Group Affiliation: American National P & C Group

AMERICAN NATIONAL PROPERTY AND CASUALTY GROUP

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AMB#: 02947

BEST'S RATING

Based on our opinion of the group's Financial Strength, it is assigned a Best's Rating of A+ (Superior). The group's Financial Size Category is Class X.

RATING UNIT MEMBERS

American National Property and Casualty Group (AMB# 02947):

AMB#	COMPANY	RATING
03533	Amer Nat Prop & Cas Co	A+ g
02803	American Natl General Ins Co	A+ g
10255	American National County Mut	A+ r

RATING RATIONALE

Rating Rationale: The ratings of American National Property and Casualty Group (ANPAC) reflect its adequate capitalization, established regional market presence and improved operational metrics, as well as the financial commitment of its Superior-rated life/health parent, American National. These positive rating factors derive themselves from the group's disciplined underwriting approach, dynamic pricing methodology, shared underwriting synergies with its sister insurance group, Farm Family Insurance Companies (New York) and strong operating fundamentals. Somewhat offsetting these positive rating factors are ANPAC's elevated but improving underwriting leverage, lackluster operating performance and the inherent catastrophe risk associated with its property business that continues to expose its earnings to weather-related losses. This was evident in 2006 when geographically disparate catastrophe losses, the third largest in the group's history, significantly eroded ANPAC's profitability for the year. The outlook is based on the execution risk associated with ANPAC returning to its historical levels of sustained profitability while it simultaneously manages its significant exposures to catastrophe risk.

ANPAC's susceptibility to weather-related losses was evident in all of the last three years, when the group experienced the greatest aggregate catastrophe loss in 2004 as well as the greatest in its history in 2005. The group continues to implement risk management initiatives to mitigate its exposures, which include new business restrictions, increased deductibles, coverage limitations, non-renewal actions, policy exclusions and rate increases. After Katrina additional actions have been taken to further protect profitability such as the exit from Florida and the restriction of certain properties in all Gulf states, as well as any hurricane-susceptible properties that aren't fortified to the Institute for Business & Home Safety's standards. The group remains challenged to build off these initiatives and manage its catastrophe load throughout all of its territories.

Best's Rating: A+ **Outlook: Negative**

FIVE YEAR RATING HISTORY

Date	Best's Rating
04/26/07	A+
02/08/06	A+
06/24/05	A+
06/04/04	A+
05/14/03	A+
05/15/02	A+

KEY FINANCIAL INDICATORS

	Statutory Data ($000)		
Period Ending	Direct Premiums Written	Net Premiums Written	Pretax Operating Income
2002	698,926	617,381	5,259
2003	789,966	719,545	62,831
2004	859,078	733,965	123,101
2005	983,331	773,620	26,821
2006	956,028	727,074	56,594
09/2006	739,803	563,504	40,624
09/2007	666,472	527,540	67,007

	Statutory Data ($000)		
Period Ending	Net Income	Total Admitted Assets	Policy-holders' Surplus
2002	-3,448	830,280	255,248
2003	40,488	1,020,631	309,497
2004	85,280	1,155,184	389,837
2005	20,330	1,317,005	392,215
2006	47,948	1,298,381	470,962
09/2006	32,376	1,290,631	448,773
09/2007	56,812	1,331,504	500,305

	Profitability			Leverage			Liquidity	
Period Ending	Comb. Ratio	Inv. Yield (%)	Pretax ROR (%)	NA Inv Lev	NPW to PHS	Net Lev	Overall Liq (%)	Oper. Cash-flow (%)
2002	104.2	5.8	0.9	29.1	2.4	4.7	144.4	113.9
2003	95.6	5.4	9.5	38.4	2.3	4.6	143.5	125.8
2004	89.6	5.3	17.2	30.4	1.9	3.8	150.9	119.9
2005	102.8	5.4	3.7	34.6	2.0	4.2	142.6	107.4
2006	99.6	5.0	7.9	29.7	1.5	3.3	156.9	106.2
5-Yr Avg	98.1	5.3	8.1	…	…	…	…	…
09/2006	99.5	XX	7.5	XX	1.7	3.5	153.3	103.5
09/2007	95.5	XX	12.8	XX	1.4	3.0	160.2	109.2

(*) Data reflected within all tables of this report has been compiled through the A.M. Best Consolidation of statutory filings. Within several financial tables of this report, this group is compared against the Private Passenger Auto & Homeowners Composite.

CORPORATE OVERVIEW

American National Property & Casualty Group (American National) is comprised of American National Property and Casualty Company and its wholly-owned subsidiaries, American National General Insurance Company, American National Lloyds Insurance Company, ANPAC Louisiana Insurance Company and Pacific Property and Casualty Company. An affiliate, American National County Mutual Insurance Company, is also part of the group. Pacific Property and Casualty, American National Lloyds Insurance Company, and ANPAC Louisiana Insurance Company maintain separate stand-alone ratings, and the remaining entities are afforded the group's rating. The ultimate parent of the American National member companies is American National Insurance Company, a life insurer that offers a broad range of life, health, credit and annuity products. In addition to its insurance subsidiaries, American National also owns American National Insurance Service Company, ANPAC General Agency of Texas, Inc. and ANPAC Lloyd's Insurance Management, Inc.

In April 2001, Farm Family Holdings was added to the American National family of companies through acquisition by American National Holdings, LLC, a wholly-owned subsidiary of American National Insurance Company. The Property and Casualty operations under Farm Family Holdings are Farm Family Casualty Insurance Company and United Farm Family Insurance Company. The group also contains a life insurance company, a financial services organization and three retail agencies. The Farm Family affiliates are rated independently from American National Property & Casualty Group.

BUSINESS REVIEW

American National markets business in 45 states, with its primary focus in the Midwestern and Gulf Coast regions, (excluding Florida, where the company is exiting in 2006 due to the recent increase in catastrophe events in the past few years). The group strives to create a partnership with each insured by marketing value-added products and services through its distribution force of approximately 1,185multi-line captive agents. Examples of the unique product and service offerings include: CA$HBACK, a retrospective premium adjustment program that refunds premiums to claim-free insureds; AmeriCycle, a program that provides coverage for motorcycle enthusiasts; and Chrome, a specialty product that offers coverage for classic cars. American National is a full-service personal lines insurer that offers auto, home and life insurance products through its Tri-Line Coverage Program (TLC). TLC provides premium discounts to multi-line clients. The group continues to implement new initiatives to augment its current distribution channel such as auto and home work-site marketing programs for small to mid-sized companies, and exclusive sponsorship programs within affinity groups. A further broadening of ANPAC's distribution networks began in 2003, as the group began to offer its sister affiliate's, the Farm Family Companies' products through its exclusive agent system. The goal is for both ANPAC and Farm Family to nationally offer the products the other specializes in, thus broadening their own product pallet offering while simultaneously not administering or incurring the expenses for those lines of business themselves. In the end, all of the personal lines products will be administered by ANPAC and Farm Family will administer all commercial lines business.

American National Property & Casualty Company targets preferred risks, while American National General covers the standard market in all of the ANPAC Group's territory. American National Lloyds offers all of the homeowners coverage exclusively in the state of Texas, and ANPAC Louisiana Insurance Company offers preferred homeowners and personal passenger auto products only in Louisiana. A fifth company, Pacific Property and Casualty Company (Pacific), began writing property and casualty business in 2000 and markets personal lines coverages solely in the state of California. In 2001, Independent County Mutual changed its name to American National County Mutual. American National Insurance Company and American National P & C Company reinsure virtually all of American National County Mutual's business. The County Mutual writes both standard and non-standard personal auto products, as well as credit products exclusively in Texas.

2006 BUSINESS PRODUCTION AND PROFITABILITY ($000)

Product	Premiums Written		% of Total	Pure Loss	Loss & LAE
Line	Direct	Net	NPW	Ratio	Reserves
Priv Pass Auto Liab	275,582	273,112	37.6	61.7	245,656
Homeowners	221,114	190,026	26.1	66.6	65,498
Auto Physical	152,722	150,376	20.7	67.1	5,537
Oth Liab Occur	58,230	26,386	3.6	105.0	19,276
Allied Lines	37,956	26,181	3.6	79.8	4,939
Aircraft	22,046	…	…	…	…
Credit	136,188	16,551	2.3	44.1	2,237
All Other	52,190	44,444	6.1	59.8	19,335
Totals	956,028	727,074	100.0	65.9	362,479

Major 2006 Direct Premium Writings By State ($000): Texas, $131,696 (13.8%); Louisiana, $83,326 (8.7%); California, $60,128 (6.3%); Colorado, $48,699 (5.1%); Tennessee, $44,639 (4.7%); 42 other jurisdictions, $587,540 (61.5%).

FINANCIAL PERFORMANCE

Overall Earnings: Recently, ANPAC generated varied operating results, exceeding the private passenger automobile and homeowners composite in pre- and after-tax returns on revenue and surplus only about one-half of the time. Until 2003, earnings had deteriorated due to increased catastrophe losses and loss frequency, mold losses in Texas, as well as an up tick in loss adjustment expenses. Catastrophe losses have historically hampered earnings and weakened operating returns. Earlier, corrective measures proved themselves resistant to severe losses in 2004 as net income doubled the previous year's result, despite both frequent and severe storm patterns in the Gulf Coast region. The group's net income declined in 2005 due to record losses from Hurricanes Katrina and Rita, but remained positive even so. While gains were also achieved in 2006, the group lagged its industry composite in operating returns as catastrophe losses again reduced earnings. The ANPAC group remains challenged to consistently sustain above industry profits in the near to mid-term.

PROFITABILITY ANALYSIS

	Company				Industry Composite			
Period Ending	Pretax ROR (%)	Return on PHS(%)	Comb. Ratio	Oper. Ratio	Pretax ROR (%)	Return on PHS(%)	Comb. Ratio	Oper. Ratio
2002	0.9	3.9	104.2	97.9	0.4	-8.5	106.3	98.9
2003	9.5	17.0	95.6	89.5	7.3	17.8	99.3	92.4
2004	17.2	23.9	89.6	82.9	10.8	14.5	95.7	88.9
2005	3.7	10.5	102.8	95.6	8.6	9.9	99.2	91.8
2006	7.9	13.1	99.6	92.4	14.4	17.6	93.9	85.8
5-Yr Avg	8.1	14.2	98.1	91.4	8.6	11.0	98.6	91.3
09/2006	7.5	XX	99.5	92.2	XX	XX	XX	XX
09/2007	12.8	XX	95.5	86.7	XX	XX	XX	XX

Underwriting Income: In recent years, American National suffered record catastrophe losses due to a surge in wind and hail storm activity in its non-coastal operating territory, as well as six named storms in its gulf states in 2004 and three more in 2005, that resulted in abnormally high catastrophe losses. Hurricane Katrina, the costliest Hurricane in US history, caused roughly $337 million in gross losses to the group in 2005. The three states hardest hit by Katrina for American National were Louisiana, Mississippi, and Alabama. Gross losses for Katrina pierced the group's 2005 catastrophe covers by almost $137 million, causing net losses to climb to $158 million. 2006, while not seen as heavy catastrophe year on an industry basis, was, however, the third largest year in the aggregate for the group adding over eight points to the combined ratio.

While ANPAC has taken several actions over the past several years to manage its catastrophe exposure, Hurricane Katrina brought to light additional actions that need to be taken. In the past, ANPAC raised wind deductible requirements in susceptible areas; implemented actual cash value coverage on roofs for wind and hail losses; and restricted writing new business in certain areas. ANPAC also implemented significant rate increases three years running. ANPAC emphasizes insuring new policies to value with the aid of mandatory inspections in the first year, as well as emphasizing maintaining appropriate coverage by recalculating replacement cost coverage at each renewal. ANPAC made even greater corrections to its underwriting standards after the 2005 hurricane season.

At the end of 2005 ANPAC requested and received permission to discontinue writing all homeowners, rental owners, boat owners, and umbrella business in the state of Florida. The company started sending out non-renewal notices to its Florida policyholders in early 2006. Simultaneously, all new business in areas with hurricane exposures have adopted a twenty-foot-above-sea-level rule, that requires all new business to be above that level. Additionally, all new property business with wind coverage in hurricane-exposed areas must satisfy the Institute for Business & Home Safety's Fortified... for safer living program requirements. The Fortified program specifies construction, design and landscaping guidelines to enable homes to increase their resistance to natural hazards.

In Texas, ANPAC required that all new business in areas covered by the Texas Windstorm Insurance Association to have the wind coverage excluded and be written in the pool. All renewal business that resides within the territories serviced by the Texas Windstorm Insurance Association was non-renewed for wind coverage with the intent of continuing to write the underlying policy and sending the wind coverage to the wind pool.

The group struggled with its catastrophe exposure, which continues to pull down overall performance. This should, in no way, discounts the improved underwriting results that have been present during this time period that unfortunately also includes four of the group's historically worst catastrophe loss years on a direct basis, including the worst loss year in ANPAC's history.

Over the last three years, the group's return to underwriting profitability within its core, (personal auto and homeowners), book of business was due to management's adherence to and improvement of sound underwriting practices, controlled premium expansion on both a rate and exposure basis and conservative reserving practices. The improved underwriting practices established over the last few years include: the use of risk scoring, supplementing the groups use of CLUE reports and motor vehicle report, in underwriting and rating, on-site appraisals using property valuation software to more accurately insure each individual risk to value, as well as agent monitoring and control. The group continues to derive benefits from its advantageous expense structure and diminished claims-frequency trends in its core business. American National's expense ratio is one of the lowest in the industry. The reduced claim frequency is partially attributed to its unique product line dynamics, which offers incentives for claim-free account activity. The ANPAC Group remains challenged by the execution risk associated with the group returning to its historical levels of sustained profitability while managing its catastrophe risk.

UNDERWRITING EXPERIENCE

	Net Undrw	Loss Ratios			Expense Ratios				
	Income	Pure		Loss &	Net	Other	Total	Div.	Comb
Year	($000)	Loss	LAE	LAE	Comm	Exp.	Exp.	Pol.	Ratio
2002	-32,582	75.3	11.5	86.7	10.7	6.8	17.5	…	104.2
2003	18,532	65.8	10.6	76.4	12.3	6.9	19.2	…	95.6
2004	71,184	60.8	9.1	69.9	12.8	6.8	19.6	…	89.6
2005	-30,164	74.1	9.9	84.0	13.0	5.9	18.8	…	102.8
2006	721	65.9	10.9	76.8	14.5	8.2	22.8	…	99.6
5-Yr Avg	…	68.1	10.3	78.5	12.7	6.9	19.6	0.0	98.1
09/2006	-2,110	66.1	10.9	77.0	XX	XX	22.5	…	99.5
09/2007	22,466	63.4	10.2	73.7	XX	XX	21.9	…	95.5

Investment Income: American National's investment strategy targets high-quality securities that provide consistent yields. The group focuses on investment income rather than capital appreciation, as is illustrated by its concentration in NAIC class 1 and 2 corporate bonds, closely followed by tax-exempt municipals and mortgaged-backed securities. Together bonds make up over 75% of invested assets. The group's investment portfolio generated strong returns that either helped mitigate unprofitable underwriting performance, or complimented favorable underwriting results in recent years. This stable income stream led to consistent growth in invested assets over the past five years. American National's strong investment performance is reflective of its conservative strategy. This conservatism is further illustrated by the group's modest equity holdings that are about 13% of invested assets. The group maintained maturities on its fixed-income holdings of approximately 7 years. Yields on the bond portfolio consistently outperformed the industry composite during the past five years.

INVESTMENT INCOME ANALYSIS ($000)

	Company		
	Net	Realized	Unrealized
	Inv	Capital	Capital
Year	Income	Gains	Gains
2002	35,434	-4,564	12,064
2003	40,658	2,020	7,603
2004	47,751	3,524	-1,568
2005	52,409	2,737	20,906
2006	51,768	2,894	8,580
09/2006	39,614	2,207	-16,894
09/2007	46,255	1,720	2,551

	Company			Industry Composite	
	Inv Inc Growth	Inv Yield	Total Return	Inv Inc Growth	Inv Yield
Year	(%)	(%)	(%)	(%)	(%)
2002	4.7	5.8	7.1	-4.1	4.5
2003	14.7	5.4	6.7	1.3	4.3
2004	17.4	5.3	5.5	5.3	4.1
2005	9.8	5.4	7.9	12.6	4.3
2006	-1.2	5.0	6.2	10.8	4.4
5-Yr Avg	8.5	5.3	6.6	5.4	4.3
09/2006	XX	XX	2.4	XX	XX
09/2007	XX	XX	4.6	XX	XX

INVESTMENT PORTFOLIO ANALYSIS

Asset Class	2006 Inv Assets ($000)	% of Invested Assets 2006	2005	Annual % Chg
Long-Term bonds	827,925	75.6	84.1	-3.3
Stocks	144,597	13.2	12.5	13.2
Affiliated Investments	28,542	2.6	1.8	56.9
Other Inv Assets	93,869	8.6	1.6	482.9
Total	1,094,933	100.0	100.0	7.5

2006 BOND PORTFOLIO ANALYSIS

Asset Class	% of Total Bonds	Mkt Val to Stmt Val(%)	Avg. Maturity (Yrs)	Class 1 - 2 (%)	Class 3 - 6 (%)	Struc. Secur. (%)	Struc. Secur. (% of PHS)
Governments	3.8	-1.6	7.7	100.0	…	…	…
States, terr & poss	40.5	-0.2	8.0	99.9	0.1	26.5	18.9
Corporates	55.7	-0.2	6.6	98.7	1.3	2.1	2.1
Total all bonds	100.0	-0.2	7.2	99.2	0.8	11.9	21.0

CAPITALIZATION

CAPITAL GENERATION ANALYSIS ($000)

	Source of Surplus Growth		
Year	Pretax Operating Income	Total Inv. Gains	Net Contrib. Capital
2002	5,259	7,500	50,000
2003	62,831	9,623	-2,813
2004	123,101	1,957	-3,750
2005	26,821	23,643	-18,750
2006	56,594	11,475	19,475
5-Yr Total	274,605	54,198	44,162
09/2006	40,624	-14,687	21,444
09/2007	67,007	4,272	-656

	Source of Surplus Growth		
Year	Other, Net of Tax	Change in PHS	PHS Growth (%)
2002	6,167	68,926	37.0
2003	-15,392	54,249	21.3
2004	-40,968	80,340	26.0
2005	-29,336	2,378	0.6
2006	-8,796	78,747	20.1
5-Yr Total	-88,325	284,640	…
09/2006	9,177	56,558	14.4
09/2007	-41,279	29,343	6.2

Overall Capitalization: In order to restore its historically sound balance sheet after years of volatile surplus growth, American National sought financial assistance from its superior-rated life insurance parent, American National Insurance Company (ANICO). In April 2002, the board of ANICO approved a $50 million capital contribution, designated to the property / casualty operations, in the form of a long-term surplus note. In 2003 and 2004, the group's underwriting improvements flowed to surplus as it increased by 21% and 26% respectively. Even after record losses in 2005, the group succeeded in marginally adding to surplus. The group was able to increase surplus by 20% from operations in 2006, even with the third largest catastrophe year in the aggregate.

The group's capital position is also upheld by its conservative and high-quality investment portfolio, tightened underwriting standards, strengthened reinsurance program and improved underwriting leverage position. ANICO supports capital retention in American National and accordingly does not typically extract dividends from its property / casualty subsidiaries. The group's capitalization remains subject to earthquake losses in the areas surrounding the New Madrid fault, and hurricane losses in the Gulf Coast region. These exposures also subject the company to a certain amount of catastrophic reinsurance dependency as a property writer in these areas. In light of the group's losses to Hurricane Katrina, while management has improved the risk management strategy to better manage new exposures, which includes strengthening their catastrophic reinsurance program, ANPAC remains severely challenged in implementing measures that also mitigate its current exposures effectively.

QUALITY OF SURPLUS ($000)

		% of PHS			Dividend Requirements		
Year	Year-End PHS	Cap Stk/ Contrib. Cap.	Other	Un-assigned Surplus	Stock-holder Divs	Div to POI (%)	Div to Net Inc. (%)
2002	255,248	39.4	19.6	41.0	…	…	…
2003	309,497	32.5	17.1	50.4	…	…	…
2004	389,837	26.2	13.6	60.2	…	…	…
2005	392,215	30.3	9.5	60.2	…	…	…
2006	470,962	34.3	8.1	57.7	…	…	…
09/2006	448,773	34.6	8.1	57.3	…	…	…
09/2007	500,305	37.3	7.5	55.2	…	…	…

Underwriting Leverage: The group's gross premium leverage continues to marginally exceed the personal lines composite. Historically, premium leverage was elevated in part due to American National's participation in the National Flood Insurance Program. Under this agreement, American National assumes no risk as 100% of the business is retroceded. The group's premium to surplus ratio decreased in recent years. Some of the measures that influenced this were: the capital contribution by American National's parent in 2002, the group's strong underwriting results in both 2003 through 2005, as well as, efforts to reduce catastrophe exposure in 2006, with the exit of Florida and the exclusion of the wind cover in Texas. Net underwriting leverage have come very close to industry levels by the end of 2006.

LEVERAGE ANALYSIS

	Company				Industry Composite			
Year	NPW to PHS	Reserves to PHS	Net Lev	Gross Lev	NPW to PHS	Reserves to PHS	Net Lev	Gross Lev
2002	2.4	1.0	4.7	5.0	1.5	0.9	3.4	3.6
2003	2.3	1.0	4.6	4.9	1.4	0.8	3.1	3.3
2004	1.9	0.8	3.8	4.1	1.3	0.8	2.9	3.1
2005	2.0	1.0	4.2	4.6	1.2	0.8	2.8	3.0
2006	1.5	0.8	3.3	3.5	1.1	0.6	2.4	2.6
09/2006	1.7	0.8	3.5	XX	XX	XX	XX	XX
09/2007	1.4	0.7	3.0	XX	XX	XX	XX	XX

Current BCAR: 198.8

PREMIUM COMPOSITION & GROWTH ANALYSIS

Period Ending	DPW ($000)	DPW (% Chg)	GPW ($000)	GPW (% Chg)
2002	698,926	27.5	700,068	27.5
2003	789,966	13.0	857,419	22.5
2004	859,078	8.7	933,228	8.8
2005	983,331	14.5	988,840	6.0
2006	956,028	-2.8	954,805	-3.4
5-Yr CAGR	…	11.8	…	11.7
5-Yr Change	…	74.4	…	73.9
09/2006	739,803	1.4	808,593	-4.0
09/2007	666,472	-9.9	715,058	-11.6

Period	NPW		NPE	
Ending	($000)	(% Chg)	($000)	(% Chg)
2002	617,381	19.9	566,778	19.2
2003	719,545	16.5	663,429	17.1
2004	733,965	2.0	716,253	8.0
2005	773,620	5.4	721,548	0.7
2006	727,074	-6.0	717,044	-0.6
5-Yr CAGR	…	7.1	…	8.6
5-Yr Change	…	41.2	…	50.8
09/2006	563,504	-3.7	541,449	-0.4
09/2007	527,540	-6.4	523,392	-3.3

Reserve Quality: American National's accident year loss development was generally favorable over the past five years. Accident year 2005, however, required a $2 million reserve charge in 2006 to bring reserves to adequate levels. This resulted from the settling of Katrina-related homeowners losses in Louisiana. American National addressed this issue and fully expects future reserve development to return to historic patterns. The group generated its strongest redundancies in the automobile liability and automobile physical damage lines, which are its primary lines of business. American National's conservative reserving philosophy is reflected in its initial case reserve estimates, as well as its setting of IBNR reserves.

LOSS & ALAE RESERVE DEVELOPMENT: CALENDAR YEAR ($000)

Calendar Year	Original Loss Reserves	Developed Reserves Thru 2006	Develop. to Orig.(%)	Develop. to PHS (%)	Develop. to NPE (%)	Unpaid Reserves @ 12/2006	Unpaid Resrv. to Dev.(%)
2001	217,084	225,898	4.1	4.7	47.5	5,729	2.5
2002	241,144	244,070	1.2	1.1	43.1	14,856	6.1
2003	293,471	262,787	-10.5	-9.9	39.6	34,276	13.0
2004	312,764	274,316	-12.3	-9.9	38.3	67,306	24.5
2005	369,885	364,566	-1.4	-1.4	50.5	146,239	40.1
2006	341,527	341,527	…	…	47.6	341,527	100.0

LOSS & ALAE RESERVE DEVELOPMENT: ACCIDENT YEAR ($000)

Accident Year	Original Loss Reserves	Developed Reserves Thru 2006	Develop. to Orig.(%)	Unpaid Reserves @12/2006	Acc Yr. Loss Ratio	Acc Yr. Comb Ratio
2001	137,057	138,872	1.3	3,070	89.9	108.6
2002	152,642	149,516	-2.0	9,127	82.1	99.6
2003	179,444	157,924	-12.0	19,420	72.3	91.5
2004	187,745	152,419	-18.8	33,030	68.9	88.5
2005	233,386	235,372	0.9	78,933	89.1	107.9
2006	195,288	195,288	…	195,288	77.6	100.4

CEDED REINSURANCE ANALYSIS ($000)

	Company				Industry Composite		
Year	Ceded Reins Total	Business Retention (%)	Rein Rec to PHS (%)	Ceded Reins to PHS (%)	Business Retention (%)	Rein Rec to PHS (%)	Ceded Reins to PHS(%)
2002	92,807	88.2	18.0	36.4	94.1	14.5	23.7
2003	97,295	83.9	13.3	31.4	94.1	14.6	22.9
2004	114,469	78.6	12.9	29.4	94.4	14.5	22.1
2005	146,383	78.2	21.7	37.3	94.6	16.4	22.7
2006	113,642	76.1	9.3	24.1	94.9	11.9	17.6

2006 REINSURANCE RECOVERABLES ($000)

	Paid & Unpaid Losses	IBNR	Unearned Premiums	Other Recov*	Total Reins Recov
US Affiliates	52,196	13,121	244,827	…	310,144
US Insurers	10,420	1,045	10,747	-244	21,968
Pools/Associations	…	…	5,888	…	5,888
Other Non-US	10,907	1,022	3,833	-16	15,746
Total (ex US Affils)	21,327	2,067	20,468	-260	43,602
Grand Total	73,523	15,188	265,295	-260	353,746

* Includes Commissions less Funds Withheld

INVESTMENT LEVERAGE ANALYSIS (% OF PHS)

	Company						Industry Composite	
Year	Class 3-6 Bonds	Real Estate/ Mtg.	Other Invested Assets	Common Stocks	Non-Affl Inv. Lev.	Affil Inv.	Class 3-6 Bonds	Common Stocks
2002	11.5	0.8	0.5	16.3	29.1	13.5	4.9	47.0
2003	9.3	0.6	1.2	27.3	38.4	7.7	4.1	48.7
2004	4.3	0.6	2.7	22.7	30.4	5.5	3.1	46.0
2005	4.5	0.6	3.2	26.2	34.6	4.6	3.3	44.3
2006	1.4	0.5	3.5	24.3	29.7	6.1	2.7	44.7

LIQUIDITY

The group's current liquidity measures were comparable to the personal lines industry composite. Quick liquidity, however, was below average, as the group held relatively few equity securities and over 75% of invested assets were in longer-term bonds. The group's liquidity was enhanced by strong operating cash flows that enabled the insurer to meet its short-term financial obligations without having to prematurely liquidate longer-term investments. This was evidenced in 2005 when Hurricane Katrina caused over $336 million of gross losses to the ANPAC Group. Even during the three month period after the storms, liquidity and cash flow remained strong at the group level.

LIQUIDITY ANALYSIS

	Company				Industry Composite			
Year	Quick Liq (%)	Current Liq (%)	Overall Liq (%)	Gross Agents Bal to PHS(%)	Quick Liq (%)	Current Liq (%)	Overall Liq (%)	Gross Agents Bal to PHS(%)
2002	28.9	117.8	144.4	0.4	37.9	120.0	152.9	8.5
2003	21.2	124.8	143.5	0.3	39.7	126.1	158.5	8.2
2004	23.9	131.8	150.9	2.4	40.2	130.0	162.3	7.0
2005	20.9	116.9	142.6	2.7	37.9	128.6	161.9	7.0
2006	27.2	131.2	156.9	0.5	44.1	141.1	173.4	5.4
09/2006	XX	122.9	153.3	1.6	XX	XX	XX	XX
09/2007	XX	134.8	160.2	0.5	XX	XX	XX	XX

CASH FLOW ANALYSIS ($000)

		Company				Industry Composite	
Year	Underw Cash Flow	Oper Cash Flow	Net Cash Flow	Underw Cash Flow (%)	Oper Cash Flow (%)	Underw Cash Flow (%)	Oper Cash Flow (%)
2002	55,385	78,482	14,746	110.0	113.9	98.5	108.0
2003	123,287	155,326	-33,945	120.8	125.8	106.4	114.1
2004	116,834	129,144	-2,259	119.2	119.9	109.5	113.9
2005	27,066	56,032	-40,222	103.7	107.4	105.0	109.7
2006	15,871	46,212	74,525	102.2	106.2	107.3	113.3
09/2006	6,543	19,972	50,865	101.2	103.5	XX	XX
09/2007	16,624	47,849	-10,864	103.3	109.2	XX	XX

REINSURANCE PROGRAMS

Reinsurance is primarily utilized on an excess of loss basis. American National aggressively monitors its catastrophe exposure and continues to enhance catastrophe reinsurance in an effort to limit its net probable maximum loss (PML) to an acceptable level.

The largest net aggregate exposure in any one risk is $1,000,000. The multi-line excess of loss program provides $5,000,000 coverage per risk above a $1,000,000 retention. Casualty clash coverage up to $50 million is also maintained. Property catastrophe reinsurance coverage is provided for 97.5% of $425 million excess of $25 million per occurrence with one reinstatement of coverage. The group also purchases New Madrid earthquake coverage of 50% of $250 million excess of $25 million per occurrence with one reinstatement of coverage. State specific catastrophe reinsurance coverage of 97.5% of $20 million excess of $5 million is also maintained for Louisiana and Texas. The primary reinsurers are Lloyd's of London, Munich Re America and Platinum Underwriters Reinsurance.

CONSOLIDATED BALANCE SHEET ($000)

ADMITTED ASSETS	12/31/2006	12/31/2005	2006 %	2005 %
Bonds	827,925	856,189	63.8	65.0
Preferred stock	30,057	24,825	2.3	1.9
Common stock	114,541	102,917	8.8	7.8
Cash & short-term invest	62,735	-11,790	4.8	-0.9
Other non-affil inv asset	19,099	15,046	1.5	1.1
Investments in affiliates	12,400	1,663	1.0	0.1
Real estate, offices	16,142	16,529	1.2	1.3
Total invested assets	1,082,899	1,005,379	83.4	76.3
Premium balances	119,402	128,712	9.2	9.8
Accrued interest	12,034	12,847	0.9	1.0
All other assets	84,046	170,067	6.5	12.9
Total assets	1,298,381	1,317,005	100.0	100.0

LIABILITIES & SURPLUS	12/31/2006	12/31/2005	2006 %	2005 %
Loss & LAE reserves	362,479	393,582	27.9	29.9
Unearned premiums	325,060	323,164	25.0	24.5
Conditional reserve funds	…	975	…	0.1
All other liabilities	139,880	207,070	10.8	15.7
Total liabilities	827,419	924,790	63.7	70.2
Surplus notes	36,969	36,969	2.8	2.8
Total policyholders' surplus	470,962	392,215	36.3	29.8
Total liabilities & surplus	1,298,381	1,317,005	100.0	100.0

CONSOLIDATED SUMMARY OF 2006 OPERATIONS ($000)

STATEMENT OF INCOME	12/31/2006
Premiums earned	717,044
Losses incurred	472,567
LAE incurred	78,240
Undrw expenses incurred	165,516
Net underwriting income	721
Net investment income	51,768
Other income/expense	4,104
Pre-tax oper income	56,594
Realized capital gains	2,894
Income taxes incurred	11,540
Net income	47,948

FUNDS PROVIDED FROM OPERATIONS	12/31/2006
Premiums collected	728,912
Benefit & loss related pmts	464,837
LAE & undrw expenses paid	248,204
Undrw cash flow	15,871
Investment income	56,165
Other income/expense	4,104
Pre-tax cash operations	76,140
Income taxes pd (recov)	29,929
Net oper cash flow	46,212

INTERIM BALANCE SHEET

ADMITTED ASSETS	03/31/2007	06/30/2007	09/30/2007
Cash & short term invest	23,555	16,071	51,871
Bonds	878,621	891,129	888,169
Preferred stock	30,161	29,068	28,333
Common stock	131,831	129,615	133,937
Other investments	35,751	35,872	36,284
Total investments	1,099,921	1,101,756	1,138,593
Premium balances	119,508	119,646	123,918
Reinsurance funds	6,534	3,605	3,415
Accrued interest	11,373	13,134	11,789
All other assets	53,780	53,057	53,790
Total assets	1,291,117	1,291,197	1,331,504

LIABILITIES & SURPLUS	03/31/2007	06/30/2007	09/30/2007
Loss & LAE reserves	364,777	365,412	360,397
Unearned premiums	318,188	319,787	324,393
All other liabilities	138,346	124,439	146,409
Total liabilities	821,311	809,638	831,199
Capital & assigned surp	200,687	223,412	224,367
Unassigned surplus	269,119	258,147	275,939
Policyholders' surplus	469,806	481,559	500,305
Total liabilities & surplus	1,291,117	1,291,197	1,331,504

INTERIM INCOME STATEMENT

	Period Ended 09/30/2007	Period Ended 09/30/2006	Increase/ Decrease
Premiums earned	523,392	541,449	-18,056
Losses incurred	332,047	357,863	-25,817
LAE incurred	53,499	59,104	-5,605
Underwriters expenses incurred	115,381	126,591	-11,210
Net underwriting income	22,466	-2,110	24,576
Net investment income	46,255	39,614	6,640
Other income/expenses	-1,714	3,119	-4,834
Pre-tax operating income	67,007	40,624	26,383
Realized capital gains	1,720	2,207	-487
Income taxes incurred	11,915	10,455	1,460
Net income	56,812	32,376	24,437

INTERIM CASH FLOW

	Period Ended 09/30/2007	Period Ended 09/30/2006	Increase/ Decrease
Premiums collected	521,936	544,528	-22,592
Benefit & loss related pmts	332,758	348,736	-15,978
Undrw expenses paid	172,554	189,249	-16,696
Underwriting cash flow	16,624	6,543	10,082
Investment income	47,633	42,860	4,773
Other income/expense	-1,714	3,119	-4,834
Pre-tax cash operations	62,543	52,522	10,021
Income taxes pd (recov)	14,694	32,550	-17,856
Net oper cash flow	47,849	19,972	27,877