# 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 IX.

## 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 strong 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, fluctuating operating performance and the inherent catastrophe risk associated with its property business that continues to expose its earnings to weather-related losses. The outlook is based on the group's return to better-than-industry profitability and capitalization.

ANPAC's susceptibility to weather-related losses was evident in recent 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 and subsidiaries.

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

## FIVE YEAR RATING HISTORY

| Date | Best's Rating |
|---|---|
| 05/13/08 | A+ |
| 04/26/07 | A+ |
| 02/08/06 | A+ |
| 06/24/05 | A+ |
| 06/04/04 | A+ |
| 05/14/03 | A+ |

# KEY FINANCIAL INDICATORS

| | Statutory Data ($000) | | |
|---|---|---|---|
| Period Ending | Direct Premiums Written | Net Premiums Written | Pretax Operating Income |
| 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 |
| 2007 | 870,932 | 688,334 | 97,898 |
| 09/2007 | 666,472 | 527,540 | 67,007 |
| 09/2008 | 667,049 | 514,226 | -48,244 |

| | Statutory Data ($000) | | |
|---|---|---|---|
| Period Ending | Net Income | Total Admitted Assets | Policy-holders' Surplus |
| 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 |
| 2007 | 84,395 | 1,328,093 | 506,886 |
| 09/2007 | 56,812 | 1,331,504 | 500,305 |
| 09/2008 | -55,711 | 1,292,664 | 427,927 |

| | Profitability | | | Leverage | | | Liquidity | |
|---|---|---|---|---|---|---|---|---|
| Period Ending | Comb. Ratio | Inv. Yield (%) | Pretax ROR (%) | NA Inv Lev | NPW to PHS | Net Lev | Overall Liq (%) | Oper. Cash-flow (%) |
| 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 | 29.1 | 1.5 | 3.3 | 156.9 | 106.2 |
| 2007 | 94.6 | 5.4 | 14.1 | 27.5 | 1.4 | 3.0 | 161.7 | 109.5 |
| 5-Yr Avg | 96.4 | 5.3 | 10.4 | … | … | … | … | … |
| 09/2007 | 95.5 | XX | 12.8 | XX | 1.4 | 3.0 | 160.2 | 109.2 |
| 09/2008 | 117.1 | XX | -9.3 | XX | 1.6 | 3.6 | 149.5 | 97.6 |

(*) 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.

# 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 exited 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 1,185 multi-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. ANPAC and Farm Family offer the products the other specializes in nationally, thus broadening their own product pallet offering and resulting in administrative and expense efficiencies. All of the personal lines products are administered by ANPAC and Farm Family administers 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. Pacific Property and Casualty Company (Pacific) writes property and casualty business and markets personal lines coverages solely in the state of California. American National County Mutual writes both standard and non-standard personal auto products, as well as credit products exclusively in Texas. American National Insurance Company and American National P & C Company reinsure virtually all of American National County Mutual's business.

### 2007 BUSINESS PRODUCTION AND PROFITABILITY ($000)

| Product Line | Premiums Written Direct | Premiums Written Net | % of Total NPW | Pure Loss Ratio | Loss & LAE Reserves |
|---|---|---|---|---|---|
| Priv Pass Auto Liab | 257,239 | 253,848 | 36.9 | 63.3 | 234,951 |
| Homeowners | 210,770 | 180,134 | 26.2 | 56.1 | 51,724 |
| Auto Physical | 155,911 | 151,922 | 22.1 | 67.3 | 5,266 |
| Allied Lines | 39,400 | 26,594 | 3.9 | 58.2 | 3,671 |
| Credit | 126,133 | 10,953 | 1.6 | 42.8 | 2,112 |
| All Other | 81,479 | 64,884 | 9.4 | 74.4 | 52,391 |
| Totals | 870,932 | 688,334 | 100.0 | 62.8 | 350,114 |

**Major 2007 Direct Premium Writings By State ($000):** Texas, $131,243 (15.1%); Louisiana, $82,075 (9.4%); Colorado, $49,249 (5.7%); Tennessee, $43,624 (5.0%); Oklahoma, $43,365 (5.0%); 42 other jurisdictions, $521,376 (59.9%).

# FINANCIAL PERFORMANCE

**Overall Earnings:** ANPAC's operating results have fluctuated recently, markedly 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. This fluctuation was due to increased catastrophe losses and loss frequency, an up tick in loss adjustment expenses, as well as the cost of initiating strategies to curb future losses. Catastrophe losses have historically hampered earnings and weakened operating returns, but 2004 through 2006 were the group's historically three worst loss years on an aggregate basis. 2006 results were also dampened by the exit of the Florida market. In 2007 the group benefited from all of the earlier corrective measures that had previously earned through the books, combined with an increase in investment earnings and a return to average catastrophic event patterns. 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 |
| 2003 | 9.5 | 17.0 | 95.6 | 89.5 | 7.3 | 17.8 | 99.2 | 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 | 9.8 | 99.2 | 91.8 |
| 2006 | 7.9 | 13.1 | 99.6 | 92.4 | 14.4 | 17.6 | 93.9 | 85.8 |
| 2007 | 14.1 | 16.5 | 94.6 | 86.1 | 11.8 | 11.4 | 97.3 | 88.8 |
| 5-Yr Avg | 10.4 | 16.0 | 96.4 | 89.3 | 10.7 | 14.0 | 97.0 | 89.5 |
| 09/2007 | 12.8 | XX | 95.5 | 86.7 | XX | XX | XX | XX |
| 09/2008 | -9.3 | XX | 117.1 | 109.6 | XX | XX | XX | XX |

**Underwriting Income:** American National suffered record catastrophe losses due to six named storms in its gulf states in 2004 and three more in 2005, as well as a surge in wind and hail storm activity in its non-coastal operating territory in 2006 that resulted in the group's three largest catastrophe years in their history, occurring in-a-row. Hurricane Katrina, the costliest Hurricane in US history, caused roughly $354 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 $154 million, causing net losses to climb to $175 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.

Consequently, ANPAC has taken several actions over this time period to further manage its catastrophe exposure using lessons brought to light in 2004 through 2006. Initially, 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. Currently, ANPAC emphasizes insuring new policies to value with the aid of mandatory inspections in the first year, as well as an emphasis on maintaining appropriate coverage by recalculating replacement cost coverage at each renewal.

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.

In response to its struggles with its catastrophe exposure, which has historically pulled down overall performance, ANPAC markedly improved its reinsurance program to protect itself from future events. This should, in no way, discount the improved underwriting results that have been instituted 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. 2007 results, with a storm season distinctly milder than the preceding four years, reveal the group's underwriting efforts over the past five 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 group's 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 to sustain its present profitability while managing its catastrophe risk caused by the exposure associated with the group's property book.

## UNDERWRITING EXPERIENCE

| | Net Undrw | Loss Ratios | | | Expense Ratios | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Year | Income ($000) | Pure Loss | LAE | Loss & LAE | Net Comm | Other Exp. | Total Exp. | Div. Pol. | Comb Ratio |
| 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 |
| 2007 | 39,387 | 61.8 | 10.2 | 72.1 | 13.8 | 8.7 | 22.5 | … | 94.6 |
| 5-Yr Avg | … | 65.7 | 10.1 | 75.9 | 13.3 | 7.3 | 20.5 | 0.0 | 96.4 |
| 09/2007 | 22,466 | 63.4 | 10.2 | 73.7 | XX | XX | 21.9 | … | 95.5 |
| 09/2008 | -87,627 | 78.7 | 13.0 | 91.7 | XX | XX | 25.4 | … | 117.1 |

**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 dampened 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 below 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 | | |
|---|---|---|---|
| Year | Net Inv Income | Realized Capital Gains | Unrealized Capital Gains |
| 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 |
| 2007 | 59,153 | 2,112 | -3,664 |
| 09/2007 | 46,255 | 1,720 | 2,551 |
| 09/2008 | 38,637 | -28,636 | -12,869 |

| | Company | | | Industry Composite | |
|---|---|---|---|---|---|
| Year | Inv Inc Growth (%) | Inv Yield (%) | Total Return (%) | Inv Inc Growth (%) | Inv Yield (%) |
| 2003 | 14.7 | 5.4 | 6.7 | 1.4 | 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 | 10.7 | 4.4 |
| 2007 | 14.3 | 5.4 | 5.3 | 5.3 | 4.4 |
| 5-Yr Avg | 10.4 | 5.3 | 6.3 | 7.2 | 4.3 |
| 09/2007 | XX | XX | 4.6 | XX | XX |
| 09/2008 | XX | XX | -0.3 | XX | XX |

## INVESTMENT PORTFOLIO ANALYSIS

| Asset Class | 2007 Inv Assets ($000) | % of Invested Assets 2007 | 2006 | Annual % Chg |
|---|---|---|---|---|
| Long-Term bonds | 915,613 | 79.7 | 75.6 | 10.6 |
| Stocks | 142,379 | 12.4 | 13.2 | -1.5 |
| Affiliated Investments | 30,907 | 2.7 | 2.6 | 8.3 |
| Other Inv Assets | 59,782 | 5.2 | 8.6 | -36.3 |
| Total | 1,148,682 | 100.0 | 100.0 | 4.9 |

## 2007 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 | 2.8 | 0.4 | 7.8 | 100.0 | … | … | … |
| States, terr & poss | 44.1 | 0.4 | 6.7 | 100.0 | … | 21.2 | 16.9 |
| Corporates | 53.1 | -0.4 | 6.2 | 99.3 | 0.7 | 1.9 | 1.8 |
| Total all bonds | 100.0 | 0.0 | 6.5 | 99.6 | 0.4 | 10.3 | 18.7 |

## CAPITAL GENERATION ANALYSIS ($000)

| | Source of Surplus Growth | | |
|---|---|---|---|
| Year | Pretax Operating Income | Total Inv. Gains | Net Contrib. Capital |
| 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 |
| 2007 | 97,898 | -1,552 | -2,625 |
| 5-Yr Total | 367,243 | 45,146 | -8,463 |
| 09/2007 | 67,007 | 4,272 | -656 |
| 09/2008 | -48,244 | -41,504 | -656 |

| | Source of Surplus Growth | | |
|---|---|---|---|
| Year | Other, Net of Tax | Change in PHS | PHS Growth (%) |
| 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 |
| 2007 | -57,797 | 35,924 | 7.6 |
| 5-Yr Total | -152,289 | 251,638 | … |
| 09/2007 | -41,279 | 29,343 | 6.2 |
| 09/2008 | 11,446 | -78,959 | -15.6 |

**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 $50 million capital contribution, designated to the property / casualty operations, in the form of a long-term surplus note. In 2003 and 2004, the group's underwriting improvements flowed to surplus as it increased by 21% and 26% respectively. Even after record losses in 2005, the group succeeded in marginally adding to surplus. The group was able to increase surplus by 20% from operations in 2006, even with the third largest catastrophe year in the aggregate. In 2007, surplus growth was dampened by deficiencies in the CA$HBACK program's retrospective premium reserve, the non-admission of a large income-tax recoverable at ANPAC LA, as well as surplus note interest.

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 catastrophes in 2004 through 2006, while management has improved the risk management strategy to better manage new exposures, which includes markedly strengthening their catastrophic reinsurance program, ANPAC remains challenged in continuing efforts that 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. (%) |
| 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 | … | … | … |
| 2007 | 506,886 | 35.4 | 7.3 | 57.3 | … | … | … |
| 09/2007 | 500,305 | 37.3 | 7.5 | 55.2 | … | … | … |
| 09/2008 | 427,927 | 42.0 | 8.5 | 49.5 | … | … | … |

**Underwriting Leverage:** The group's net premium leverage continues to marginally exceed the personal lines composite. Historically, gross 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 improved underwriting results in 2007, 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 has again moved closer to industry levels by the end of 2007.

## 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 |
| 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 |
| 2007 | 1.4 | 0.7 | 3.0 | 3.2 | 1.0 | 0.6 | 2.3 | 2.5 |
| | | | | | | | | |
| 09/2007 | 1.4 | 0.7 | 3.0 | XX | XX | XX | XX | XX |
| 09/2008 | 1.6 | 0.9 | 3.6 | XX | XX | XX | XX | XX |

Current BCAR: 235.0

## PREMIUM COMPOSITION & GROWTH ANALYSIS

| Period | DPW | | GPW | |
|---|---|---|---|---|
| Ending | ($000) | (% Chg) | ($000) | (% Chg) |
| 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 |
| 2007 | 870,932 | -8.9 | 870,148 | -8.9 |
| | | | | |
| 5-Yr CAGR | … | 4.5 | … | 4.4 |
| 5-Yr Change | … | 24.6 | … | 24.3 |
| | | | | |
| 09/2007 | 666,472 | -9.9 | 715,058 | -11.6 |
| 09/2008 | 667,049 | 0.1 | 720,787 | 0.8 |

| Period | NPW | | NPE | |
|---|---|---|---|---|
| Ending | ($000) | (% Chg) | ($000) | (% Chg) |
| 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 |
| 2007 | 688,334 | -5.3 | 696,560 | -2.9 |
| | | | | |
| 5-Yr CAGR | … | 2.2 | … | 4.2 |
| 5-Yr Change | … | 11.5 | … | 22.9 |
| | | | | |
| 09/2007 | 527,540 | -6.4 | 523,392 | -3.3 |
| 09/2008 | 514,226 | -2.5 | 516,196 | -1.4 |

**Reserve Quality:** American National's accident year loss development was redundant over the past five years. While there was some movement in reserve due to Hurricane Katrina, these claims ran-off redundant in 2007. American National 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 2007 | Develop. to Orig.(%) | Develop. to PHS (%) | Develop. to NPE (%) | Unpaid Reserves @12/2007 | Unpaid Resrv. to Dev.(%) |
|---|---|---|---|---|---|---|---|
| 2002 | 241,144 | 240,669 | -0.2 | -0.2 | 42.5 | 5,183 | 2.2 |
| 2003 | 293,471 | 255,787 | -12.8 | -12.2 | 38.6 | 12,035 | 4.7 |
| 2004 | 312,764 | 267,721 | -14.4 | -11.6 | 37.4 | 27,686 | 10.3 |
| 2005 | 369,885 | 355,230 | -4.0 | -3.7 | 49.2 | 66,929 | 18.8 |
| 2006 | 341,527 | 295,731 | -13.4 | -9.7 | 41.2 | 136,677 | 46.2 |
| 2007 | 331,287 | 331,287 | … | … | 47.6 | 331,287 | 100.0 |

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

| Accident Year | Original Loss Reserves | Developed Reserves Thru 2007 | Develop. to Orig.(%) | Unpaid Reserves @12/2007 | Acc Yr. Loss Ratio | Acc Yr. Comb Ratio |
|---|---|---|---|---|---|---|
| 2002 | 152,642 | 146,994 | -3.7 | 2,651 | 81.7 | 99.2 |
| 2003 | 179,444 | 154,325 | -14.0 | 6,852 | 71.8 | 91.0 |
| 2004 | 187,745 | 152,824 | -18.6 | 15,651 | 68.9 | 88.5 |
| 2005 | 233,386 | 232,631 | -0.3 | 39,243 | 88.6 | 107.4 |
| 2006 | 195,288 | 158,828 | -18.7 | 69,748 | 72.2 | 95.0 |
| 2007 | 194,610 | 194,610 | … | 194,610 | 79.1 | 101.7 |

## 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(%) |
| 2003 | 97,295 | 83.9 | 13.3 | 31.4 | 93.9 | 14.7 | 23.4 |
| 2004 | 114,469 | 78.6 | 12.9 | 29.4 | 94.1 | 14.7 | 22.6 |
| 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 |
| 2007 | 93,676 | 79.1 | 6.3 | 18.5 | 94.3 | 10.7 | 16.8 |

## 2007 REINSURANCE RECOVERABLES ($000)

| | Paid & Unpaid Losses | IBNR | Unearned Premiums | Other Recov* | Total Reins Recov |
|---|---|---|---|---|---|
| US Affiliates | 38,209 | 14,046 | 229,499 | … | 281,754 |
| US Insurers | 12,785 | 746 | 4,699 | -114 | 18,116 |
| Pools/Associations | … | … | 5,740 | … | 5,740 |
| Other Non-US | 5,954 | 2,356 | … | -16 | 8,294 |
| Total (ex US Affils) | 18,739 | 3,102 | 10,439 | -130 | 32,150 |
| Grand Total | 56,948 | 17,148 | 239,938 | -130 | 313,904 |

* 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 |
| 2003 | 9.3 | 0.6 | 1.2 | 27.3 | 38.4 | 7.7 | 4.1 | 48.9 |
| 2004 | 4.3 | 0.6 | 2.7 | 22.7 | 30.4 | 5.5 | 3.1 | 46.2 |
| 2005 | 4.5 | 0.6 | 3.2 | 26.2 | 34.6 | 4.6 | 3.3 | 44.3 |
| 2006 | 1.4 | 0.5 | 2.9 | 24.3 | 29.1 | 6.1 | 2.7 | 44.7 |
| 2007 | 0.7 | 0.5 | 3.2 | 23.1 | 27.5 | 6.1 | 2.5 | 41.8 |

# 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 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 $354 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 (%) | Gros Agents Ba to PHS(% |
| 2003 | 21.2 | 124.8 | 143.5 | 0.3 | 39.6 | 126.2 | 158.8 | 8. |
| 2004 | 23.9 | 131.8 | 150.9 | 2.4 | 40.0 | 130.2 | 162.6 | 6. |
| 2005 | 20.9 | 116.9 | 142.6 | 2.7 | 37.7 | 128.7 | 162.1 | 7. |
| 2006 | 27.2 | 131.2 | 156.9 | 0.5 | 44.1 | 141.4 | 173.7 | 5. |
| 2007 | 23.6 | 139.1 | 161.7 | 0.6 | 44.0 | 143.4 | 176.5 | 5. |
| 09/2007 | XX | 134.8 | 160.2 | 0.5 | XX | XX | XX | X |
| 09/2008 | XX | 122.4 | 149.5 | 0.7 | XX | XX | XX | X |

## 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 (%) |
| 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 | 109.8 |
| 2006 | 15,871 | 46,212 | 74,525 | 102.2 | 106.2 | 107.4 | 113.4 |
| 2007 | 25,103 | 65,570 | -35,357 | 103.7 | 109.5 | 104.4 | 109.9 |
| 09/2007 | 16,624 | 47,849 | -10,864 | 103.3 | 109.2 | XX | XX |
| 09/2008 | -62,925 | -13,924 | -30,581 | 89.3 | 97.6 | 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. Property per risk coverage of $9 million excess of $6 million and casualty clash coverage up to $50 million are also maintained. Property catastrophe reinsurance coverage is provided for 90% of $40 million excess of $40 million and 97.5% of $420 million excess of $80 million per occurrence with one reinstatement of coverage. Supplementing this coverage is a top and drop catastrophe layer that responds with $20 million excess of $500 million or $20 million excess of $20 million with a $20 million annual aggregate deductible, and with one reinstatement of coverage. The group also purchases additional countrywide, excluding California 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 $25 million excess of $10 million is also maintained for Louisiana and Texas. The group also protects its subsidiaries in catastrophe prone areas with reinsurance premium protection covers and internal reinsurance that lowers their retention to match their surplus. The primary reinsurers are Lloyd's of London, Munich Re America and Swiss reinsurance America.

# CONSOLIDATED BALANCE SHEET ($000)

| ADMITTED ASSETS | 12/31/2007 | 12/31/2006 | 2007 % | 2006 % |
|---|---|---|---|---|
| Bonds | 915,613 | 827,925 | 68.9 | 63.8 |
| Preferred stock | 25,346 | 30,057 | 1.9 | 2.3 |
| Common stock | 117,033 | 114,541 | 8.8 | 8.8 |
| Cash & short-term invest | 27,378 | 62,735 | 2.1 | 4.8 |
| Other non-affil inv asset | 19,197 | 19,099 | 1.4 | 1.5 |
| Investments in affiliates | 15,263 | 12,400 | 1.1 | 1.0 |
| Real estate, offices | 15,645 | 16,142 | 1.2 | 1.2 |
| Total invested assets | 1,135,474 | 1,082,899 | 85.5 | 83.4 |
| Premium balances | 122,466 | 119,402 | 9.2 | 9.2 |
| Accrued interest | 13,208 | 12,034 | 1.0 | 0.9 |
| All other assets | 56,946 | 84,046 | 4.3 | 6.5 |
| Total assets | 1,328,093 | 1,298,381 | 100.0 | 100.0 |

| LIABILITIES & SURPLUS | 12/31/2007 | 12/31/2006 | 2007 % | 2006 % |
|---|---|---|---|---|
| Loss & LAE reserves | 350,114 | 362,479 | 26.4 | 27.9 |
| Unearned premiums | 311,248 | 325,060 | 23.4 | 25.0 |
| All other liabilities | 159,844 | 139,880 | 12.0 | 10.8 |
| Total liabilities | 821,207 | 827,419 | 61.8 | 63.7 |
| Surplus notes | 36,969 | 36,969 | 2.8 | 2.8 |
| Total policyholders' surplus | 506,886 | 470,962 | 38.2 | 36.3 |
| Total liabilities & surplus | 1,328,093 | 1,298,381 | 100.0 | 100.0 |

# CONSOLIDATED SUMMARY OF 2007 OPERATIONS ($000)

| STATEMENT OF INCOME | 12/31/2007 |
|---|---|
| Premiums earned | 696,560 |
| Losses incurred | 430,705 |
| LAE incurred | 71,307 |
| Undrw expenses incurred | 155,160 |
| Net underwriting income | 39,387 |
| Net investment income | 59,153 |
| Other income/expense | -643 |
| Pre-tax oper income | 97,898 |
| Realized capital gains | 2,112 |
| Income taxes incurred | 15,615 |
| Net income | 84,395 |

| FUNDS PROVIDED FROM OPERATIONS | 12/31/2007 |
|---|---|
| Premiums collected | 697,188 |
| Benefit & loss related pmts | 441,378 |
| LAE & undrw expenses paid | 230,708 |
| Undrw cash flow | 25,103 |
| Investment income | 61,314 |
| Other income/expense | -643 |
| Pre-tax cash operations | 85,775 |
| Income taxes pd (recov) | 20,205 |
| Net oper cash flow | 65,570 |

## INTERIM BALANCE SHEET ($000)

| ADMITTED ASSETS | 03/31/2008 | 06/30/2008 | 09/30/2008 |
|---|---|---|---|
| Cash & short term invest | 29,959 | -14,605 | -3,203 |
| Bonds | 928,371 | 931,002 | 908,432 |
| Preferred stock | 25,359 | 23,147 | 11,989 |
| Common stock | 126,325 | 122,639 | 114,644 |
| Other investments | 37,271 | 36,609 | 35,111 |
| Total investments | 1,147,285 | 1,098,792 | 1,066,974 |
| Premium balances | 119,482 | 114,906 | 123,476 |
| Reinsurance funds | 3,013 | 3,323 | 22,478 |
| Accrued interest | 11,870 | 13,384 | 11,855 |
| All other assets | 39,589 | 64,300 | 67,880 |
| Total assets | 1,321,238 | 1,294,705 | 1,292,664 |

| LIABILITIES & SURPLUS | 03/31/2008 | 06/30/2008 | 09/30/2008 |
|---|---|---|---|
| Loss & LAE reserves | 345,823 | 371,281 | 372,460 |
| Unearned premiums | 304,405 | 303,794 | 308,017 |
| All other liabilities | 157,990 | 152,426 | 184,259 |
| Total liabilities | 808,219 | 827,501 | 864,737 |
| Capital & assigned surp | 217,308 | 215,339 | 215,995 |
| Unassigned surplus | 295,711 | 251,865 | 211,932 |
| Policyholders' surplus | 513,019 | 467,203 | 427,927 |
| Total liabilities & surplus | 1,321,238 | 1,294,705 | 1,292,664 |

## INTERIM INCOME STATEMENT ($000)

| | Period Ended 09/30/2008 | Period Ended 09/30/2007 | Increase/ Decrease |
|---|---|---|---|
| Premiums earned | 516,196 | 523,392 | -7,197 |
| Losses incurred | 406,010 | 332,047 | 73,963 |
| LAE incurred | 67,185 | 53,499 | 13,686 |
| Underwriters expenses incurred | 130,628 | 115,381 | 15,247 |
| Net underwriting income | -87,627 | 22,466 | -110,093 |
| Net investment income | 38,637 | 46,255 | -7,618 |
| Other income/expenses | 746 | -1,714 | 2,460 |
| Pre-tax operating income | -48,244 | 67,007 | -115,251 |
| Realized capital gains | -28,636 | 1,720 | -30,356 |
| Income taxes incurred | -21,169 | 11,915 | -33,084 |
| Net income | -55,711 | 56,812 | -112,523 |

## INTERIM CASH FLOW ($000)

| | Period Ended 09/30/2008 | Period Ended 09/30/2007 | Increase/ Decrease |
|---|---|---|---|
| Premiums collected | 523,577 | 521,936 | 1,641 |
| Benefit & loss related pmts | 408,335 | 332,758 | 75,577 |
| Undrw expenses paid | 178,168 | 172,554 | 5,614 |
| Underwriting cash flow | -62,925 | 16,624 | -79,550 |
| Investment income | 43,152 | 47,633 | -4,481 |
| Other income/expense | 746 | -1,714 | 2,460 |
| Pre-tax cash operations | -19,028 | 62,543 | -81,571 |
| Income taxes pd (recov) | -5,103 | 14,694 | -19,797 |
| Net oper cash flow | -13,924 | 47,849 | -61,773 |