIAL COMPARISON (In thousands)

	LIFE	ANNUITY	A&H	PROPERTY/ CASUALTY	TOTAL
2003					
Financial Results					
Premiums and other policy revenues	$ 124,471	$ 5,886	$ 15,462	$ 991,951	$ 1,137,770
Net investment income	82,477	30,848	2,425	56,128	171,878
Expenses and benefits	(172,500)	(35,730)	(19,548)	(960,166)	(1,187,944)
Pre-tax gain from operations	34,448	1,004	(1,661)	87,913	121,704
Allocated federal income taxes	(11,368)	(331)	548	(29,011)	(40,162)
Net income	$ 23,080	$ 673	$ (1,113)	$ 58,902	$ 81,542
Statistical Data					
Life insurance in force	$ 27,187,881	$ —	$ —	$ —	$ 27,187,881
Paid annualized premium from new sales	21,774	4,916	807	—	27,497
Net written premiums	—	—	—	1,035,776	1,035,776
Policy account deposits	103,140	63,352	—	—	166,492
Earned premium income	58,773	4,326	15,442	986,343	1,064,884
Other policy revenues	64,865	1,121	—	—	65,986
2002					
Financial Results					
Premiums and other policy revenues	$ 123,118	$ 5,209	$ 16,045	$ 847,922	$ 992,294
Net investment income	81,348	31,427	2,727	49,903	165,405
Expenses and benefits	(172,370)	(34,478)	(22,137)	(882,443)	(1,111,428)
Pre-tax gain from operations	32,096	2,158	(3,365)	15,382	46,271
Allocated federal income taxes	(10,591)	(712)	1,110	(5,076)	(15,269)
Net income	$ 21,505	$ 1,446	$ (2,255)	$ 10,306	$ 31,002
Statistical Data					
Life insurance in force	$ 25,073,647	$ —	$ —	$ —	$ 25,073,647
Paid annualized premium from new sales	20,870	44,957	385	—	66,212
Net written premiums	—	—	—	915,465	915,465
Policy account deposits	95,343	58,282	—	—	153,625
Earned premium income	61,264	3,155	16,026	843,775	924,220
Other policy revenues	61,248	1,435	—	—	62,683

analysis. According to LIMRA International, a life insurance market research association, this increase moved the Multiple Line division into the lead among insurers who cross-sell property/casualty and life insurance products. In addition, life insurance cases with face amounts of $1 million and higher increased 46.2% in 2003.

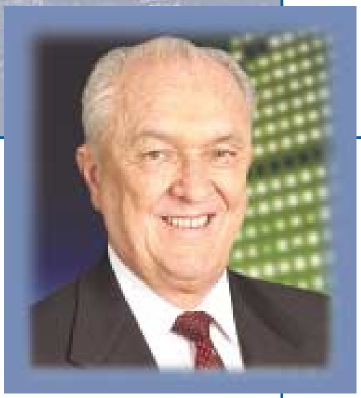
A major milestone was reached in September of 2003, when ANPAC® issued its one-millionth policy.

LOOKING AHEAD

The increases in tri-line business and in larger life insurance face amount policies sold can be attributed to Multiple Line's commitment to creating a Million Dollar Round Table (MDRT) culture among its agents. Field management is also focusing on the Client Development Process (CDP), a new sales methodology that was introduced during 2003. The CDP provides a comprehensive approach for the agent to use in identifying and satisfying the needs of the client.

Multiple Line will make building distribution a core competency by implementing a series of actions designed to enhance the growth, selection and retention of its exclusive agency force.

HOME SERVICE DIVISION



BILL J. GARRISON
Executive Vice President
Director, Home Service Division

American National's Home Service Division markets to moderate income households in the United States and Mexico. The Home Service field force is made up of employee-agents who traditionally sell, service, and collect premiums in the consumer's home.

2003 RESULTS

The gain from operations in the Home Service Division was $26 million in 2003. A decrease in net investment income and ongoing expenses related to the installation of a new policy administration infrastructure had a negative impact on earnings. Although earnings decreased, there were improvements in many areas. The monthly debit ordinary lapse rate improved 2.3% in 2003, and a total of 8.75% over the last five years, while the ordinary life insurance first-year lapse rate improved 27.5% over the last five years.

Service to the agency force improved as a result of the completion of the Home Service Call Center. Additionally, the introduction of new illustration software provided a modern sales tool for the Home Service agent.

TWO-YEAR FINANCIAL COMPARISON (In thousands)

	LIFE	ANNUITY	A&H	TOTAL
2003				
Financial Results				
Premiums and other policy revenues	$ 195,840	$ 715	$ 16,578	$ 213,133
Net investment income	113,971	3,685	(5,558)	112,098
Expenses and benefits	(284,802)	(4,881)	(9,474)	(299,157)
Pre-tax gain from operations	25,009	(481)	1,546	26,074
Allocated federal income taxes	(8,253)	159	(510)	(8,604)
Net income	$ 16,756	$ (322)	$ 1,036	$ 17,470
Statistical Data				
Life insurance in force	$ 14,451,066	$ —	$ —	$ 14,451,066
Paid annualized premium from new sales	37,680	436	2,393	40,509
Policy account deposits	22,718	5,450	—	28,168
Earned premium income	184,548	549	9,943	195,040
Other policy revenues	17,864	167	—	18,031
2002				
Financial Results				
Premiums and other policy revenues	$ 201,921	$ 1,465	$ 9,604	$ 212,990
Net investment income	108,611	3,894	1,077	113,582
Expenses and benefits	(277,512)	(5,649)	(11,143)	(294,304)
Pre-tax gain from operations	33,020	(290)	(462)	32,268
Allocated federal income taxes	(10,896)	96	152	(10,648)
Net income	$ 22,124	$ (194)	$ (310)	$ 21,620
Statistical Data				
Life insurance in force	$ 14,482,916	$ —	$ —	$ 14,482,916
Paid annualized premium from new sales	42,494	5,255	2,066	49,815
Policy account deposits	22,672	5,062	—	27,734
Earned premium income	184,283	1,328	9,604	195,215
Other policy revenues	17,603	138	—	17,741

In Mexico, as a result of upgrades in field control and planning, productivity levels increased in 2003. Mexico premium revenues were up 10% over 2002, with all of the increase coming from renewals.

LOOKING AHEAD

In 2004, Home Service will create a total needs analysis software as an enhancement to the new illustration software. This will improve the agent's ability to write policies with larger face amounts and better persistency.

Infrastructure improvements in field offices, including cable modem/DSL equipment, will be the foundation for the "Mobile Agent" rollout in 2004. The technological highlight of the rollout will be mobile handheld accounting devices, better known as personal digital assistants (PDAs) to the agents.

In Mexico, business model refinements that led to improved productivity in 2003 will continue in 2004. Continued improvements in productivity will be the key to further expansion in the Mexican market.

DAVID A. BEHRENS
Executive Vice President
Independent Marketing

INDEPENDENT MARKETING

Independent Marketing offers life insurance, annuities, and pension products to small business owners and individual consumers seeking wealth management and protection. Multiple distribution channels are utilized, including financial institutions, large marketing companies, employee benefit firms, broker-dealers, and independent insurance brokers and agents.

2003 RESULTS

Independent Marketing achieved record sales in 2003, highlighted by $2.3 billion of annuity deposits. Additionally, life collected premium increased 16% in 2003, to a total of $119 million.

Market interest rates sank to a 45-year low in June, prompting the redesign or elimination of several annuity products in order to maintain profitability. Despite the impact from low interest rates, gain from operations increased 39% over 2002, to a total of $10.6 million in life

TWO-YEAR FINANCIAL COMPARISON (In thousands)

	LIFE	ANNUITY	TOTAL
2003			
Financial Results			
Premiums and other policy revenues	$ 19,384	$ 80,443	$ 99,827
Net investment income	24,022	191,283	215,305
Expenses and benefits	(41,539)	(262,968)	(304,507)
Pre-tax gain from operations	1,867	8,758	10,625
Allocated federal income taxes	(616)	(2,890)	(3,506)
Net income	$ 1,251	$ 5,868	$ 7,119
Statistical Data			
Life insurance in force	$ 3,155,822	$ —	$ 3,155,822
Paid annualized premium from new sales	19,206	236,648	255,854
Policy account deposits	113,986	2,314,022	2,428,008
Earned premium income	5,648	73,940	79,588
Other policy revenues	13,736	6,503	20,239
2002			
Financial Results			
Premiums and other policy revenues	$ 13,857	$ 34,395	$ 48,252
Net investment income	18,576	123,260	141,836
Expenses and benefits	(34,013)	(148,458)	(182,471)
Pre-tax gain from operations	(1,580)	9,197	7,617
Allocated federal income taxes	521	(3,035)	(2,514)
Net income	$ (1,059)	$ 6,162	$ 5,103
Statistical Data			
Life insurance in force	$ 2,508,075	$ —	$ 2,508,075
Paid annualized premium from new sales	15,466	636,768	652,234
Policy account deposits	100,543	617,609	718,152
Earned premium income	3,050	27,485	30,535
Other policy revenues	10,806	6,722	17,528

and annuity earnings. Life insurance contributed $1.8 million to the 2003 gain, an increase of 218% over 2002.

Life and annuity statutory reserves for business produced through this division have increased threefold over the last three years, from $1.4 billion to $4.6 billion.

LOOKING AHEAD

In the future, the number of distributors in the financial services industry is expected to decrease due to retirements, buyouts, mergers and other factors. Therefore, it is imperative that Independent Marketing fortify relationships with its current distribution partners and develop new ones as the marketplace evolves.

Independent Marketing will seek to improve relationships with distributors by encouraging and creating "red carpet service groups," and adopting improved technologies. The goal is to make American National products the first choice among independent distributors, with an emphasis on ease of doing business.

HEALTH DIVISION

STEVEN H. SCHOUWEILER
Senior Vice President
Health Division

Utilizing a conservative, risk-sharing business philosophy, the Health Division markets a specialized portfolio of products, such as stop-loss reinsurance and association group health insurance, to employers and associations. The division also manages the health insurance business marketed and sold by other divisions of American National.

2003 RESULTS

The Health Division experienced a 2003 gain from operations of $9.4 million on business produced directly by the division, an increase of 2.6% over the previous year. The operating gain from all health insurance business managed by the division was 6% of earned premium, more than double the total achieved in 2002.

Profitability was negatively affected by expenses of $9 million that are unlikely to be repeated. These expenses

TWO-YEAR FINANCIAL COMPARISON (In thousands)

	LIFE	A&H	TOTAL
2003			
Financial Results			
Premiums and other policy revenues	$ 2,200	$ 190,549	$ 192,749
Net investment income	428	8,695	9,123
Expenses and benefits	(1,824)	(190,625)	(192,449)
Pre-tax gain from operations	804	8,619	9,423
Allocated federal income taxes	(266)	(2,844)	(3,110)
Net income	$ 538	$ 5,775	$ 6,313
Statistical Data			
Life insurance in force	$ 551,924	$ —	$ 551,924
Earned premium income	2,201	170,229	172,430
2002			
Financial Results			
Premiums and other policy revenues	$ 2,228	$ 223,077	$ 225,305
Net investment income	460	8,741	9,201
Expenses and benefits	(2,179)	(223,147)	(225,326)
Pre-tax gain from operations	509	8,671	9,180
Allocated federal income taxes	(168)	(2,861)	(3,029)
Net income	$ 341	$ 5,810	$ 6,151
Statistical Data			
Life insurance in force	$ 701,544	$ —	$ 701,544
Earned premium income	2,228	191,764	193,992

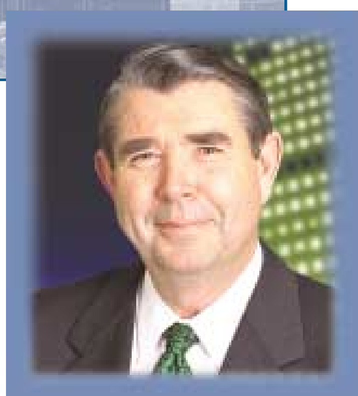
were primarily the result of litigation and the implementation of programs required to meet the Health Insurance Portability and Accountability Act of 1996 (HIPAA).

LOOKING AHEAD

The Health Division's primary emphasis will be to improve customer service and implement customer relationship management concepts, including enhanced employee training and customer feedback.

The Health Division will continue to work with a select group of managing general underwriters to write association medical coverage, stop-loss reinsurance products and specialty lines of health coverage.

CREDIT INSURANCE



J. RAY THOMASON
Senior Vice President
Credit Insurance Division

JAMES W. PANGBURN
Vice President
Credit Insurance/Special Markets

Mr. Thomason will retire in 2004 after 44 years of service with American National. Mr. Pangburn will assume leadership of the Credit Insurance Division at that time.

The Credit Insurance Division offers products that provide for the repayment of loans in the case of the death, disability or involuntary unemployment of the borrower, the loss or destruction of collateral, and other unforeseen events. The primary distribution channel for credit insurance products is general agents who market to auto dealers, furniture dealers and financial institutions.

2003 RESULTS

The Credit Insurance Division achieved the highest level of premium production in its history in 2003. Total net written premium rose to $161.7 million, an increase of 6.6% over 2002. Gain from operations also increased to $15.1 million. The division's credit-related property/casualty production increased by more than 95%, to $70.5 million.

TWO-YEAR FINANCIAL COMPARISON (In thousands)

	2003	2002
Financial Results		
Premiums and other policy revenues	$ 99,167	$ 73,600
Net investment income	17,553	17,939
Expenses and benefits	(101,562)	(76,454)
Pre-tax gain from operations	15,158	15,085
Allocated federal income taxes	(5,002)	(4,978)
Net income	$ 10,156	$ 10,107
Statistical Data		
Life insurance in force	$ 6,203,223	$ 6,881,273
Sales of life insurance (face amount)	2,950,282	3,736,837
Written premium	161,775	151,775
Earned premium income	91,062	64,311

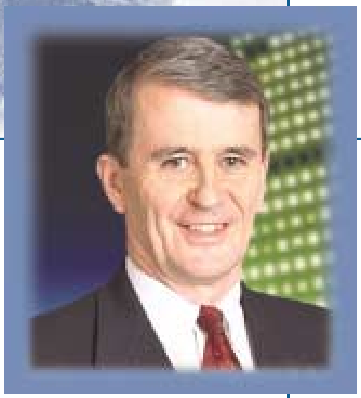
During 2003, the division negotiated the transfer of a block of credit-related property/casualty business from the Royal and SunAlliance companies to ANPAC. This transfer included lines of business the division was already writing, as well as new products that will diversify the division's product offerings, thereby strengthening its ability to compete.

LOOKING AHEAD

Reductions in credit life rates and the financing of single premium products, coupled with increased usage of non-insurance products such as debt cancellation contracts, will continue to suppress growth in credit life and disability premiums. However, the collaboration with ANPAC in the development and sale of credit-related property/casualty products has enabled the division to experience continued overall growth and maintain its position as a leader in the industry.

Long-term relationships with distribution partners in the automobile and financial institution markets remain strong, and as a result of the Royal and SunAlliance transaction, have been augmented by the addition of a new multi-state property/casualty distribution organization. The Credit Insurance Division is well positioned to meet the challenges and opportunities presented by the rapidly changing consumer lending business.

SENIOR AGE MARKETING



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

Senior Age Marketing is a leading provider of Medicare Supplement insurance products. The division conducts business through individual independent agents contracted with Standard Life and Accident Insurance Company. The primary market served is the middle-income, senior-age consumer.

2003 RESULTS

The $14.5 million in gain from operations for Senior Age Marketing was more than double the $6.1 million achieved in 2002. The gain from the Medicare Supplement line totaled $13.2 million, an improvement of $10.1 million over 2002.

Life insurance sales totaled $2.4 million of net annualized premium, while sales of health products—primarily Medicare Supplement insurance—totaled $21.8 million of net annualized premium. During 2003, new Medicare Supplement products, designed to reflect gender ratings and to identify and rate for tobacco usage, were introduced.

TWO-YEAR FINANCIAL COMPARISON (In thousands)

	LIFE	ANNUITY	A&H	TOTAL
2003				
Financial Results				
Premiums and other policy revenues	$ 21,556	$ 573	$ 187,134	$ 209,263
Net investment income	7,263	2,394	10,319	19,976
Expenses and benefits	(27,343)	(3,282)	(184,115)	(214,740)
Pre-tax gain from operations	1,476	(315)	13,338	14,499
Allocated federal income taxes	(487)	104	(4,402)	(4,785)
Net income	$ 989	$ (211)	$ 8,936	$ 9,714
Statistical Data				
Life insurance in force	$ 502,281	$ —	$ —	$ 502,281
Paid annualized premium from new sales	1,662	767	21,767	24,196
Policy account deposits	4,665	7,745	—	12,410
Earned premium income	21,384	362	187,134	208,880
2002				
Financial Results				
Premiums and other policy revenues	$ 23,039	$ 406	$ 168,700	$ 192,145
Net investment income	7,361	2,131	10,342	19,834
Expenses and benefits	(28,730)	(2,991)	(174,132)	(205,853)
Pre-tax gain from operations	1,670	(454)	4,910	6,126
Allocated federal income taxes	(552)	150	(1,620)	(2,022)
Net income	$ 1,118	$ (304)	$ 3,290	$ 4,104
Statistical Data:				
Life insurance in force	$ 524,185	$ —	$ —	$ 524,185
Paid annualized premium from new sales	2,119	10,048	30,604	42,771
Earned premium income	2,097	10,067	—	12,164
Policy account deposits	23,065	269	168,698	192,032

LOOKING AHEAD

Continued emphasis on tight underwriting standards, along with rate increases, should continue to maintain the profitability and sales level of this product line. Changes applicable to Standard's Medicare Supplement plans will be made in order to comply with the Medicare Prescription Drug, Improvement, and Modernization Act of 2003.

To facilitate the increased emphasis on life insurance and annuity sales, new products will be added to the divisions portfolio during 2004. Additionally, the Health line will be expanded to include limited benefit products, which will provide access to a full range of life, health and annuity products for the expanding senior age market.

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

DIRECT MARKETING

Direct Marketing uses direct mail, print and broadcast advertising media, as well as the Internet to market life insurance products directly to consumers. The division conducts business through Garden State Life Insurance Company.

2003 RESULTS

Infrastructure upgrades and fluctuating mortality experience were the primary causes for the decrease in gain from operations in 2003.

The installation of a new, comprehensive policy administration system required extensive testing and employee training, and led to the postponement or modification of several of Direct Marketing's initiatives.

However, in 2003, the division was able to match the same strong level of sales experienced in recent

TWO-YEAR FINANCIAL COMPARISON (In thousands)

	2003	2002
Financial Results		
Premiums and other policy revenues	$ 35,256	$ 32,520
Net investment income	3,823	3,508
Expenses and benefits	(39,590)	(33,922)
Pre-tax gain from operations	(511)	2,106
Allocated federal income taxes	169	(695)
Net income	$ (342)	$ 1,411
Statistical Data		
Life insurance in force	$ 5,828,035	$ 5,397,469
Paid annualized premium from new sales	11,221	11,319
Earned premium income	34,587	31,896

years. In addition, earned premiums increased 8.4% in 2003.

LOOKING AHEAD

A new approach to conserving existing business was implemented in 2003 with positive results. Policyholders whose policies were nearing cancellation were contacted personally. As a result, remittances from this group increased 25% over those policyholders who were not contacted. Consequently, a formal conservation program is under development and is scheduled for implementation during the first quarter of 2004.

A 55% average increase in television advertising rates in 2003 has prompted the division to explore new strategies for the purchase and placement of advertising in this medium. A revised format for the ad in the United States Postal Service Movers Guide, implemented in September of 2003, has produced a 75% increase in leads generated. In addition, endorsed marketing programs will continue to expand with several financial institution partners added during the year.

OTHER OPERATIONS

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

SM&R, a wholly-owned subsidiary, is a registered investment adviser, money manager, and broker-dealer. It serves as investment adviser and principal underwriter for a series of mutual funds and separate accounts, shares of which are sold directly or as an investment vehicle for variable life and annuity products. SM&R also manages assets for registered investment companies, retirement plans, bank trust funds, not-for-profit foundations and private client portfolios.

SM&R continued to focus on three distribution channels in 2003: American National's Multiple Line and Independent Marketing divisions and SM&R's direct sales.

SPECIALIZED INVESTMENT COMPANIES

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

ACQUIRED BUSINESS

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

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

2003

FINANCIAL INFORMATION ■ AMERICAN NATIONAL INSURANCE COMPANY AND SUBSIDIARIES

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

	2003	2002	2001
PREMIUMS AND OTHER REVENUE			
Premiums:			
Life	$ 336,747	$ 337,100	$ 323,603
Annuity	80,310	33,596	35,773
Accident and health	405,039	408,430	415,124
Property/casualty	1,030,899	861,696	666,823
Other policy revenues	112,787	106,372	104,680
Net investment income	631,385	564,500	530,908
Realized gains (losses) on investments	32,866	(131,743)	6,545
Other income	54,473	63,263	54,613
Total revenues	**2,684,506**	**2,243,214**	**2,138,069**
BENEFITS AND EXPENSES			
Death and other benefits:			
Life	248,686	242,189	240,724
Annuity	57,224	53,688	55,196
Accident and health	288,902	305,532	332,371
Property/casualty	778,127	719,016	574,610
Increase in liability for future policy benefits:			
Life	31,693	31,132	23,983
Annuity	43,818	(1,588)	2,870
Accident and health	3,088	9,069	28,196
Interest credited to policy account balances	250,886	166,515	130,551
Commissions for acquiring and servicing policies	489,839	343,096	296,256
Other operating costs and expenses	355,971	336,699	297,944
Taxes, licenses and fees	55,913	38,536	46,975
Increase in deferred policy acquisition costs	(197,559)	(43,606)	(15,254)
Minority interest and participating policyholders' share of operations	10,520	5,976	10,606
Total benefits and expenses	**2,417,108**	**2,206,254**	**2,025,028**
Income from operations before equity in earnings of unconsolidated affiliates and federal income taxes	**267,398**	**36,960**	**113,041**
Equity in earnings (losses) of unconsolidated affiliates	4,327	(10,125)	(7,922)
Income from operations before federal income taxes	271,725	26,835	105,119
Provision (benefit) for federal income taxes:			
Current	94,792	22,051	56,708
Deferred	(5,232)	(12,071)	(16,520)
Net income	**$ 182,165**	**$ 16,855**	**$ 64,931**
Net income per common share – basic	**$ 6.88**	**$ 0.64**	**$ 2.45**
Net income per common share – diluted	**$ 6.87**	**$ 0.64**	**$ 2.45**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(In thousands)

	December 31, 2003	December 31, 2002
ASSETS		
Investments, other than investments in unconsolidated affiliates		
Debt securities:		
Bonds held-to-maturity, at amortized cost	$ 7,388,060	$ 4,497,025
Bonds available-for-sale, at market	1,406,872	1,532,137
Marketable equity securities, at market:		
Preferred stocks	49,612	47,385
Common stocks	1,020,993	758,298
Mortgage loans on real estate	955,360	1,011,124
Policy loans	332,743	328,099
Investment real estate, net of accumulated depreciation of $131,371 and $130,779	569,692	396,972
Short-term investments	110,695	435,463
Other invested assets	128,249	166,904
Total investments	**11,962,276**	**9,173,407**
Cash	103,615	200,526
Investments in unconsolidated affiliates	77,106	67,169
Accrued investment income	168,131	135,968
Reinsurance ceded receivables	557,666	646,243
Prepaid reinsurance premiums	180,681	198,636
Premiums due and other receivables	257,028	263,500
Deferred policy acquisition costs	1,065,958	874,495
Property and equipment, net	79,013	79,430
Other assets	316,209	300,790
Separate account assets	372,551	297,025
Total assets	**$ 15,140,234**	**$ 12,237,189**
LIABILITIES		
Policyholder funds		
Future policy benefits:		
Life	$ 2,243,689	$ 2,207,561
Annuity	251,551	209,452
Accident and health	117,413	114,211
Policy account balances	6,014,735	3,578,568
Policy and contract claims	1,320,772	1,295,196
Participating policyholder share	143,721	139,137
Other policyholder funds	969,689	923,088
Total policyholder liabilities	**11,061,570**	**8,467,213**
Current federal income taxes	24,475	(47,346)
Deferred federal income taxes	120,411	47,713
Notes payable	119,044	301,940
Other liabilities	322,613	296,343
Minority interests in subsidiaries	7,548	572
Separate account liabilities	372,551	297,025
Total liabilities	**12,028,212**	**9,363,460**
STOCKHOLDERS' EQUITY		
Capital stock	30,832	30,832
Additional paid-in capital	7,841	7,841
Accumulated other comprehensive income	208,712	74,668
Retained earnings	2,972,498	2,869,259
Treasury stock, at cost	(99,097)	(99,097)
Unamortized restricted stock	(8,764)	(9,774)
Total stockholders' equity	**3,112,022**	**2,873,729**
Total liabilities and stockholders' equity	**$ 15,140,234**	**$ 12,237,189**

See accompanying notes to consolidated financial statements.

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

	2003	2002	2001
COMMON STOCK			
Balance at beginning and end of year	**$ 30,832**	**$ 30,832**	**$ 30,832**
ADDITIONAL PAID-IN CAPITAL			
Balance at beginning of year	7,841	2,947	2,850
Issuance of treasury shares as restricted stock	—	4,894	97
Balance at end of year	**7,841**	**7,841**	**2,947**
ACCUMULATED OTHER COMPREHENSIVE INCOME			
Balance at beginning of year	74,668	75,940	150,402
Change in unrealized gains on marketable securities, net	133,500	(1,660)	(70,150)
Foreign exchange adjustments	(248)	(493)	(4)
Change in fair value of interest rate swap	1,221	3,087	(4,308)
Minimum pension liability adjustment	(429)	(2,206)	—
Balance at end of year	**208,712**	**74,668**	**75,940**
RETAINED EARNINGS			
Balance at beginning of year	2,869,259	2,931,218	2,944,453
Net income	182,165	16,855	64,931
Cash dividends to common stockholders ($2.96, $2.96, $2.92 per share)	(78,839)	(78,726)	(77,585)
Cash dividends to minority stockholders of subsidiaries	(87)	(88)	(226)
Redemption premium on subsidiary preferred stock	—	—	(355)
Balance at end of year	**2,972,498**	**2,869,259**	**2,931,218**
TREASURY STOCK			
Balance at beginning of year	(99,097)	(100,891)	(100,862)
Net issuance (redemption) of restricted stock	—	1,794	(29)
Balance at end of year	**(99,097)**	**(99,097)**	**(100,891)**
RESTRICTED STOCK			
Balance at beginning of year	(9,774)	(3,707)	(4,018)
Net issuance of restricted stock	—	(6,688)	(31)
Amortization of restrictions	1,010	621	342
Balance at end of year	**(8,764)**	**(9,774)**	**(3,707)**
STOCKHOLDERS' EQUITY			
Balance at end of year	**$ 3,112,022**	**$2,873,729**	**$ 2,936,339**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	2003	2002	2001
Net income	$ 182,165	$ 16,855	$ 64,931
Other comprehensive income			
Change in unrealized gains on marketable securities, net	133,500	(1,660)	(70,150)
Foreign exchange adjustments	(248)	(493)	(4)
Change in fair value of interest rate swap	1,221	3,087	(4,308)
Minimum pension liability adjustment	(429)	(2,206)	—
Total	**134,044**	**(1,272)**	**(74,462)**
Comprehensive income (loss)	**$ 316,209**	**$15,583**	**$ (9,531)**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	2003	2002	2001
OPERATING ACTIVITIES			
Net income	$ 182,165	$ 16,855	$ 64,931
Adjustments to reconcile net income to net cash provided by operating activities:			
Increase in liabilities for policyholders' funds	158,190	221,748	607,666
Decrease (increase) in reinsurance ceded receivable	88,577	(783)	(123,846)
Charges to policy account balances	(137,821)	(58,769)	(146,207)
Interest credited to policy account balances	250,886	166,515	130,551
Deferral of policy acquisition costs	(459,964)	(260,013)	(251,765)
Amortization of deferred policy acquisition costs	257,498	216,231	184,089
Deferred federal income tax benefit	(5,232)	(30,960)	(16,520)
Depreciation	25,842	26,621	25,216
Accrual and amortization of discounts and premiums	(6,177)	(15,233)	(22,762)
Amortization of goodwill	—	—	3,100
Loss (gain) from sale or disposal of investments, net	(35,375)	131,095	(33,217)
Equity in earnings of unconsolidated affiliates	(4,327)	(10,125)	(7,922)
Increase in premiums receivable	6,472	(47,407)	(9,800)
Decrease (increase) in accrued investment income	(32,163)	(10,216)	(1,380)
Capitalization of interest on policy and mortgage loans	(17,084)	(16,386)	(15,654)
Other changes, net	105,047	(17,229)	(50,233)
Net cash provided by operating activities	**376,534**	**311,944**	**336,247**
INVESTING ACTIVITIES			
Proceeds from sale or maturity of investments:			
Bonds	824,372	885,419	396,344
Stocks	263,032	99,960	165,615
Real estate	22,655	20,079	9,163
Other invested assets	64,157	34,332	16,160
Principal payments received on:			
Mortgage loans	192,422	109,312	154,012
Policy loans	38,965	38,216	9,092
Purchases of investments:			
Bonds	(3,619,592)	(1,463,876)	(583,203)
Stocks	(228,178)	(137,685)	(322,276)
Real estate	(186,280)	(17,790)	(11,741)
Mortgage loans	(168,941)	(112,954)	(49,828)
Policy loans	(28,706)	(26,199)	7,815
Other invested assets	(9,071)	(69,249)	(69,388)
Increase in short-term investments, net	324,768	(179,987)	(114,958)
Increase in investment in unconsolidated affiliates, net	(9,937)	(367)	(21,703)
Payment for acquisition of subsidiary, net of cash acquired	—	—	(245,418)
Increase in property and equipment, net	(14,391)	(20,907)	(17,953)
Net cash used in investing activities	**(2,534,725)**	**(841,696)**	**(678,267)**
FINANCING ACTIVITIES			
Policyholders' deposits to policy account balances	2,638,617	914,343	587,685
Policyholders' withdrawals from policy account balances	(315,515)	(292,979)	(341,039)
Increase (decrease) in notes payable	(182,896)	(315)	204,443
Dividends to stockholders	(78,926)	(78,814)	(77,811)
Net cash provided by financing activities	**2,061,280**	**542,235**	**373,278**
NET INCREASE (DECREASE) IN CASH	(96,911)	12,483	31,258
Cash:			
Beginning of the year	200,526	188,043	156,785
End of the year	**$ 103,615**	**$ 200,526**	**$ 188,043**

See accompanying notes to consolidated financial statements.

1 • NATURE OF OPERATIONS

American National Insurance Company and its consolidated subsidiaries (collectively "American National") operate primarily in the insurance industry. Operating on a multiple line basis, American National offers a broad line of insurance coverages, including individual and group life, health, and annuities; personal lines property and casualty; and credit insurance. In addition, through non-insurance subsidiaries, American National offers mutual funds and invests in real estate. The majority (98%) of revenues is generated by the insurance business. Business is conducted in all states, as well as Puerto Rico, Guam and American Samoa. American National is also authorized to sell its products to American military personnel in Western Europe and, through subsidiaries, business is conducted in Mexico. Various distribution systems are utilized, including home service, multiple line ordinary, group brokerage, credit, independent third-party marketing organizations and direct sales to the public.

2 • SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

PRINCIPLES OF CONSOLIDATION AND BASIS OF PRESENTATION

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

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

Certain reclassifications have been made to the 2001 and 2002 financial information to conform to the 2003 presentation.

USE OF ESTIMATES

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

ACCOUNTING CHANGES

Goodwill and other intangible assets

FAS No. 142, "Goodwill and Other Intangible Assets'" is effective for years beginning after December 15, 2001. This statement addresses the initial recognition and measurement of intangible assets that were not acquired as part of a business combination. The statement also addresses the subsequent accounting and measurement of goodwill and intangible assets regardless of how they were acquired. The statement eliminates the expensing of goodwill on a routine periodic basis and establishes an annual valuation approach for intangible assets without a finite life. American National adopted FAS No. 142 on January 1, 2002. The only goodwill which American National has is the amount associated with the acquisition of Farm Family Holdings, Inc. (See Note 14.)

Guarantees to others

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

Accounting and reporting for nontraditional insurance products

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

Consolidation of variable interest entities

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

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

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

INVESTMENTS

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

PREFERRED STOCKS: All preferred stocks are classified as available-for-sale and are carried at market.

COMMON STOCKS: All common stocks are classified as available-for-sale and are carried at market.

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

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

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

Policy loans
Policy loans are carried at cost.

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

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

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

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

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

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

Derivative instruments and hedging activities
American National purchases derivative instruments only as hedges of the fair value of a recognized asset or liability. All derivatives are carried at fair value. The amount of derivatives at December 31, 2003, was immaterial, and there were no derivative balances at December 31, 2002 or 2001.

CASH AND CASH EQUIVALENTS

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

INVESTMENTS IN UNCONSOLIDATED AFFILIATES

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

PROPERTY AND EQUIPMENT

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

FOREIGN CURRENCIES

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

INSURANCE SPECIFIC ASSETS AND LIABILITIES

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

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

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

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

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

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

RECOGNITION OF PREMIUM REVENUE AND POLICY BENEFITS

Traditional ordinary life and health

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

Annuities

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

Universal life and single premium whole life

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

Property and casualty

Property/casualty premiums are recognized as revenue proportionately over the contract period. Policy benefits consist of actual claims and the change in reserves for losses and loss adjustment expenses. The reserves for losses and loss adjustment expenses are estimates of future payments of reported and unreported claims and the related expenses with respect to insured events that have occurred. These reserves are calculated using case-basis estimates for reported losses and experience for claims incurred but not reported. These loss reserves are reported net of an allowance for salvage and subrogation. Management believes that American National's reserves have been appropriately calculated, based on available information as of December 31, 2003. However, it is possible that the ultimate liabilities may vary significantly from these estimated amounts.

PARTICIPATING INSURANCE POLICIES

A portion of the life insurance portfolio is written on a participating basis. Participating business comprised approximately 8% of the life insurance in force at December 31, 2003, and 10% of life premiums in 2003. Of the total participating business, 67.6% 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 2003. Certain subsidiaries which are consolidated for financial reporting are not eligible to be included in the consolidated federal income tax return. Separate provisions for income taxes have been determined for these entities.

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

STOCK-BASED COMPENSATION

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

SEPARATE ACCOUNT ASSETS AND LIABILITIES

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

3 • INVESTMENTS

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

TABLE 1

December 31, 2003	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
DEBT SECURITIES				
Bonds held-to-maturity:				
U.S. Government and agencies	$ 195,446	$ 2,947	$ (3,269)	$ 195,124
States and political subdivisions	262,065	11,191	(935)	272,321
Foreign governments	10,763	830	—	11,593
Public utilities	802,109	51,258	(2,370)	850,997
All other corporate bonds	5,508,963	272,576	(47,181)	5,734,358
Mortgage-backed securities	608,714	12,557	(2,967)	618,304
Total bonds held-to-maturity	**7,388,060**	**351,359**	**(56,722)**	**7,682,697**
Bonds available-for-sale:				
U.S. Government and agencies	20,163	622	(2)	20,783
States and political subdivisions	86,883	5,033	—	91,916
Foreign governments	14,962	502	—	15,464
Public utilities	411,224	29,507	(299)	440,432
All other corporate bonds	719,157	53,162	(2,169)	770,150
Mortgage-backed securities	70,348	1,815	(4,036)	68,127
Total bonds available-for-sale	**1,322,737**	**90,641**	**(6,506)**	**1,406,872**
Total debt securities	**8,710,797**	**442,000**	**(63,228)**	**9,089,569**
MARKETABLE EQUITY SECURITIES				
Preferred stock	49,145	1,540	(1,073)	49,612
Common stock	752,209	282,081	(13,297)	1,020,993
Total marketable equity securities	**801,354**	**283,621**	**(14,370)**	**1,070,605**
Total investments in securities	**$ 9,512,151**	**$ 725,621**	**$ (77,598)**	**$ 10,160,174**
December 31, 2002				
DEBT SECURITIES				
Bonds held-to-maturity:				
U.S. Government and agencies	$ 68,303	$ 2,955	$ —	$ 71,258
States and political subdivisions	208,743	10,427	(21)	219,149
Foreign governments	25,642	1,014	—	26,656
Public utilities	825,823	55,318	(153)	880,988
All other corporate bonds	2,978,573	243,184	(6,572)	3,215,185
Mortgage-backed securities	389,941	18,812	(202)	408,551
Total bonds held-to-maturity	**4,497,025**	**331,710**	**(6,948)**	**4,821,787**
Bonds available-for-sale:				
U.S. Government and agencies	20,895	1,511	—	22,406
States and political subdivisions	95,030	4,862	—	99,892
Foreign governments	14,855	1,357	—	16,212
Public utilities	457,072	18,983	(15,490)	460,565
All other corporate bonds	780,817	49,641	(7,977)	822,481
Mortgage-backed securities	109,623	958	—	110,581
Total bonds available-for-sale	**1,478,292**	**77,312**	**(23,467)**	**1,532,137**
Total debt securities	**5,975,317**	**409,022**	**(30,415)**	**6,353,924**
MARKETABLE EQUITY SECURITIES				
Preferred stock	47,401	916	(932)	47,385
Common stock	681,883	145,128	(68,713)	758,298
Total marketable equity securities	**729,284**	**146,044**	**(69,645)**	**805,683**
Total investments in securities	**$ 6,704,601**	**$ 555,066**	**$(100,060)**	**$ 7,159,607**

DEBT SECURITIES

The amortized cost and estimated market value, by contractual maturity, of debt securities at December 31, 2003, are shown in TABLE 2 (in thousands). Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

TABLE 2

	Bonds Held-to-Maturity		Bonds Available-for-Sale	
	Amortized Cost	Estimated Market Value	Amortized Cost	Estimated Market Value
Due in one year or less	$ 190,295	$ 192,899	$ 158,835	$ 162,605
Due after one year through five years	1,646,421	1,784,589	748,327	800,539
Due after five years through ten years	3,115,713	3,251,679	166,665	186,021
Due after ten years	1,816,080	1,824,328	178,562	189,581
	6,768,509	**7,053,495**	**1,252,389**	**1,338,746**
Without single maturity date	619,551	629,202	70,348	68,126
	$ 7,388,060	**$ 7,682,697**	**$ 1,322,737**	**$ 1,406,872**

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

TABLE 3

	2003	2002	2001
Proceeds from sales of available-for-sale securities	$ 227,140	$ 218,364	$ 243,096
Gross gains realized	60,499	29,549	49,033
Gross losses realized	1,167	31,119	11,708
Proceeds from bonds called or otherwise redeemed by the issuer	$ 632,642	$ 519,635	$ 184,404
Gross gains realized	4,622	2,154	676
Gross losses realized	678	355	205

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

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

In 2001, securities with an amortized cost of $98,014,000 were transferred from held-to-maturity to available-for-sale due to evidence of a significant deterioration in the issuers' creditworthiness. An unrealized loss of $10,191,000 was established at the time of the transfer.

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

UNREALIZED GAINS ON SECURITIES

Unrealized gains on marketable equity securities and bonds available-for-sale, presented in the stockholders' equity section of the consolidated statements of financial position, are net of deferred tax liabilities of $116,971,000, $42,743,000 and $44,062,000 for 2003, 2002, and 2001, respectively.

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

TABLE 4

	2003	2002	2001
Bonds available-for-sale	$ 30,290	$ 39,197	$ 73,091
Preferred stocks	483	(1,052)	893
Common stocks	192,369	(43,371)	(175,345)
Index options	(37)	—	139
Amortization of deferred policy acquisition costs	(11,008)	1,503	(5,789)
	212,097	**(3,723)**	**(107,011)**
Provision for federal income taxes	(74,228)	1,319	36,998
	137,869	(2,404)	(70,013)
Change in unrealized gains of investments attributable to participating policyholders' interest	(4,369)	744	(137)
Total	**$ 133,500**	**$ (1,660)**	**$ (70,150)**

Gross unrealized losses on investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, for the year ended December 31, 2003, are summarized as shown in TABLE 5 (in thousands).

TABLE 5

	Less than 12 months		12 months or more		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Bonds held-to-maturity:						
U.S. Government and agencies	$ 3,269	$ 109,979	$ —	$ —	$ 3,269	$ 109,979
States, and political subdivisions	845	30,724	90	2,308	935	33,032
Public utilities	2,300	51,406	70	940	2,370	52,346
All other corporate bonds	46,086	1,244,799	1,095	21,840	47,181	1,266,639
Mortgage-backed securities	2,718	179,083	249	7,821	2,967	186,904
Total held-to-maturity	**55,218**	**1,615,991**	**1,504**	**32,909**	**56,722**	**1,648,900**
Bonds available-for-sale:						
U.S. Government and agencies	2	273	—	—	2	273
Public utilities	122	6,974	177	4,334	299	11,308
All other corporate bonds	305	14,789	1,864	24,726	2,169	39,515
Mortgage-backed securities	238	5,678	3,798	16,928	4,036	22,606
Total available-for-sale	**667**	**27,714**	**5,839**	**45,988**	**6,506**	**73,702**
Total debt securities	**55,885**	**1,643,705**	**7,343**	**78,897**	**63,228**	**1,722,602**
Marketable equity securities:						
Preferred stock	1,073	18,621	—	—	1,073	18,621
Common stock	13,297	101,913	—	—	13,297	101,913
Total marketable equity securities	**14,370**	**120,534**	**—**	**—**	**14,370**	**120,534**
Total investments in securities	**$ 70,255**	**$ 1,764,239**	**$ 7,343**	**$ 78,897**	**$ 77,598**	**$ 1,843,136**

Bonds

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

Marketable equity securities

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

MORTGAGE LOANS

In general, mortgage loans are secured by first liens on income-producing real estate. The loans are expected to be repaid from the cash flows or proceeds from the sale of real estate. American National generally allows a maximum loan-to-collateral-value ratio of 75% to 90% on newly funded mortgage loans. As of December 31, 2003, mortgage loans have fixed rates from 4.50% to 11.75% and variable rates from 2.06% to 9.14%. The majority of the mortgage loan contracts require periodic payments of both principal and interest, and have amortization periods of 3 months to 33 years.

American National has investments in first lien mortgage loans on real estate with carried values of $955,360,000 and $1,011,124,000 at December 31, 2003 and 2002, respectively. Problem loans, on which valuation allowances were established, totaled $20,827,000 and $20,330,000 at December 31, 2003 and 2002, respectively. The valuation allowances on those loans totaled $2,106,000 and $3,766,000 at December 31, 2003 and 2002, respectively.

POLICY LOANS

All of American National's policy loans carried interest rates ranging from 2.75% to 8.00% at December 31, 2003.

INVESTMENT INCOME AND REALIZED GAINS (LOSSES)

Investment income and realized gains (losses) on investments, before federal income taxes, for the years ended December 31 are summarized as shown in TABLE 6 (in thousands).

TABLE 6

	Investment Income			Gains (Losses) on Investments		
	2003	**2002**	**2001**	**2003**	**2002**	**2001**
Bonds	$ 455,590	$ 394,461	$ 360,907	$ 21,345	$ (8,462)	$ (25,788)
Preferred stocks	2,971	3,022	2,067	531	153	(298)
Common stocks	22,270	20,038	19,363	15,562	(123,352)	37,209
Mortgage loans	86,297	85,709	86,768	(2,720)	(3,811)	(233)
Real estate	96,533	75,803	77,247	1,657	(175)	1,196
Other invested assets	53,948	47,825	48,709	(10,206)	(64)	398
Investment in unconsolidated affiliates	—	—	—	—	—	1,288
	717,609	**626,858**	**595,061**	**26,169**	**(135,711)**	**13,772**
Investment expenses	(86,224)	(62,358)	(64,153)	—	—	—
Decrease (increase) in valuation allowances	—	—	—	6,697	3,968	(7,227)
	$631,385	**$564,500**	**$530,908**	**$ 32,866**	**$(131,743)**	**$ 6,545**

Included in the realized losses are markdowns of available-for-sale securities due to other-than-temporary declines in the value of the securities. The markdowns totaled $32,074,000 in 2003, $139,672,000 in 2002, and $26,672,000 in 2001.

4 • CONCENTRATIONS OF CREDIT RISK ON INVESTMENTS

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

BONDS

Management believes American National's bond portfolio is diversified and of investment grade. The bond portfolio distributed by quality rating at December 31 is summarized as shown in TABLE 7.

TABLE 7

	2003	**2002**
AAA	14%	13%
AA	5%	6%
A	44%	42%
BBB	31%	29%
BB	3%	4%
Below BB	3%	6%
	100%	**100%**

COMMON STOCK

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

TABLE 8

	2003	**2002**
Materials	4%	3%
Industrials	10%	9%
Consumer Goods	19%	20%
Energy & Utilities	10%	11%
Financials	25%	25%
Information Technology	12%	10%
Health Care	10%	11%
Communications	4%	4%
Mutual Funds	6%	7%
	100%	**100%**

MORTGAGE LOANS AND INVESTMENT REAL ESTATE

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

Mortgage loans and investment real estate by property type distribution at December 31 are summarized as shown in TABLE 9.

American National has a diversified portfolio of mortgage loans and real estate properties. Mortgage loans and real estate investments by geographic distribution at December 31 are summarized as shown in TABLE 10.

TABLE 9

	Mortgage Loans		Investment Real Estate	
	2003	**2002**	**2003**	**2002**
Office buildings	21%	16%	15%	12%
Shopping centers	44%	43%	24%	34%
Commercial	5%	4%	1%	—
Apartments	—	—	1%	2%
Hotels/Motels	14%	11%	4%	7%
Industrial	10%	19%	47%	28%
Other	6%	7%	8%	17%
	100%	**100%**	**100%**	**100%**

TABLE 10

	Mortgage Loans		Investment Real Estate	
	2003	**2002**	**2003**	**2002**
New England	5%	6%	1%	—
Middle Atlantic	15%	15%	—	—
East North Central	9%	7%	8%	11%
West North Central	2%	2%	5%	8%
South Atlantic	18%	22%	8%	8%
East South Central	4%	2%	29%	8%
West South Central	29%	30%	45%	58%
Mountain	5%	5%	2%	4%
Pacific	13%	11%	2%	3%
	100%	**100%**	**100%**	**100%**

5 • FAIR VALUE OF FINANCIAL INSTRUMENTS

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

DEBT SECURITIES

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

MARKETABLE EQUITY SECURITIES

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

MORTGAGE LOANS

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

POLICY LOANS

The carrying amount for policy loans approximates their fair value.

SHORT-TERM INVESTMENTS

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

INVESTMENT CONTRACTS

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

NOTES PAYABLE

The carrying amount for notes payable approximates their fair value.

INTEREST RATE SWAP

The interest rate swap was carried at market value.

INVESTMENT COMMITMENTS

American National's investment commitments are all short-term in duration, and the market value was not significant at December 31, 2003 or 2002.

VALUES

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

TABLE 11

	2003		2002	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
FINANCIAL ASSETS				
Bonds:				
Held-to-maturity	$ 7,388,060	$ 7,682,697	$ 4,497,025	$ 4,821,787
Available-for-sale	1,406,872	1,406,872	1,532,137	1,532,137
Preferred stock	49,612	49,612	47,385	47,385
Common stock	1,020,993	1,020,993	758,298	758,298
Mortgage loans on real estate	955,360	1,005,884	1,011,124	1,080,801
Policy loans	332,743	332,743	328,099	328,099
Short-term investments	110,695	110,695	435,463	435,463
FINANCIAL LIABILITIES				
Investment contracts	4,535,663	4,535,663	2,254,076	2,254,076
Notes payable	119,044	119,044	301,940	301,940
Interest rate swap	—	—	1,880	1,880

6 • DEFERRED POLICY ACQUISITION COSTS

Deferred policy acquisition costs and premiums for the years ended December 31, 2003, 2002, and 2001 are summarized as shown in TABLE 12 (in thousands).

TABLE 12

	Life and Annuity	Accident and Health	Property and Casualty	Total
Balance at December 31, 2000	**$623,180**	**$106,398**	**$ 18,306**	**$ 747,884**
Additions	101,364	25,229	72,750	199,343
Amortization	(89,751)	(25,480)	(68,858)	(184,089)
Effect of change in unrealized gains on available-for-sale securities	(5,524)	—	—	(5,524)
Net change	6,089	(251)	3,892	9,730
Acquisitions	52,417	5	19,180	71,602
Balance at December 31, 2001	**681,686**	**106,152**	**41,378**	**829,216**
Additions	134,057	17,234	108,547	259,838
Amortization	(99,077)	(21,947)	(95,208)	(216,232)
Effect of change in unrealized gains on available-for-sale securities	1,498	—	—	1,498
Net change	36,478	(4,713)	13,339	45,104
Acquisitions	113	62	—	175
Balance at December 31, 2002	**718,277**	**101,501**	**54,717**	**874,495**
Additions	282,945	10,823	161,289	455,057
Amortization	(113,526)	(17,522)	(126,450)	(257,498)
Effect of change in unrealized gains on available-for-sale securities	(11,003)	—	—	(11,003)
Net change	158,416	(6,699)	34,839	186,556
Acquisitions	2,215	2,809	—	5,024
Foreign exchange effect	(117)	—	—	(117)
Balance at December 31, 2003	**$ 878,791**	**$ 97,611**	**$ 89,556**	**$1,065,958**
2003 Premiums	**$ 417,057**	**$ 405,039**	**$1,030,899**	**$1,852,995**
2002 Premiums	**$ 370,696**	**$ 408,430**	**$ 861,696**	**$1,640,822**
2001 Premiums	**$ 359,376**	**$ 415,124**	**$ 666,823**	**$1,441,323**

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

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

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

7 • FUTURE POLICY BENEFITS AND POLICY ACCOUNT BALANCES

LIFE INSURANCE

Assumptions used in the calculation of future policy benefits or policy account balances for individual life policies are summarized as shown in TABLE 13.

TABLE 13

Policy Issue Year	Interest Rate	Percentage of Future Policy Benefits So Valued
ORDINARY		
1996-2003	7.5% for years 1 through 5, graded to 5.5% at the end of year 25, and level thereafter	6%
1981-1995	8% for years 1 through 5, graded to 6% at the end of year 25, and level thereafter	17%
1976-1980	7% for years 1 through 5, graded to 5% at the end of year 25, and level thereafter	10%
1972-1975	6% for years 1 through 5, graded to 4% at the end of year 25, and level thereafter	4%
1969-1971	6% for years 1 through 5, graded to 3.5% at the end of year 30, and level thereafter	3%
1962-1968	4.5% for years 1 through 5, graded to 3.5% at the end of year 15, and level thereafter	6%
1948-1961	4% for years 1 through 5, graded to 3.5% at the end of year 10, and level thereafter	6%
1947 and prior	Statutory rates of 3% or 3.5%	1%
Participating business acquired	Level rates of 3% to 5.5%	8%
INDUSTRIAL		
1948-1967	4% for years 1 through 5, graded to 3.5% at the end of year 10, and level thereafter	3%
1947 and prior	Statutory rates of 3%	2%
UNIVERSAL LIFE		
	Future policy benefits for universal life are equal to the current account value	34%
		100%

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

ANNUITIES

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

HEALTH INSURANCE

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

During 2001, the Company's evaluation of recoverability and reserve adequacy resulted in the establishment of premium deficiency reserves of $23,436,000. Such reserve charges include $11,087,000 related to the accident and health product line, previously distributed through the Company's Multiple Line Marketing segment, and $12,349,000 for the long-term care business produced by the Senior Age Marketing segment. No such charges were recorded in 2002 or 2003.

8 • LIABILITY FOR UNPAID CLAIMS AND CLAIM ADJUSTMENT EXPENSES

Activity in the liability for accident and health, and property/casualty unpaid claims and claim adjustment expenses is summarized as shown in TABLE 14 (in thousands).

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

TABLE 14

	2003	2002	2001
Balance at January 1	$1,220,678	$1,160,510	$ 517,478
Balance of acquisition	—	—	221,233
Less reinsurance recoverables	567,114	582,467	218,412
Net beginning balance	653,564	578,043	520,299
Incurred related to:			
Current year	1,072,097	998,604	912,133
Prior years	(25,517)	12,927	(14,147)
Total incurred	**1,046,580**	**1,011,531**	**897,986**
Paid related to:			
Current year	651,639	603,229	572,903
Prior years	303,738	332,781	267,339
Total paid	**955,377**	**936,010**	**840,242**
Net balance at December 31	744,767	653,564	578,043
Plus reinsurance recoverables	500,583	567,114	582,467
Balance at December 31	**$1,245,350**	**$1,220,678**	**$1,160,510**

9 • REINSURANCE

As is customary in the insurance industry, the companies reinsure portions of certain insurance policies they write, thereby providing a greater diversification of risk and managing exposure on larger risks. The maximum amount that would be retained by one company (American National) would be $700,000 individual life, $250,000 individual accidental death, $100,000 group life and $125,000 credit life (total $1,175,000). If individual, group and credit were in force in all companies at the same time, the maximum risk on any one life could be $2,336,000.

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

To minimize its exposure to significant losses from reinsurer insolvencies, American National evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers. At December 31, 2003, amounts recoverable from reinsurers with a carrying value of $96,223,302 were associated with various auto dealer credit insurance program reinsurers domiciled in the Caribbean islands of Nevis or the Turks and Caicos Islands. American National holds collateral related to these credit reinsurers totaling $76,174,003. This collateral is in the form of custodial accounts controlled by the company, which can be drawn on for amounts that remain unpaid for more than 90 days. American National believes that the failure of any single reinsurer to meet its obligations would not have a significant effect on its financial position or results of operations.

American National has amounts receivable from reinsurers totaling $557,666,000 at December 31, 2003. Of this total, $39,659,000 represents amounts that are the subject of litigation or are in dispute with the reinsurers involved. Management believes these disputes will not have a significant effect on American National's financial position.

As a result of the September 11, 2001, terrorist attack on the United States, American National accrued losses (primarily on reinsurance assumed) as of December 31, 2001, totaling $239,406,000, with reinsurance in place providing coverage of $218,606,000 on those claims. During 2002 and 2003, claims were paid and reinsurance recovered, reducing the amount accrued to $184,135,000, with $166,244,000 of reinsurance in place as of December 31, 2003. The net effect of the activity in 2002 and 2003 was to reduce American National's exposure to potential loss by approximately $2,900,000. American National has evaluated the reinsurers providing the coverage for these claims, and management believes that all of the ceded amounts are recoverable. American National believes that the failure of any single reinsurer to meet its obligations for these claims would not have a significant effect on its financial position.

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

TABLE 15

	2003	2002	2001
Direct premiums	$ 1,900,513	$ 1,765,272	$ 1,536,932
Reinsurance premiums assumed from other companies	395,549	513,109	433,843
Reinsurance premiums ceded to other companies	(443,067)	(637,559)	(529,452)
Net premiums	$ 1,852,995	$ 1,640,822	$ 1,441,323
Reinsurance recoveries	$ 236,469	$ 399,556	$ 629,905

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

TABLE 16

	2003	2002	2001
Direct life insurance in force	$ 58,301,547	$ 55,642,502	$ 53,502,696
Reinsurance risks assumed from other companies	434,863	861,159	910,942
Total life insurance in force	58,736,410	56,503,661	54,413,638
Reinsurance risks ceded to other companies	(18,767,137)	(16,278,521)	(14,819,652)
Net life insurance in force	$ 39,969,273	$ 40,225,140	$ 39,593,986

10 • NOTES PAYABLE

In April of 2001, a subsidiary of American National entered into a loan agreement with a bank to borrow $200,000,000. The proceeds of this loan were used in the acquisition of Farm Family Holdings, Inc. (FFH). (See Note 14.) The loan called for quarterly interest payments, but no principal payments were required until maturity in June of 2003. The loan was secured by the stock of FFH, and also partially secured by a pledge of fixed maturity investments from American National with a market value of $250,000,000. The loan carried a variable interest rate equal to the six-month LIBOR rate plus 0.75%. However, at the time the loan was executed, an interest rate swap agreement was entered into that gave the loan a fixed effective interest rate of 5.58%. This loan was subsequently purchased by American National on January 8, 2003, using cash on hand, effectively retiring the loan and canceling the debt.

The interest rate swap agreement represented a hedge against fluctuations in the interest rate on the loan. The swap agreement represented an obligation with a value of $1,880,000 at December 31, 2002, and expired in March of 2003. The change in the value of the swap agreement is reflected in stockholders' equity as a component of accumulated other comprehensive income.

At December 31, 2003, American National's subsidiaries had notes payable to third-party lenders totaling $119,044,000. Of this balance, $3,500,000 represents the balance of one note owed by a subsidiary. This note has an interest rate of 7%, and does not require payment of principle or interest until maturity in 2006. The majority of the notes payable balance totaling $115,544,000 represents the balance of eight notes owed by various joint ventures, in which American National's real estate holding companies are partners, and which are consolidated in these financial statements. These joint venture notes have interest rates ranging from 4.25% to 8.07% and maturities from 2004 to 2027. All of these notes are secured by the joint ventures, and American National's liability for these notes is limited to the amount of its investment in the joint ventures, which totaled $68,992,000 at December 31, 2003.

11 • FEDERAL INCOME TAXES

The federal income tax provisions vary from the amounts computed when applying the statutory federal income tax rate. A reconciliation of the effective tax rate of the companies to the statutory federal income tax rate is shown in TABLE 17 (in thousands, except percentages).

TABLE 17

	2003		2002		2001	
	Amount	**Rate**	**Amount**	**Rate**	**Amount**	**Rate**
Income tax on pre-tax income	$ 95,104	35.00 %	$ 9,392	35.00 %	$ 36,792	35.00 %
Tax-exempt investment income	(3,883)	(1.43)	(3,416)	(12.73)	(2,808)	(2.67)
Dividend exclusion	(5,701)	(2.10)	(4,629)	(17.25)	(3,243)	(3.09)
Adjustment to deferred taxes	—	—	4,599	17.14	—	—
Miscellaneous tax credits, net	(1,837)	(0.68)	(1,843)	(6.87)	(2,177)	(2.07)
Losses on foreign operations	2,649	0.97	3,201	11.93	6,599	6.28
Other items, net	3,228	1.19	2,676	9.97	5,025	4.78
	$89,560	**32.95 %**	**$ 9,980**	**37.19 %**	**$40,188**	**38.23 %**

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2003, and December 31, 2002, are as shown in TABLE 18 (in thousands).

TABLE 18

	2003	**2002**
DEFERRED TAX ASSETS:		
Marketable securities, principally due to impairment losses	$ 11,111	$ 48,885
Investment in real estate and other invested assets, principally due to investment valuation allowances	10,359	12,983
Policyholder funds, principally due to policy reserve discount	182,182	139,570
Policyholder funds, principally due to unearned premium reserve	34,180	28,514
Notes payable	22,969	20,928
Non-qualified pension	16,824	14,449
Other assets	17,819	—
Total gross deferred tax assets	**295,444**	**265,329**
Less valuation allowance	—	(3,000)
Net deferred tax assets	**$ 295,444**	**$ 262,329**
DEFERRED TAX LIABILITIES:		
Marketable securities, principally due to net unrealized gains	$ (113,733)	$ (62,365)
Investment in bonds, principally due to accrual of discount on bonds	(11,392)	(14,631)
Deferred policy acquisition costs, due to difference between GAAP and tax	(270,204)	(209,430)
Property, plant and equipment, principally due to difference between GAAP and tax depreciation methods	(7,984)	(6,456)
Non-taxable pension	(12,542)	(13,956)
Other liabilities	—	(3,204)
Net deferred tax liabilities	**(415,855)**	**(310,042)**
Total deferred tax	**$(120,411)**	**$ (47,713)**

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

Through 1983, under the provision of the Life Insurance Company Income Tax Act of 1959, life insurance companies were permitted to defer from taxation a portion of their income (within certain limitations) until and unless it was distributed to stockholders, at which time it was taxed at regular corporate tax rates. No provision for deferred federal income taxes applicable to such untaxed income has been made, because management is of the opinion that no distributions of such untaxed income (designated by federal law as "policyholders' surplus") will be made in the foreseeable future. There was no change in the "policyholders' surplus" between December 31, 2002, and December 31, 2003, and the cumulative balance was approximately $63,000,000 at both dates.

Federal income taxes totaling approximately $20,593,000, $52,380,000 and $80,985,000 were paid to the Internal Revenue Service in 2003, 2002 and 2001, respectively. The statute of limitations for the examination of federal income tax returns through 1998 for American National and its subsidiaries by the Internal Revenue Service has expired. All prior year deficiencies have been paid or provided for, and American National has filed appropriate claims for refunds through 1998. In the opinion of management, adequate provision has been made for any tax deficiencies that may be sustained.

12 • COMPONENTS OF COMPREHENSIVE INCOME

The items included in comprehensive income, other than net income, are unrealized gains on available-for-sale securities (net of deferred acquisition costs), foreign exchange adjustments, the change in fair value of an interest rate swap and subsidiary minimum pension liability adjustment. The details on the unrealized gains included in comprehensive income, and the related tax effects thereon are as shown in TABLE 19 (in thousands).

TABLE 19

	Before Federal Income Tax	Federal Income Tax Expense	Net of Federal Income Tax
DECEMBER 31, 2003			
Unrealized gains	$ 174,183	$ 60,964	$ 113,219
Less reclassification adjustment for net gains realized in net income	31,202	10,921	20,281
Net unrealized gain component of comprehensive income	**$ 205,385**	**$ 71,885**	**$133,500**
DECEMBER 31, 2002			
Unrealized gains	$ 137,895	$ 48,263	$ 89,632
Less reclassification adjustment for net losses realized in net income	(140,449)	(49,157)	(91,292)
Net unrealized loss component of comprehensive income	**$ (2,554)**	**$ (894)**	**$ (1,660)**
DECEMBER 31, 2001			
Unrealized losses	$ (119,046)	$ (41,666)	$ (77,380)
Less reclassification adjustment for net gains realized in net income	11,123	3,893	7,230
Net unrealized loss component of comprehensive income	**$(107,923)**	**$(37,773)**	**$(70,150)**

13 • STOCKHOLDERS' EQUITY AND MINORITY INTERESTS

COMMON STOCK

American National has only one class of common stock, with a par value of $1.00 per share and 50,000,000 authorized shares. The amounts outstanding at December 31, were as shown in TABLE 20.

TABLE 20

Common stock:	2003	2002	2001
Shares issued	30,832,449	30,832,449	30,832,449
Treasury shares	4,197,617	4,197,617	4,273,617
Restricted shares	155,000	155,000	79,000
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 900,000 shares, and no more than 50,000 shares may be granted to any one individual in any calendar year.

The plan provides for the award of Restricted Stock. Restricted Stock Awards entitle the participant to full dividend and voting rights. Unvested shares are restricted as to disposition, and are subject to forfeiture under certain circumstances. Compensation expense is recognized over the vesting period. The restrictions on these awards lapse after 10 years, and feature a graded vesting schedule in the case of the retirement of an award holder. Two awards of restricted stock have been granted, with a total of 136,000 shares granted at an exercise price of zero. These awards result in compensation expense to American National over the vesting period. The amount of compensation expense recorded was $1,011,000 in 2003, $621,000 in 2002, and $342,000 in 2001.

The plan provides for the award of Stock Appreciation Rights (SAR). The SAR's give the holder the right to compensation based on the difference between the price of a share of stock on the grant date and the price on the exercise date. The SARs vest at a rate of 20% per year for 5 years, and expire 5 years after the vesting period. American National uses the average of the high and low price on the last trading day of the period to calculate the fair value and compensation expense for SARs. The fair value of the SARs was $1,221,000 and $1,098,000 at December 31, 2003 and 2002, respectively. Compensation expense was recorded totaling $346,000, $717,000, and $889,000 for the years ended December 31, 2003, 2002, and 2001, respectively.

SAR and Restricted Stock (RS) information for 2003, 2002 and 2001 is shown in TABLE 21.

The weighted-average contractual remaining life for the 146,125 SAR shares outstanding as of December 31, 2003, is 7.6 years. The weighted-average exercise price for these shares is $78.39 per share. Of the shares outstanding, 46,125 are exercisable at a weighted-average exercise price of $68.91 per share.

TABLE 21

Shares	SAR Shares	SAR Weighted-Average Price per Share	RS Shares	RS Weighted-Average Price per Share
Outstanding at December 31, 2000	82,192	$ 57.18	79,000	$ 13.71
Granted	3,000	80.25	2,000	72.28
Exercised	(10,250)	57.00	(666)	57.00
Canceled	(1,392)	57.00	(1,334)	57.00
Outstanding at December 31, 2001	73,550	$ 58.14	79,000	$ 14.09
Granted	83,000	88.00	76,000	—
Exercised	(18,000)	57.11	—	—
Canceled	—	—	—	—
Outstanding at December 31, 2002	138,550	$ 76.16	155,000	$ 7.18
Granted	15,000	88.35	—	—
Exercised	(7,425)	57.00	—	—
Canceled	—	—	—	—
Outstanding at December 31, 2003	146,125	$ 78.39	155,000	$ 7.18

The weighted-average contractual remaining life for the 155,000 Restricted Stock shares outstanding as of December 31, 2003, is 7.2 years. The weighted-average exercise price for these shares is $7.18 per share. None of the shares outstanding was exercisable.

EARNINGS PER SHARE

Earnings per share for 2003 was calculated using a weighted-average number of shares outstanding of 26,479,832. For 2003 and 2002, the weighted-average number of shares outstanding was 26,479,832. In 2003, 2002 and 2001, the Restricted Stock resulted in an incremental number of shares to be added to the number of shares outstanding of 51,000 shares or less. As a result, earnings per share were diluted by one cent per share for 2003, to a total of $6.87 per share, while there was no effect per share for 2002 and 2001.

DIVIDENDS

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

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

At December 31, 2003, approximately $1,047,628,000 of American National's consolidated stockholders' equity represents net assets of its insurance subsidiaries. Any transfer of these net assets to American National would be subject to statutory restrictions and approval.

MINORITY INTERESTS

Two of American National's subsidiaries have preferred stock outstanding to unrelated third parties. These preferred stock issues had a total value of $1,250,000 and $1,248,000 at December 31, 2003 and 2002, respectively. These preferred stock issues carry various terms, including cumulative dividends and voting rights as they apply to the subsidiary.

In 2001, American National formed TMNY Investments, LLC (TMNY). Subsequently, TMNY purchased five percent of the common stock of Farm Family Holdings, Inc. from another subsidiary of American National. The purpose of TMNY is to provide certain officers with additional incentive to enhance the profitable growth of the Farm Family companies. Accordingly, shares of TMNY preferred stock representing 66% of the value of the company were granted to various officers of American National and its subsidiaries. The preferred shares cannot be sold or otherwise traded by the officers for a period of eight years. The total value of these preferred shares was $1,561,000 and $984,000 at December 31, 2003 and 2002, respectively.

In 2002, the management agreement between American National and American National County Mutual Insurance Company (County Mutual) was changed, effectively giving complete control of County Mutual to American National. As a result of this change, County Mutual is now 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, 2003 and 2002.

American National's subsidiary, ANTAC, Inc., is a partner in various joint ventures. ANTAC exercises significant control or ownership of these joint ventures, resulting in their consolidation into the American National consolidated financial statements. As a result of the consolidation, the interest of the other partners of the joint ventures is shown as a minority interest. The joint ventures had receivable balances from the other partners totaling $2,013,000 and $8,410,000 at December 31, 2003 and 2002, respectively.

14 • ACQUISITION

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

The purchase price for FFH was $280 million, and was paid in cash, funded in part through a bank loan of $200 million, with the remainder provided by internally generated funds. The acquisition was accounted for by the purchase method of accounting. Accordingly, the results of FFH and its subsidiaries are included in the consolidated statements of income for the nine months since the purchase date in 2001, and for the full years of 2002 and 2003.

The assets and liabilities for FFH were adjusted to reflect fair market value at the purchase date. Goodwill was recognized for the amount of the excess of the purchase price over the fair market value at the date of purchase. The goodwill was amortized during 2001 on a straight line basis using an average life of 11.5 years, producing a total expense of $3,100,000. With the adoption of FAS 142, the goodwill is no longer being amortized, but it is subject to annual recoverability analyses. The recoverability analysis for 2002 and 2003 did not result in any adjustment to the amount of the goodwill.

TABLE 22 presents unaudited pro forma results of operations for the year ended December 31, 2001, as if FFH and subsidiaries had been combined with American National as of the beginning of the year. The pro forma results include estimates and assumptions which management believes are reasonable. However, pro forma results do not include any anticipated cost savings or other effects of the acquisition, and are not necessarily indicative of the results which may occur in the future.

TABLE 22

(In thousands, except per share amounts)	Unaudited Pro Forma Year Ended 2001
Total revenue	$ 2,219,055
Total benefits and expenses	2,106,692
Earnings (losses) of unconsolidated affiliates	(6,055)
Income before federal income taxes	106,308
Federal income tax expense	40,756
Net income	$ 65,552
Net income per common share - basic and diluted	$ 2.48

15 • SEGMENT INFORMATION

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

The operating segments are as follows:

MULTIPLE LINE

This segment derives its revenues from the sale of individual life, annuity, accident/health, and property/casualty products marketed through American National, ANTEX, ANPAC, ANGIC, ANPAC Lloyds, Farm Family Life, Farm Family Property/casualty and United Farm Family.

HOME SERVICE DIVISION

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

INDEPENDENT MARKETING

This segment derives its revenues mainly from the sale of life and annuity lines marketed through independent marketing organizations.

HEALTH DIVISION

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

SENIOR AGE MARKETING

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

DIRECT MARKETING

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

CREDIT INSURANCE DIVISION

This segment derives its revenues principally from the sale of credit insurance products.

CAPITAL AND SURPLUS

This segment derives its revenues principally from investment instruments.

ALL OTHER

This category comprises segments that are too small to show individually. This category includes non-insurance, reinsurance assumed, and retirement benefits.

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

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

TABLE 23 summarizes net income and various components of net income by operating segment for the years ended December 31, 2003, 2002, and 2001 (in thousands).

TABLE 23

	Premiums and Other Policy Revenue	Net Investment Income and Realized Gains	Expenses and Benefits	Equity in Unconsolidated Affiliates	Gain From Operations Before Federal Income Taxes	Federal Income Tax Expense (Benefit)	Net Income
2003							
Multiple Line	$ 1,137,770	$ 171,878	$ 1,187,944	$ —	$ 121,704	$ 40,162	$ 81,542
Home Service Division	213,133	112,098	299,157	—	26,074	8,604	17,470
Independent Marketing	99,827	215,305	304,507	—	10,625	3,506	7,119
Health Division	192,749	9,123	192,449	—	9,423	3,110	6,313
Credit Insurance Division	99,167	17,553	101,562	—	15,158	5,002	10,156
Senior Age Marketing	209,263	19,976	214,740	—	14,499	4,785	9,714
Direct Marketing	35,256	3,823	39,590	—	(511)	(169)	(342)
Capital and Surplus	975	81,565	14,650	4,017	71,907	23,621	48,286
All Other	32,115	32,930	62,509	310	2,846	939	1,907
	$ 2,020,255	**$ 664,251**	**$ 2,417,108**	**$ 4,327**	**$ 271,725**	**$ 89,560**	**$182,165**
2002							
Multiple Line	$ 992,294	$ 165,405	$ 1,111,428	$ —	$ 46,271	$ 15,269	$ 31,002
Home Service Division	212,990	113,582	294,304	—	32,268	10,648	21,620
Independent Marketing	48,252	141,836	182,471	—	7,617	2,514	5,103
Health Division	225,305	9,201	225,326	—	9,180	3,029	6,151
Credit Insurance Division	73,600	17,939	76,454	—	15,085	4,978	10,107
Senior Age Marketing	192,145	19,834	205,853	—	6,126	2,022	4,104
Direct Marketing	32,520	3,508	33,922	—	2,106	695	1,411
Capital and Surplus	1,014	(67,686)	17,609	(10,487)	(94,768)	(30,149)	(64,619)
All Other	32,337	29,138	58,887	362	2,950	974	1,976
	$ 1,810,457	**$ 432,757**	**$ 2,206,254**	**$ (10,125)**	**$ 26,835**	**$ 9,980**	**$ 16,855**
2001							
Multiple Line	$ 787,431	$ 144,631	$ 933,066	$ —	$ (1,004)	$ (331)	$ (673)
Home Service Division	212,344	113,384	287,222	—	38,506	12,707	25,799
Independent Marketing	50,045	111,169	157,174	—	4,040	1,333	2,707
Health Division	250,802	8,274	276,458	—	(17,382)	(5,736)	(11,646)
Credit Insurance Division	66,042	17,718	71,753	—	12,007	3,962	8,045
Senior Age Marketing	168,024	17,652	193,258	—	(7,582)	(2,502)	(5,080)
Direct Marketing	29,839	3,413	28,948	—	4,304	1,420	2,884
Capital and Surplus	1,065	90,809	19,376	(8,345)	64,153	26,669	37,484
All Other	35,024	30,403	57,773	423	8,077	2,666	5,411
	$ 1,600,616	**$ 537,453**	**$ 2,025,028**	**$ (7,922)**	**$ 105,119**	**$ 40,188**	**$ 64,931**

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

Most of the operating segments provide essentially the same types of products. TABLE 24 provides revenues within each segment by line of business for the years ended December 31, 2003, 2002, and 2001 (in thousands).

TABLE 24: TOTAL REVENUES

	Life	Annuity	Accident and Health	Property and Casualty	Credit	All Other	Total Revenues
2003							
Multiple Line	$ 206,948	$ 36,733	$ 17,888	$ 1,048,079	$ —	$ —	$ 1,309,648
Home Service Division	309,811	4,400	11,020	—	—	—	325,231
Independent Marketing	43,406	271,726	—	—	—	—	315,132
Health Division	2,628	—	199,245	—	—	—	201,873
Credit Insurance Division	—	—	—	—	116,720	—	116,720
Senior Age Marketing	28,819	2,966	197,454	—	—	—	229,239
Direct Marketing	38,613	111	355	—	—	—	39,079
Capital and Surplus	—	—	—	—	—	82,539	82,539
All Other	28,683	16,395	566	—	—	19,401	65,045
	$ 658,908	**$ 332,331**	**$ 426,528**	**$1,048,079**	**$116,720**	**$101,940**	**$ 2,684,506**
2002							
Multiple Line	$ 204,466	$ 36,636	$ 18,772	$ 897,825	$ —	$ —	$ 1,157,699
Home Service Division	310,532	5,359	10,681	—	—	—	326,572
Independent Marketing	32,433	157,655	—	—	—	—	190,088
Health Division	2,688	—	231,818	—	—	—	234,506
Credit Insurance Division	—	—	—	—	91,539	—	91,539
Senior Age Marketing	30,401	2,537	179,042	—	—	—	211,980
Direct Marketing	35,524	109	395	—	—	—	36,028
Capital and Surplus	—	—	—	—	—	(66,671)	(66,671)
All Other	31,727	14,284	600	—	—	14,862	61,473
	$ 647,771	**$ 216,580**	**$ 441,308**	**$ 897,825**	**$ 91,539**	**$ (51,809)**	**$ 2,243,214**
2001							
Multiple Line	$ 180,079	$ 31,806	$ 18,753	$ 701,424	$ —	$ —	$ 932,062
Home Service Division	310,965	4,300	10,463	—	—	—	325,728
Independent Marketing	20,949	140,265	—	—	—	—	161,214
Health Division	3,904	—	255,172	—	—	—	259,076
Credit Insurance Division	—	—	—	—	83,759	—	83,759
Senior Age Marketing	31,515	2,135	152,026	—	—	—	185,676
Direct Marketing	32,730	120	402	—	—	—	33,252
Capital and Surplus	—	—	—	—	—	91,874	91,874
All Other	31,785	17,217	774	—	—	15,652	65,428
	$ 611,927	**$ 195,843**	**$ 437,590**	**$ 701,424**	**$ 83,759**	**$107,526**	**$ 2,138,069**

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

TABLE 25 summarizes assets by operating segment for the years ended December 31, 2003 and 2002 (in thousands).

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

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

TABLE 25

	2003	2002
Multiple Line	$ 3,698,006	$ 3,347,199
Home Service Division	1,867,163	1,851,604
Independent Marketing	5,229,124	2,597,365
Health Division	595,663	729,344
Credit Insurance Division	448,474	431,618
Senior Age Marketing	417,688	403,879
Direct Marketing	105,530	98,650
Capital and Surplus	1,917,681	1,782,503
All Other	860,905	995,027
	$ 15,140,234	**$ 12,237,189**

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

The results of the operating segments of the business are affected by economic conditions and customer demands. A portion of American National's insurance business is written through one third-party marketing organization. Of the total net premium revenue and policy account deposits during 2003, approximately 23% was written through that organization, which is included in the Independent Marketing operating segment. This compares with 11% and 4% in 2002 and 2001, respectively. Of the total business written by this one organization, the majority was policy account deposits for annuities.

16 • RECONCILIATION TO STATUTORY ACCOUNTING

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

Reconciliation of statutory net income and capital and surplus, as determined using statutory accounting principles, to the amounts included in the accompanying consolidated financial statements, as of and for the years ended December 31, are as shown in TABLE 26 (in thousands).

TABLE 26

	2003	2002	2001
Statutory net income of insurance companies	$ 71,386	$ 413,775	$ 32,070
Net gain (loss) of non-insurance companies	75,971	(111,058)	5,310
Combined net income	$ 147,357	$ 302,717	$ 37,380
Increases (decreases):			
Deferred policy acquisition costs	197,559	43,606	15,254
Policyholder funds	(56,044)	(17,282)	26,188
Deferred federal income tax benefit	5,232	12,071	16,520
Premiums deferred and other receivables	(2,764)	(90)	(131)
Gain on sale of investments	(3,244)	(297,221)	118
Change in interest maintenance reserve	1,817	6,871	74
Asset valuation allowances	5,100	(6,125)	(16,648)
Investment income	(3,037)	(4,467)	(3,817)
Goodwill amortization	—	—	(3,100)
Other adjustments, net	(62,421)	10,678	(582)
Consolidating eliminations and adjustments	(47,390)	(33,903)	(6,325)
Net income reported herein	**$ 182,165**	**$ 16,855**	**$ 64,931**

	2003	2002	2001
Statutory capital and surplus of insurance companies	$ 2,631,329	$ 2,483,320	$ 2,415,330
Stockholders equity of non-insurance companies	622,576	512,343	504,144
Combined capital and surplus	$ 3,253,905	$ 2,995,663	$ 2,919,474
Increases (decreases):			
Deferred policy acquisition costs	1,065,958	874,495	829,216
Policyholder funds	121,050	173,790	197,830
Deferred federal income taxes	(120,411)	(47,713)	(79,665)
Premiums deferred and other receivables	(90,456)	(87,707)	(87,615)
Reinsurance in "unauthorized companies"	50,697	60,129	48,716
Statutory asset valuation reserve	360,410	322,125	362,952
Statutory interest maintenance reserve	17,231	14,244	7,517
Asset valuation allowances	(8,398)	(27,151)	(37,502)
Investment market value adjustments	91,376	102,990	14,302
Non-admitted assets and other adjustments, net	(14,427)	8,625	149,137
Consolidating eliminations and adjustments	(1,614,913)	(1,515,761)	(1,388,023)
Stockholders' equity reported herein	**$ 3,112,022**	**$ 2,873,729**	**$ 2,936,339**

In accordance with various government and state regulations, American National and its insurance subsidiaries had bonds with an amortized value of $41,885,000 at December 31, 2003, on deposit with appropriate regulatory authorities.

17 • RETIREMENT BENEFITS

PENSION BENEFITS

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

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

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

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

Actuarial computations of pension expense (before income taxes) produced a pension cost of $4,924,000 for 2001, $12,627,000 for 2002, and $15,346,000 for 2003.

The pension cost for the years ended December 31 is made up of the following, as shown in TABLE 27 (in thousands).

TABLE 27

	2003	2002	2001
Service cost—benefits earned during period	$ 8,029	$ 7,211	$ 6,900
Interest cost on projected benefit obligation	13,248	12,999	10,811
Expected return on plan assets	(10,780)	(10,960)	(10,600)
Amortization of past service cost	3,715	2,921	361
Amortization of transition asset	5	4	(2,616)
Amortization of actuarial loss	1,129	452	68
Total pension cost	**$ 15,346**	**$ 12,627**	**$ 4,924**

TABLE 28 sets forth the actuarial present value of benefit obligations, the funded status, and the amounts recognized in the consolidated statements of financial position at December 31 for the companies' pension plans (in thousands).

TABLE 28

	2003		2002	
	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets
Vested benefit obligation	$(115,644)	$(76,042)	$ (98,222)	$ (67,764)
Accumulated benefit obligation	$(119,066)	$(76,042)	$(101,432)	$ (66,764)
Projected benefit obligation	$(136,590)	$(93,337)	$(117,496)	$ (84,911)
Plan assets at fair value (long-term securities)	138,247	19,872	134,604	18,381
Funded status:				
Plan assets in excess of projected benefit obligation	1,657	(73,465)	17,108	(66,530)
Unrecognized net loss	23,885	5,021	13,633	608
Prior service cost not yet recognized in periodic pension cost	—	20,258	—	23,972
Unrecognized net transition asset at January 1, being recognized over 15 years	—	—	—	—
Adjustment required to recognize minimum liability	—	(12,040)	—	(7,498)
Offset for intangible asset	—	12,040	—	7,498
Prepaid pension cost included in other assets or other liabilities	$ 25,542	$(48,186)	$ 30,741	$ (41,950)

Assumptions used at December 31 to determine benefit obligations:	**2003**	**2002**	**2001**
Weighted-average discount rate on benefit obligation	6.00%	6.72%	6.96%
Expected long-term rate of return on plan assets	7.06%	7.06%	7.14%
Assumptions used at December 31 to determine benefit costs:	**2003**	**2002**	**2001**
Weighted-average discount rate on benefit obligation	6.72%	6.96%	7.40%
Rate of increase in compensation levels	3.86%	4.20%	4.80%
Expected long-term rate of return on plan assets	7.06%	7.14%	7.00%

American National Employees Retirement Plan weighted-average asset allocations at December 31, 2003 and 2002, by asset category, are as summarized in TABLE 29.

TABLE 29

	Plan Assets at December 31, 2003	2002
Asset Category		
Equity securities	26.2%	18.9%
Debt securities	69.8%	77.2%
Other	4.0%	3.9%
Total	**100.0%**	**100.0%**

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.

American National is not expected to contribute to the Retirement Plan in 2004, because the plan is over-funded.

HEALTH BENEFITS

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

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

The accrued post-retirement benefit obligation, included in other liabilities, was $7,426,525 and $8,278,523 at December 31, 2003 and 2002, respectively. These amounts were approximately equal to the unfunded accumulated post-retirement benefit obligation. Since American National's contributions to the cost of the retiree benefit plans are fixed, the health care cost trend rate will have no effect on the future expense or the accumulated post-retirement benefit obligation.

OTHER BENEFITS

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

In addition to the defined benefit pension plans, American National sponsors one defined contribution plan for all employees, excluding those of the Farm Family companies, and an incentive savings plan for employees of the Farm Family companies. The defined contribution plan (also known as a 401K plan) allows employees to contribute up to the maximum allowable amount as determined by the Internal Revenue Service. American National does not contribute to the defined contribution plan. Company contributions are made under the incentive savings plan for the Farm Family companies, with a discretionary portion based on the profits earned by the Farm Family companies. The expense associated with this plan was $2,204,817 for 2003, $2,270,694 for 2002, and $1,100,000 for 2001.

18 • 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, 2003, were approximately $5,903,000.

In the ordinary course of their operations, the companies also had commitments outstanding at December 31, 2003, to purchase, expand or improve real estate, to fund mortgage loans, and to purchase other invested assets aggregating $134,914,000, all of which are expected to be funded in 2004. As of December 31, 2003, 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, 2003, was approximately $229,911,000, while the total cash values of the related life insurance policies was approximately $235,357,000.

LITIGATION

In recent years, various life insurance companies have been named as defendants in class action lawsuits relating to discriminatory practices in life insurance pricing and sales practices. A number of these lawsuits have resulted in substantial settlements across the life insurance industry. In addition, the pricing and sales practices on which the lawsuits are based have also been the focus of investigations by the various state insurance departments. American National is a defendant in similar lawsuits, and has been subject to various insurance department investigations. Management believes that American National has meritorious legal defenses against the lawsuits. Management has also been in discussions with various insurance departments to resolve the investigations. Management believes that the ultimate outcome of this litigation will not have a significant adverse effect on the financial condition of American National.

American Nationals' subsidiary, Standard Life and Accident Insurance Company, is a defendant in a class action lawsuit alleging fraud and misrepresentation involving the benefits to be paid under certain limited-benefit nursing home policies. Management believes that the company has meritorious legal defenses against this lawsuit. Therefore, no provision for possible losses on this case has been recorded in the consolidated financial statements.

American National and its subsidiary American National Life Insurance Company of Texas are defendants in several lawsuits alleging, among other things, improper calculation and/or cancellation of benefits under certain group health contracts. Management believes that the companies have meritorious legal defenses against these lawsuits. Therefore, no provision for possible losses on these cases has been recorded in the consolidated financial statements.

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

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

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

INDEPENDENT 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 as of December 31, 2003 and 2002, and the related consolidated statements of income, changes in stockholders' equity, comprehensive income and cash flows for each of the years in the three-year period ended December 31, 2003. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American National Insurance Company and subsidiaries as of December 31, 2003 and 2002, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for goodwill in 2002.

KPMG LLP
February 6, 2004
Houston, Texas

TEN-YEAR FINANCIAL HIGHLIGHTS

FOR THE YEARS ENDED DECEMBER 31,

(In millions, except per share data and ratios)	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Operating Results										
Revenues	$ 2,685	$ 2,243	$ 2,138	$ 1,834	$ 1,890	$ 1,745	$ 1,740	$ 1,550	$ 1,471	$ 1,395
Operating earnings (a)	161	102	61	125	166	155	182	178	157	156
Realized capital gains (b)	21	(85)	4	15	101	42	66	37	49	59
Net income	182	17	65	140	267	197	248	216	206	215
Operating earnings per share (a)	6.07	3.87	2.29	4.73	6.26	5.86	6.88	6.74	5.95	5.88
Realized capital gains per share (b)	0.81	(3.23)	0.16	0.56	3.81	1.59	2.50	1.40	1.84	2.24
Net income per share	6.88	0.64	2.45	5.29	10.07	7.45	9.38	8.14	7.79	8.12
Financial Position										
Assets	$ 15,140	$ 12,237	$ 11,258	$ 9,270	$ 9,090	$ 8,816	$ 8,483	$ 7,989	$ 7,140	$ 5,961
Investments	11,962	9,173	8,280	6,990	7,254	7,143	6,982	6,566	5,821	4,811
Liabilities	12,028	9,363	8,322	6,247	6,027	5,901	5,778	5,515	4,819	3,889
Policyholder liabilities	11,062	8,467	7,516	5,590	5,368	5,283	5,261	5,046	4,364	3,520
Total equity	3,112	2,874	2,936	3,023	3,063	2,915	2,705	2,474	2,321	2,072
Total equity, excluding SFAS 115	3,057	2,839	2,926	3,062	3,075	2,884	2,681	2,458	2,291	2,075
Insurance Production Information										
Life insurance sales	$ 12,373	$ 12,874	$ 11,821	$ 11,487	$ 11,224	$ 10,208	$ 10,091	$ 10,134	$ 10,135	$ 9,520
Life insurance in force (c)	58,748	56,504	54,414	48,777	46,953	44,848	43,805	42,529	41,490	40,070
Policy account deposits	2,639	914	588	325	310	290	392	757	867	455
Common Stock Statistics										
Market close	$ 84.48	$ 82.02	$ 84.10	$ 73.00	$ 63.75	$ 82.75	$ 93.00	$ 73.75	$ 66.50	$ 47.00
Book value per share	117.52	108.52	110.89	114.19	115.68	110.07	102.17	93.43	87.66	78.26
Dividends per share	2.96	2.96	2.92	2.86	2.78	2.70	2.62	2.54	2.40	2.24
Shares outstanding (000's) (d)	26,480	26,480	26,480	26,479	26,479	26,479	26,479	26,479	26,479	26,479
Financial Ratios										
Return on equity (e)	11.0%	0.5%	(0.3)%	1.2%	7.6%	10.4%	12.2%	9.5%	15.1%	8.7%
Operating return on equity (f)	5.7%	3.5%	2.0%	4.1%	5.7%	5.8%	7.4%	7.8%	7.6%	7.9%
Dividend payout (g)	48.7%	76.5%	127.8%	60.5%	44.5%	46.1%	38.1%	37.7%	40.3%	38.1%
Assets per $100 of liabilities	$ 126	$ 131	$ 135	$ 148	$ 151	$ 149	$ 147	$ 145	$ 148	$ 153

(a) After tax and excluding gains from sale of investments
(b) After tax-gains from sale of investments
(c) Includes insurance acquired of $4,125 million in 2001
(d) Number of unrestricted shares outstanding at year end
(e) Change in total equity before dividends to stockholders divided by total equity at the beginning of the year
(f) Operating earnings per share divided by book value per share at the beginning of the year, adjusted to exclude the effect of SFAS 115
(g) Total dividends paid to stockholders divided by operating earnings

BOARD OF DIRECTORS

ROBERT L. MOODY
Chairman of the Board and Chief Executive Officer
American National Insurance Company
Galveston, Texas

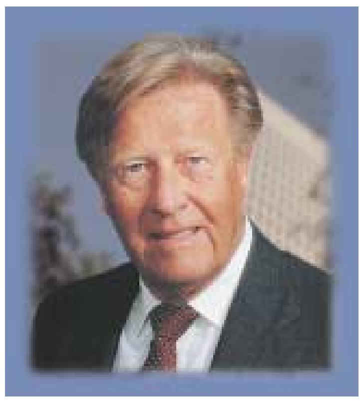
Chairman of the Board
National Western Life Insurance Company
Austin, Texas

President
Moody Bancshares, Inc.
Galveston, Texas

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

IRWIN M. HERZ, JR.
Attorney
Greer, Herz & Adams LLP
Galveston, Texas

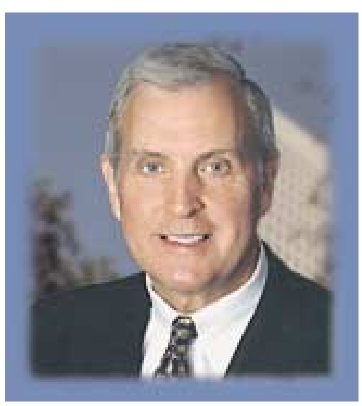
FRANCES ANNE MOODY-DAHLBERG
Executive Director
The Moody Foundation
Dallas, Texas



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

RUSSELL S. MOODY
Investments
League City, Texas

R. EUGENE LUCAS
President
Gal-Tex Hotel Corporation
Galveston, Texas



E. DOUGLAS McLEOD
Attorney
Director of Development
The Moody Foundation
Galveston, Texas

JAMES D. YARBROUGH
County Judge
County of Galveston
Galveston, Texas

OFFICERS & DIRECTORS AMERICAN NATIONAL INSURANCE COMPANY TEXAS

OFFICERS

Robert L. Moody
Chairman of the Board and
Chief Executive Officer

G. Richard Ferdinandtsen
President and
Chief Operating Officer

J. Mark Flippin
Secretary

ACCOUNTING

Stephen E. Pavlicek
Senior Vice President and
Controller

William F. Carlton
Vice President and
Assistant Controller
Financial Reports

Richard T. Crawford
Vice President and
Assistant Controller
General Accounting

Victor J. Krc
Assistant Treasurer

ACTUARIAL

Ronald J. Welch
Executive Vice President and
Chief Actuary

Frank V. Broll, Jr.
Vice President and Actuary

Rex D. Hemme
Vice President and Actuary

Joseph J. Cantu
Assistant Vice President and
Illustration Actuary

Gerald A. Schillaci
Assistant Vice President and
Actuary

John O. Norton
Actuary

Richard M. Williams
Life Product Actuary

CREDIT INSURANCE OPERATIONS

James R. Thomason
Senior Vice President

Michael E. Hogan
Vice President

Dwight D. Judy
Vice President
Financial Marketing

James W. Pangburn
Vice President
Credit Insurance/
Special Markets

EXECUTIVE AND STAFF ASSISTANTS

James E. Pozzi
Executive Vice President
Corporate Planning and
Development

Gareth W. Tolman
Senior Vice President
Corporate Affairs

Dwain A. Akins
Vice President
Corporate Compliance

George A. Macke
Vice President
General Auditor

Michael S. Nimmons
Assistant Vice President
Associate General Auditor
Home Office

Judith L. Regini
Assistant Vice President
Corporate Compliance

Jeanette E. Cernosek
Assistant Secretary

HOME SERVICE DIVISION

Bill J. Garrison
Executive Vice President
Director of
Home Service Division

George W. Williamson
Vice President
Assistant Director
Home Service Division

Dixie N. McDaniel
Vice President
Home Service Administration

Douglas N. Fullilove
Assistant Vice President
Director, Agents Employment

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

HUMAN RESOURCES

Glenn C. Langley
Senior Vice President

Paul Barber
Vice President

Carol Ann Kratz
Assistant Vice President

INDEPENDENT MARKETING

David A. Behrens
Executive Vice President

George C. Crume
Vice President
Brokerage Sales

Douglas A. Culp
Vice President
Financial Institutions

Steven L. Dobbe
Vice President
Broker Dealer Marketing

F. James Gerren
Vice President
Payroll Deduction

J. Truitt Smith
Vice President
Pension Sales

Kelly M. Wainscott
Vice President
Alternative Distribution

INDIVIDUAL HEALTH AND GROUP INSURANCE OPERATIONS

Steven H. Schouweiler
Senior Vice President
Health Insurance Operations

Debra F. Fuentes
Vice President
Health Claims

William H. Watson III
Vice President and
Chief Health Actuary

Joseph F. Grant, Jr.
Vice President
Group Actuary

Charles J. Jones
Vice President
Health Underwriting/
New Business

James P. Stelling
Vice President
Group/Health Compliance

Zeb Miller
Assistant Vice President
Health Administration

Ronald J. Ostermayer
Assistant Vice President
Director of
Group Quality Assurance

Michael C. Paetz
Assistant Vice President
Director of Group and
MGU Operations

Clarence E. Tipton
Assistant Vice President and
Assistant Actuary

Morris J. Soler
Assistant Vice President
HIPAA Privacy Officer

INVESTMENTS

Michael W. McCroskey
Executive Vice President and
Treasurer

Scott F. Brast
Vice President
Real Estate Investments

David D. Brichler
Vice President
Mortgage Loan Production

Gordon D. Dixon
Vice President
Stocks

Suzanne B. Saunders
Assistant Vice President
Real Estate Services

LIFE CLAIMS

Malcolm L. Waugh, Jr.
Vice President

Bradley W. Manning
Assistant Vice President
General Manager

LIFE INSURANCE ADMINISTRATION

Albert L. Amato, Jr.
Senior Vice President

E. Bruce Pavelka
Vice President

Nancy M. Day
Assistant Vice President
Pension Administration

James A. Tyra
Assistant Vice President
Life Insurance Systems

LIFE UNDERWRITING

George W. Marchand
Vice President

D. Lanette Leining
Assistant Vice President

MEDICAL DIRECTOR

Harry B. Kelso, Jr., M.D.
Vice President and
Medical Director

MULTIPLE LINE

Gregory V. Ostergren
Executive Vice President
Director of Multiple Line

Robert A. Fruend
Executive Vice President
Director of
Multi Line Special Markets

Bernard S. Gerwel
Vice President
Agency Automation

James A. Collura
Vice President
Marketing Performance and
Field Management Development

Ronald C. Price
Vice President
Chief Life Marketing Officer

J. Wayne Cucco
Assistant Vice President
Advanced Life Sales

John D. Ferguson
Assistant Vice President
Creative Services

Robert A. Price
Assistant Vice President
Account Executive
Special Markets

SYSTEMS PLANNING AND COMPUTING

Charles H. Addison
Senior Vice President

Julian J. Antkowiak
Vice President
Director, Computing Division

Gary W. Kirkham
Vice President
Director of Planning and
Support

Meredith M. Mitchell
Vice President
Director of Life/Annuity
Systems

Jimmy L. Broadhurst
Assistant Vice President
Director, Individual Health/
Group Systems

Barbara J. Huerta
Assistant Vice President
Director of Application
Development
Financial and Administrative
Systems

Kenneth J. Juneau
Assistant Vice President
Director, Advisory Systems
Engineer

Roney G. McCrary
Assistant Vice President
Application Development
Division

James B. McEniry
Assistant Vice President
Director of
Telecommunications

Daniel G. Trevino, Jr.
Assistant Vice President
Director, Computing Services

AMERICAN NATIONAL INSURANCE COMPANY SUBSIDIARIES STATE OF DOMICILE

AMERICAN NATIONAL LIFE INSURANCE COMPANY OF TEXAS
TEXAS

DIRECTORS

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

OFFICERS

G. Richard Ferdinandtsen
Chairman of the Board
President

Steven H. Schouweiler
Senior Vice President

Ronald J. Welch
Senior Vice President

Albert L. Amato, Jr.
Vice President
Life Policy Administration

David A. Behrens
Vice President

Debra F. Fuentes
Vice President
Health Claims

Charles J. Jones
Vice President
Health Underwriting and
New Business

George W. Marchand
Vice President
Life Underwriting

James E. Pozzi
Vice President

Gareth W. Tolman
Vice President

Stephen E. Pavlicek
Controller

James P. Stelling
Vice President
Health Compliance

Michael C. Paetz
Assistant Vice President

J. Mark Flippin
Secretary and Treasurer

Frank V. Broll, Jr.
Associate Actuary

William H. Watson III
Associate Actuary

William F. Carlton
Assistant Controller

Richard T. Crawford
Assistant Controller

Jeanette E. Cernosek
Assistant Secretary

Michael W. McCroskey
Assistant Secretary

Victor J. Krc
Assistant Treasurer

Morris Soler
HIPAA Privacy Officer

STANDARD LIFE AND ACCIDENT INSURANCE COMPANY
OKLAHOMA

DIRECTORS

Charles H. Addison
G. Richard Ferdinandtsen
E. Harrison Martin
Stephen E. Pavlicek
James E. Pozzi
Steven H. Schouweiler
Ronald J. Welch

OFFICERS

G. Richard Ferdinandtsen
Chairman of the Board
Chief Executive Officer

E. Harrison Martin
President and
Chief Marketing Officer

Stephen E. Pavlicek
Vice President and Controller

J. Mark Flippin
Secretary and Treasurer

Albert L. Amato, Jr.
Vice President
Life Policy Administration

Frank V. Broll, Jr.
Vice President

Bruce Dickes
Vice President
Marketing

Gordon D. Dixon
Vice President
Investments

Charles J. Jones
Vice President
Health

Debra R. Knowles
Vice President
Marketing Administration

Glenn C. Langley
Vice President
Human Resources

George W. Marchand
Vice President
Life Underwriting

Michael W. McCroskey
Vice President
Investments

OFFICERS *(continued)*

Steven H. Schouweiler
Vice President
Claims

Gareth W. Tolman
Vice President
Corporate Affairs

William H. Watson III
Vice President
Actuary

Debra F. Fuentes
Assistant Vice President
Health Claims

Anthony A. Gappa
Assistant Vice President
Marketing Operations

Michael C. Paetz
Assistant Vice President

Michael Shumate
Assistant Vice President and
Assistant Actuary

James P. Stelling
Assistant Vice President
Health Compliance

William F. Carlton
Assistant Controller

Richard T. Crawford
Assistant Controller

Jeanette E. Cernosek
Assistant Secretary

Victor J. Krc
Assistant Treasurer

Joseph J. Cantu
Illustration Actuary

Morris Soler
HIPAA Privacy Officer

GARDEN STATE LIFE INSURANCE COMPANY
TEXAS

DIRECTORS

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

ADVISORY DIRECTORS

Albert L. Amato, Jr.
George J. Jones, Jr.
Thomas C. Barker

OFFICERS

Ronald J. Welch
Chairman of the Board

G. Richard Ferdinandtsen
Vice Chairman of the Board

Scott K. Luchesi
President
Chief Executive Officer

J. Mark Flippin
Secretary and Treasurer

Stephen E. Pavlicek
Controller

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

Lee C. Ferrell
Vice President
Business Development

Lee C. Horn
Vice President
Underwriting

OFFICERS *(continued)*

Glenn C. Langley
Vice President
Human Resources

Virginia J. Lenaburg
Vice President
Operations

Michael W. McCroskey
Vice President
Investments

Gareth W. Tolman
Vice President
Corporate Affairs

William F. Carlton
Assistant Controller

Richard T. Crawford
Assistant Controller

Jeanette E. Cernosek
Assistant Secretary

Victor J. Krc
Assistant Treasurer

AMERICAN NATIONAL PROPERTY AND CASUALTY COMPANY
MISSOURI

DIRECTORS

Charles H. Addison
Robert J. Campbell
G. Richard Ferdinandtsen
Robert A. Fruend
Irwin M. Herz, Jr.
Ross R. Moody
Gregory V. Ostergren
Stephen E. Pavlicek
Ronald J. Welch

OFFICERS

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

G. Richard Ferdinandtsen
Vice Chairman of the Board

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

Janet A. Clark
Vice President
Underwriting Services

James M. Cybulski
Controller and Treasurer

Bernard S. Gerwel
Vice President
Marketing Information and
Technology Services

Jerry W. Jones
Vice President
Claims Services

Michael W. McCroskey
Vice President, Investments

Edward J. Messerly
Vice President
Information, General Services

Byron W. Smith
Vice President, Actuarial
Services

Deborah A. Foell
Assistant Vice President
Application Development

Jovanna S. Kellough
Assistant Vice President
Human Resources

Patrick Leeper
Assistant Vice President
Agent Administration and
Marketing

Stuart M. Paulson
Assistant Vice President
Deputy General Counsel
Assistant Secretary

Linda F. Ward
Assistant Vice President
Corporate Actuary

J. Mark Flippin
Assistant Secretary

Ronald E. Rathbun
Underwriting Compliance
Officer

SECURITIES MANAGEMENT AND RESEARCH, INC. A FLORIDA CORPORATION
TEXAS

DIRECTORS

David A. Behrens
Gordon D. Dixon
G. Richard Ferdinandtsen
R. Eugene Lucas
Michael W. McCroskey
Ronald J. Welch

OFFICERS

Michael W. McCroskey
President
Chief Executive Officer

Gordon D. Dixon
Senior Vice President
Chief Investment Officer

Teresa E. Axelson
Vice President
Secretary, Chief Compliance Officer

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

Andrew R. Duncan
Vice President
Head of Equities

T. Brett Harrington
Vice President
Fund Marketing

Anne M. LeMire
Vice President
Head of Fixed Income

John S. Maidlow
Vice President
Private Clients

Ronald C. Price
Vice President

Emerson V. Unger
Vice President
Marketing

Vicki R. Douglas
Assistant Vice President

Steven D. Geib
Assistant Vice President

Sally F. Praker
Assistant Vice President

Michele S. Lord
Assistant Secretary

AMERICAN NATIONAL INSURANCE COMPANY SUBSIDIARIES STATE OF DOMICILE

AMERICAN NATIONAL DE MÉXICO, COMPAÑÍA DE SEGUROS DE VIDA, S.A. DE C.V.
MÉXICO

DIRECTORS

Bill J. Garrison
Robert L. Moody, Jr.
G. Richard Ferdinandtsen
Carlos Zambrano Plant
Alberto Elizondo Treviño
David Noel Ramírez Padilla
Ronald J. Welch
Reynelle Cornish González
Sergio Flores Ramos
Luis Santos Theriot
(Secretary)
Enrique Yturría García
Salvador Llarena Arriola
(Commissary)
Salvador Llarena Menart
(Alternate Commissary)

OFFICERS

Mauricio Santos Quintero
Director General

Francisco García Pérez
Director, Administration Department

Juan Gerardo González
Director, Sales Department

Sergio H. Ochoa Rodríguez
Director, Human Resources

FARM FAMILY CASUALTY INSURANCE COMPANY
NEW YORK

DIRECTORS

G. Richard Ferdinandtsen
Stephen J. George
Irwin M. Herz, Jr.
Clark W. Hinsdale III
John W. Lincoln
A. Ingrid Moody
Ross R. Moody
Edward J. Muhl
Gregory V. Ostergren
James E. Pozzi
Timothy A. Walsh
Philip P. Weber
Ronald J. Welch

OFFICERS

Gregory V. Ostergren
Chairman of the Board

G. Richard Ferdinandtsen
Vice Chairman of the Board

Timothy A. Walsh
President, Chief Executive Officer and Chief Financial Officer

Philip P. Weber
Executive Vice President and Executive Regional Director

James J. Bettini
Executive Vice President
Operations

Victoria M. Stanton
Executive Vice President
General Counsel and Secretary

William T. Conine
Senior Vice President
Casualty Operations

Richard E. Long
Senior Vice President
Casualty Claims

Patrick A. Wejrowski
Senior Vice President
Information Services

Barry L. Bablin
Vice President
Casualty Actuarial Services

Michele M. Bartkowski
Vice President
Treasurer

Roy S. Davies
Vice President
Accounting

Gordon D. Dixon
Vice President
Investments

Lewis E. Dufort
Vice President
Marketing

Thomas E. Kelley
Vice President
Casualty Claims

Michael W. McCroskey
Vice President
Investments

FARM FAMILY LIFE INSURANCE COMPANY
NEW YORK

DIRECTORS

G. Richard Ferdinandtsen
Stephen J. George
Irwin M. Herz, Jr.
Clark W. Hinsdale III
John W. Lincoln
A. Ingrid Moody
Ross R. Moody
Edward J. Muhl
Gregory V. Ostergren
James E. Pozzi
Timothy A. Walsh
Philip P. Weber
Ronald J. Welch

OFFICERS

Gregory V. Ostergren
Chairman of the Board

G. Richard Ferdinandtsen
Vice Chairman of the Board

Timothy A. Walsh
President, Chief Executive Officer and Chief Financial Officer

Philip P. Weber
Executive Vice President and Executive Regional Director

James J. Bettini
Executive Vice President
Operations

Victoria M. Stanton
Executive Vice President
General Counsel and Secretary

OFFICERS *(continued)*

Patrick A. Wejrowski
Senior Vice President
Information Services

Michele M. Bartkowski
Vice President
Treasurer

Roy S. Davies
Vice President
Accounting

Gordon D. Dixon
Vice President
Investments

Lewis E. Dufort
Vice President
Marketing

Kathryn Lentivech
Vice President
Life Actuarial Services

Michael W. McCroskey
Vice President
Investments

FAMILY OF COMPANIES

AMERICAN NATIONAL INSURANCE COMPANY

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

AMERICAN NATIONAL LIFE INSURANCE COMPANY OF TEXAS

An insurer that markets life and health insurance products through alternative distribution systems

STANDARD LIFE AND ACCIDENT INSURANCE COMPANY

A life insurer specializing in the marketing of Medicare Supplement and other products for the senior market

GARDEN STATE LIFE INSURANCE COMPANY

A direct response company with sales of life insurance generated through broadcast and print media, as well as through sponsoring organizations

AMERICAN NATIONAL DE MÉXICO, COMPAÑÍA DE SEGUROS DE VIDA, S.A. DE C.V.

A Mexican life insurance company specializing in Home Service life products

AMERICAN NATIONAL PROPERTY AND CASUALTY COMPANY AND SUBSIDIARIES

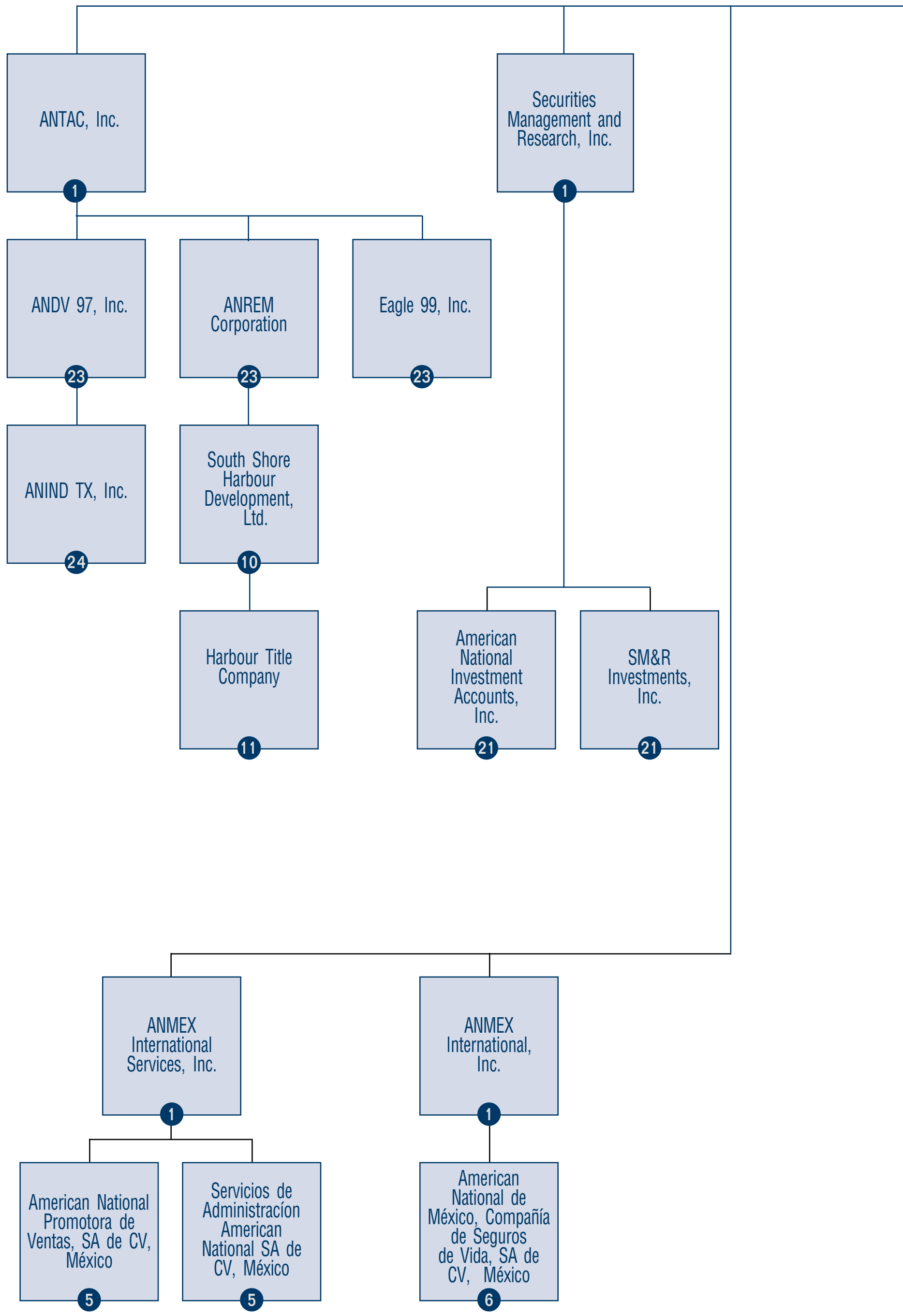
Property/casualty insurers that write primarily auto and homeowners insurance

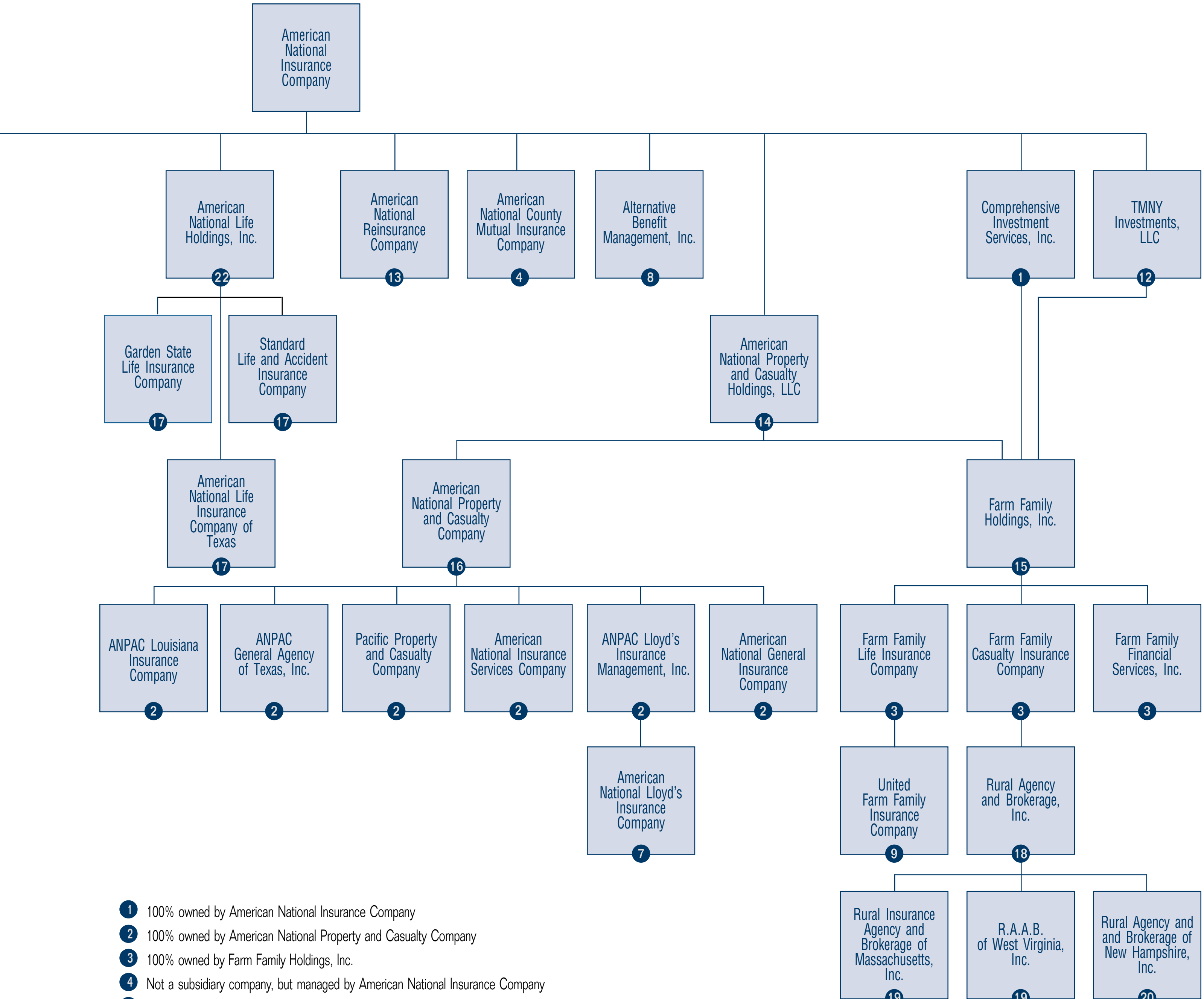
FARM FAMILY HOLDINGS, INC.

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

SECURITIES MANAGEMENT AND RESEARCH, INC.

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





1. 100% owned by American National Insurance Company
2. 100% owned by American National Property and Casualty Company
3. 100% owned by Farm Family Holdings, Inc.
4. Not a subsidiary company, but managed by American National Insurance Company
5. 99.9% owned by ANMEX International Services, Inc. and 0.1% owned by ANMEX International, Inc.
6. 99.9% owned by ANMEX International, Inc. and 0.1% owned by ANMEX International Services, Inc.
7. Not a subsidiary company, but managed by ANPAC Lloyd's Insurance Management, Inc.
8. 100% of common stock owned by American National Insurance Company, while third parties have an ownership interest through preferred stock holdings
9. 100% owned by Farm Family Life Insurance Company
10. Not a subsidiary company, but a partnership between ANREM Corporation (5% general partnership interest) and ANTAC, Inc. (95% limited partnership interest)
11. 50% owned by South Shore Harbour Development Ltd. and 50% owned by Lawyers Title Company
12. 17% owned by American National Insurance Company, 17% owned by ANPAC and 66% owned by employees
13. 60% owned by American National Insurance Company, and 40% owned by independent producer
14. 94% owned by American National Insurance Company, and 6% owned by Comprehensive Investment Services, Inc.
15. 94.3% owned by American National Property and Casualty Holding Company, LLC., 5% owned by TMNY Investments, LLC, and 0.7% owned by Comprehensive Investment Services, Inc.
16. 100% owned by American National Property and Casualty Holding Company, LLC
17. 100% owned by American National Life Holdings, Inc.
18. 100% owned by Farm Family Casualty Insurance Company
19. 100% owned by Rural Agency and Brokerage, Inc.
20. 75% owned by New Hampshire Farm Bureau, and 25% owned by Rural Agency and Brokerage, Inc.
21. 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
22. American National Insurance Company owns all outstanding common stock. Comprehensive Investment Services, Inc. owns all outstanding preferred stock.
23. 100% owned by ANTAC, Inc.
24. 100% owned by ANDV 97, Inc.

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

INDUSTRY RATINGS

Best's Rating: A+ (Superior)

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

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

Standard & Poor's has assigned its AA rating of insurer financial strength to American National Insurance Company, reflecting the company's extremely strong capitalization and very strong operating performance, liquidity, and market position. Ratings reflect the publisher's opinion of the relative financial strength and performance of each insurer in comparison to other insurers. They are not a warranty of the current or future ability to meet contractual obligations.

Statement of Equal Employment Opportunity Programs of American National Insurance Company

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

FORWARD-LOOKING STATEMENT

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

VISION

To be a leading provider of

financial products and services for

current and future generations

MISSION

To be the company of choice for

insurance and other financial products and services

while maintaining superior financial strength

AMERICAN NATIONAL

CORPORATE OFFICE

One Moody Plaza
Galveston, Texas 77550
www.anico.com

LEGAL COUNSEL

Greer, Herz & Adams LLP
Galveston, Texas

INDEPENDENT AUDITORS

KPMG LLP
700 Louisiana
Houston, Texas 77002

STOCK TRANSFER AGENT AND REGISTRAR

(Shareholder Information)

Communications regarding stock transfer, dividends, lost certificates or changes of address may be directed to:

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

1-888-213-0965

International Shareholders
1-201-329-8660

TDD
1-800-231-5469

TDD International Shareholders
1-201-329-8354
www.melloninvestor.com