



American National Insurance Company and Subsidiaries Financial Statements

2007

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except for per share data)

	2007	2006	2005
PREMIUMS AND OTHER REVENUE			
Premiums:			
Life.....	\$ 324,646	\$ 336,690	\$ 333,496
Annuity.....	222,748	112,455	64,660
Accident and health.....	283,765	303,285	338,437
Property and casualty.....	1,177,217	1,234,300	1,248,153
Other policy revenues.....	155,230	139,605	131,309
Net investment income.....	813,745	836,665	788,523
Realized gains on investments.....	46,499	100,295	85,077
Other income.....	47,257	51,136	55,819
Total revenues.....	3,071,107	3,114,431	3,045,474
BENEFITS AND EXPENSES			
Death and other benefits:			
Life.....	242,017	251,097	247,557
Annuity.....	150,318	130,830	112,523
Accident and health.....	212,692	227,329	249,877
Property and casualty.....	818,230	881,806	947,438
Increase (decrease) in liability for future policy benefits:			
Life.....	34,348	32,209	22,683
Annuity.....	99,560	4,554	(25,269)
Accident and health.....	(2,852)	(10,554)	(7,307)
Interest credited to policy account balances.....	295,894	297,551	292,074
Commissions for acquiring and servicing policies.....	456,537	423,291	437,614
Other operating costs and expenses.....	404,149	389,217	373,299
Taxes, licenses and fees.....	58,760	61,838	59,798
Decrease (increase) in deferred policy acquisition costs.....	(60,338)	8,501	(25,066)
Minority interest and participating policyholders' share of operations.....	18,763	19,085	23,146
Total benefits and expenses.....	2,728,078	2,716,754	2,708,367
Income from operations before equity in earnings of unconsolidated affiliates and federal income taxes.....	343,029	397,677	337,107
Equity in earnings of unconsolidated affiliates.....	5,947	7,220	5,762
Income from operations before federal income taxes.....	348,976	404,897	342,869
Provision (benefit) for federal income taxes:			
Current.....	82,664	121,082	114,772
Deferred.....	25,539	10,584	(7,782)
Net income.....	\$ 240,773	\$ 273,231	\$ 235,879
Net income per common share – basic.....	\$ 9.09	\$ 10.32	\$ 8.91
Net income per common share – diluted.....	\$ 9.04	\$ 10.27	\$ 8.87

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In thousands)

	December 31, 2007	December 31, 2006
ASSETS		
Investments, other than investments in unconsolidated affiliates:		
Debt securities:		
Bonds held-to-maturity, at amortized cost.....	\$ 6,692,447	\$ 6,789,250
Bonds available-for-sale, at market.....	3,837,988	3,465,405
Marketable equity securities, at market:		
Preferred stocks.....	78,885	70,931
Common stocks.....	1,194,982	1,156,147
Mortgage loans on real estate.....	1,547,207	1,379,344
Policy loans.....	346,002	338,855
Investment real estate, net of accumulated depreciation of \$173,520 and \$166,140.....	477,458	505,623
Short-term investments.....	698,262	714,200
Other invested assets.....	89,791	106,478
Total investments.....	14,963,022	14,526,233
Cash.....	134,069	214,877
Investments in unconsolidated affiliates.....	119,856	69,083
Accrued investment income.....	182,849	174,287
Reinsurance ceded receivables.....	438,066	468,615
Prepaid reinsurance premiums.....	66,772	77,243
Premiums due and other receivables.....	286,600	296,152
Deferred policy acquisition costs.....	1,251,285	1,187,879
Property and equipment, net.....	84,403	81,433
Other assets.....	156,787	187,971
Separate account assets.....	781,160	649,571
Total assets.....	\$ 18,464,869	\$ 17,933,344
LIABILITIES		
Policyholder funds:		
Future policy benefits:		
Life.....	\$ 2,384,818	\$ 2,341,420
Annuity.....	654,595	524,119
Accident and health.....	94,072	98,036
Policy account balances.....	7,636,617	7,513,006
Policy and contract claims.....	1,335,742	1,396,414
Participating policyholder share.....	172,206	167,010
Other policyholder funds.....	977,408	987,092
Total policyholder liabilities.....	13,255,458	13,027,097
Current federal income taxes.....	(3,145)	14,613
Deferred federal income taxes.....	96,104	69,234
Liability for retirement benefits.....	125,664	122,191
Notes payable.....	128,799	124,075
Other liabilities.....	339,506	344,928
Minority interests in subsidiaries.....	4,539	6,012
Separate account liabilities.....	781,160	649,571
Total liabilities.....	14,728,085	14,357,721
STOCKHOLDERS' EQUITY		
Capital stock.....	30,832	30,832
Additional paid-in capital.....	6,080	4,160
Accumulated other comprehensive income.....	145,972	141,869
Retained earnings.....	3,653,365	3,498,306
Treasury stock, at cost.....	(99,465)	(99,544)
Total stockholders' equity.....	3,736,784	3,575,623
Total liabilities and stockholders' equity.....	\$ 18,464,869	\$ 17,933,344

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(In thousands, except for per share data)

	2007	2006	2005
COMMON STOCK			
Balance at beginning and end of year	\$ 30,832	\$ 30,832	\$ 30,832
ADDITIONAL PAID-IN CAPITAL			
Balance at beginning of year.....	4,160	2,212	1,698
Issuance of treasury shares as restricted stock.....	(79)	—	(1,139)
Amortization of restricted stock.....	1,999	1,948	1,653
Balance at end of year.....	6,080	4,160	2,212
ACCUMULATED OTHER COMPREHENSIVE INCOME			
Balance at beginning of year.....	141,869	139,024	214,755
Change in unrealized gains on marketable securities, net.....	268	28,935	(66,956)
Foreign exchange adjustments.....	(17)	36	87
Pension related changes other than net periodic pension cost.....	3,852	8,497	(8,862)
Effect of FAS158 implementation on pension liability, net of tax.....	—	(34,623)	—
Balance at end of year.....	145,972	141,869	139,024
RETAINED EARNINGS			
Balance at beginning of year.....	3,498,306	3,305,523	3,149,156
Net income.....	240,773	273,231	235,879
Cash dividends to common stockholders (\$3.05, \$3.01 and \$2.97 per share).....	(81,531)	(80,448)	(79,315)
Cash dividends to minority stockholders of subsidiaries.....	—	—	(37)
Redemption premium on subsidiary preferred stock.....	—	—	(160)
FIN 48 Implementation.....	(4,183)	—	—
Balance at end of year.....	3,653,365	3,498,306	3,305,523
TREASURY STOCK			
Balance at beginning of year.....	(99,544)	(99,544)	(100,683)
Net issuance of restricted stock.....	79	—	1,139
Balance at end of year.....	(99,465)	(99,544)	(99,544)
STOCKHOLDERS' EQUITY			
Balance at end of year.....	\$ 3,736,784	\$ 3,575,623	\$ 3,378,047

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	2007	2006	2005
Net income.....	\$ 240,773	\$ 273,231	\$ 235,879
Other comprehensive income (loss)			
Change in unrealized gains on marketable securities, net.....	268	28,935	(66,956)
Foreign exchange adjustments.....	(17)	36	87
Pension related changes other than net periodic pension cost.....	3,852	8,497	(8,862)
Total other comprehensive income (loss)	4,103	37,468	(75,731)
Total comprehensive income	\$ 244,876	\$ 310,699	\$ 160,148

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	2007	2006	2005
OPERATING ACTIVITIES			
Net income.....	\$ 240,773	\$ 273,231	\$ 235,879
Adjustments to reconcile net income to net cash provided by operating activities:			
Increase in liabilities for policyholders' funds.....	81,961	95,443	216,075
Decrease in reinsurance ceded receivable.....	30,549	25,320	4,461
Charges to policy account balances.....	(146,555)	(137,802)	(130,219)
Interest credited to policy account balances.....	295,894	297,551	292,074
Deferral of policy acquisition costs.....	(465,362)	(411,141)	(424,550)
Amortization of deferred policy acquisition costs.....	405,024	419,642	399,481
Deferred federal income tax benefit.....	25,539	10,584	(7,782)
Depreciation.....	35,327	38,146	15,046
Accrual and amortization of discounts and premiums.....	15,619	983	6,063
Gain from sale or disposal of investments, net.....	(46,499)	(100,295)	(85,077)
Equity in earnings of unconsolidated affiliates.....	(5,947)	(7,220)	(5,762)
Decrease (increase) in premiums receivable.....	9,552	(17,082)	(28,184)
Decrease (increase) in accrued investment income.....	(8,562)	11,523	(2,985)
Increase to liability for retirement benefits.....	5,963	22,774	20,448
Other changes (net).....	(10,363)	(18,164)	(57,871)
Net cash provided by operating activities	462,913	503,493	447,097
INVESTING ACTIVITIES			
Proceeds from sale or maturity of investments:			
Bonds.....	902,979	1,051,636	1,317,935
Stocks.....	277,429	191,001	242,015
Real estate.....	84,744	153,101	67,155
Other invested assets.....	104,743	94,562	69,266
Principal payments received on:			
Mortgage loans.....	223,956	157,474	207,065
Policy loans.....	5,472	13,085	11,039
Purchases of investments:			
Bonds.....	(1,142,453)	(648,741)	(1,843,744)
Stocks.....	(364,352)	(228,292)	(215,231)
Real estate.....	(46,295)	(2,157)	(15,686)
Mortgage loans.....	(386,137)	(323,207)	(311,768)
Policy loans.....	(10,237)	(20,589)	(19,278)
Other invested assets.....	(50,115)	(22,294)	(101,180)
Decrease (increase) in short-term investments (net).....	19,881	(558,578)	(106,786)
Decrease (increase) in investment in unconsolidated affiliates (net).....	(44,826)	915	(679)
Increase in property and equipment (net).....	(11,459)	(6,752)	(17,730)
Net cash used in investing activities	(436,670)	(148,836)	(717,607)
FINANCING ACTIVITIES			
Policyholders' deposits to policy account balances.....	1,220,022	1,091,608	1,211,864
Policyholders' withdrawals from policy account balances.....	(1,250,266)	(1,195,408)	(925,664)
Increase (decrease) in notes payable.....	4,724	(14,959)	10,531
Dividends to stockholders.....	(81,531)	(80,448)	(79,352)
Net cash provided by (used in) financing activities.....	(107,051)	(199,207)	217,379
NET INCREASE (DECREASE) IN CASH.....	(80,808)	155,450	(53,131)
Cash:			
Beginning of the year.....	214,877	59,427	112,558
End of the year.....	\$ 134,069	\$ 214,877	\$ 59,427

See accompanying notes to consolidated financial statements.

I NATURE OF OPERATIONS

American National Insurance Company and its consolidated subsidiaries (collectively "American National") operate primarily in the insurance industry. Operating on a multiple product line basis, American National offers a broad line of insurance coverages, including individual and group life, health, and annuities; personal lines property and casualty; and credit insurance. In addition, through non-insurance subsidiaries, American National offers mutual funds and invests in real estate. The majority (97%) of revenues is generated by the insurance business. Business is conducted in all states and the District of Columbia, as well as Puerto Rico, Guam and American Samoa. Through a subsidiary, American National also conducts business in Mexico. Various distribution systems are utilized, including home service, multiple line, 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 U.S. Generally Accepted Accounting Principles (GAAP). GAAP for insurance companies differs from the basis of accounting followed in reporting to insurance regulatory authorities.

Certain reclassifications have been made to the 2006 and 2005 financial information to conform to the 2007 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 results reported using those estimates.

ACCOUNTING CHANGES

Stock-based compensation

Financial Accounting Standard (FAS) No. 123 (revised), "Share-Based Payment" was issued in December of 2004. This statement revises the original requirements of FAS No. 123 "Accounting for Stock Based Compensation" to require the recognition of an expense for the cost of services received in exchange for the award of equity based instruments. The expense is to be recognized over the period during which the service must be provided in exchange for the award. This statement is effective as of the beginning of the first fiscal year after June 15, 2005. American National adopted the expensing of share-based payments when the original FAS No. 123 was issued in 1995 and the adoption of the revision on January 1, 2006 did not have a material impact on American National's financial statements.

Accounting changes and error corrections

FAS No. 154, "Accounting Changes and Error Corrections, a Replacement of APB Opinion No. 20 and FASB Statement No. 3" was issued in May of 2005. FAS 154 establishes, unless impracticable, retrospective application as the required method for reporting a voluntary change in accounting principle, or in the absence of explicit transition requirements, for a newly adopted accounting principle. The adoption of this statement on January 1, 2006 did not have a material impact on American National's financial statements.

Pension plan accounting and reporting

FAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" was issued in September of 2006. This statement requires employers to recognize, on the statement of financial position, the overfunded or underfunded status of a defined benefit postretirement plan, measured as the difference between the fair value of plan assets and the benefit obligation. Employers must also recognize as a component of other comprehensive income, net of tax, the actuarial and experience gains and losses and the prior service costs and credits. This statement was effective for public entities for years ending after December 15, 2006. American National adopted this statement as of December 31, 2006. The adoption of this statement did not have a material impact on American National's financial statements.

Accounting for deferred acquisition costs

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

Accounting for hybrid financial instruments

FAS No. 155, "Accounting for Certain Hybrid Financial Instruments – an amendment of FASB Statements No. 133 and 140" was issued in February of 2006. FAS 155 amends FAS 133, "Accounting for Derivative Instruments and Hedging Activities" and FAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." FAS 155 (i) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, (ii) clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS 133, (iii) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, (iv) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and (v) amends SFAS 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. The adoption of FAS 155 on January 1, 2007 did not have a material impact on American National's financial statements.

Accounting for uncertainty in income taxes

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

Fair Value

In September 2006, the Financial Accounting Standards Board issued FAS No. 157, "Fair Value Measurements" (FAS 157). This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and requires additional disclosures about fair value measurements. Application of this statement to nonfinancial assets and liabilities is required for fiscal years beginning after November 15, 2008. Early adoption of this statement for all fair value measurements is permitted for fiscal years beginning after November 15, 2007. American National adopted FAS No. 157 on January 1, 2008. The adoption of FAS No. 157 did not have a material impact on American National's consolidated financial statements.

In February 2007, the Financial Accounting Standards Board issued FAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115" (FAS 159). This statement permits measuring many financial instruments and certain other items at fair value. This statement is effective for fiscal years beginning after November 15, 2007. American National adopted FAS No. 159 on January 1, 2008. The adoption of FAS No. 159 did not have a material impact on American National's consolidated financial statements.

Accounting for noncontrolling interests

In December 2007, the Financial Accounting Standards Board issued FAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51" (FAS 160). This statement requires changes to the reporting of noncontrolling interests in consolidated financial statements. This statement is effective for fiscal years beginning on or after December 15, 2008, with early adoption prohibited. American National is currently assessing the impact of FAS No. 160.

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, 2007 and 2006 was immaterial.

CASH AND CASH EQUIVALENTS

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

INVESTMENTS IN UNCONSOLIDATED AFFILIATES

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

PROPERTY AND EQUIPMENT

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

FOREIGN CURRENCIES

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

INSURANCE SPECIFIC ASSETS AND LIABILITIES

Deferred policy acquisition costs

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

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

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

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

Future policy benefits

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

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

RECOGNITION OF PREMIUM REVENUE AND POLICY BENEFITS

Traditional ordinary life and health

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

Annuities

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

Universal life and single premium whole life

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

Property and casualty

Property/casualty premiums are recognized as revenue proportionately over the contract period. Policy benefits consist of actual claims and the change in reserves for losses and loss adjustment expenses. The reserves for losses and loss adjustment expenses are estimates of future payments of reported and unreported claims and the related expenses with respect to insured events that have occurred. These reserves are calculated using 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, 2007. 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 8.2% of the life insurance in force at December 31, 2007 and 5.4% of life premiums in 2007. Of the total participating business, 69.7% 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 2007. Certain subsidiaries that are consolidated for financial reporting are not eligible to be included in the consolidated federal income tax return. Separate provisions for income taxes have been determined for these entities.

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

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

Interest expense is classified as "Other operating costs and expenses" in the Consolidated Statements of Income. Penalties, if applicable, are classified as current federal income taxes in the Consolidated Statements of Income.

STOCK-BASED COMPENSATION

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

SEPARATE ACCOUNT ASSETS AND LIABILITIES

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

December 31, 2007	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
DEBT SECURITIES				
Bonds held-to-maturity:				
U.S. Government and agencies	\$ 219,804	\$ 1,444	\$ (312)	\$ 220,936
States and political subdivisions	228,122	4,052	(469)	231,705
Foreign governments	5,868	664	—	6,532
Public utilities	411,353	5,985	(4,457)	412,881
All other corporate bonds	5,122,513	89,488	(96,508)	5,115,493
Mortgage-backed securities	704,787	4,542	(11,703)	697,626
Total bonds held-to-maturity	6,692,447	106,175	(113,449)	6,685,173
Bonds available-for-sale:				
U.S. Government and agencies	30,616	501	—	31,117
States and political subdivisions	416,425	3,830	(512)	419,743
Foreign governments	800	—	(23)	777
Public utilities	192,333	8,714	(1,604)	199,443
All other corporate bonds	2,784,555	35,486	(83,992)	2,736,049
Mortgage-backed securities	458,553	2,966	(10,660)	450,859
Total bonds available-for-sale	3,883,282	51,497	(96,791)	3,837,988
Total debt securities	10,575,729	157,672	(210,240)	10,523,161
MARKETABLE EQUITY SECURITIES				
Preferred stock	87,422	1,742	(10,279)	78,885
Common stock	866,371	375,402	(46,791)	1,194,982
Total marketable equity securities.....	953,793	377,144	(57,070)	1,273,867
Total investments in securities.....	\$ 11,529,522	\$ 534,816	\$ (267,310)	\$ 11,797,028
December 31, 2006	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
DEBT SECURITIES				
Bonds held-to-maturity:				
U.S. Government and agencies	\$ 249,294	\$ 124	\$ (6,387)	\$ 243,031
States and political subdivisions	213,993	3,512	(1,166)	216,339
Foreign governments	5,910	568	—	6,478
Public utilities	456,818	5,958	(7,684)	455,092
All other corporate bonds	5,122,533	67,439	(101,608)	5,088,364
Mortgage-backed securities	740,702	2,501	(13,702)	729,501
Total bonds held-to-maturity	6,789,250	80,102	(130,547)	6,738,805
Bonds available-for-sale:				
U.S. Government and agencies	61,540	259	(721)	61,078
States and political subdivisions	293,136	2,062	(1,734)	293,464
Foreign governments	811	—	(22)	789
Public utilities	196,913	8,391	(3,685)	201,619
All other corporate bonds	2,503,262	21,941	(57,954)	2,467,249
Mortgage-backed securities	450,594	1,775	(11,163)	441,206
Total bonds available-for-sale	3,506,256	34,428	(75,279)	3,465,405
Total debt securities	10,295,506	114,530	(205,826)	10,204,210
MARKETABLE EQUITY SECURITIES				
Preferred stock	69,924	1,892	(885)	70,931
Common stock	838,697	344,091	(26,641)	1,156,147
Total marketable equity securities.....	908,621	345,983	(27,526)	1,227,078
Total investments in securities.....	\$ 11,204,127	\$ 460,513	\$ (233,352)	\$ 11,431,288

DEBT SECURITIES

The amortized cost and estimated fair value, by contractual maturity, of debt securities at December 31, 2007, are shown below (in thousands). Expected maturities will differ from contractual maturities, because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Bonds Held-to-Maturity		Bonds Available-for-Sale	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less.....	\$ 320,762	\$ 322,051	\$ 110,800	\$ 114,886
Due after one year through five years.....	1,996,045	2,029,972	1,057,639	1,055,774
Due after five years through ten years.....	3,140,202	3,107,573	2,111,861	2,065,782
Due after ten years.....	530,749	528,124	129,179	135,618
	5,987,758	5,987,720	3,409,479	3,372,060
Without single maturity date.....	704,689	697,453	473,803	465,928
	\$ 6,692,447	\$ 6,685,173	\$ 3,883,282	\$ 3,837,988

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 below (in thousands).

	2007	2006	2005
Proceeds from sales of available-for-sale securities.....	\$ 166,493	\$ 425,033	\$ 308,763
Gross gains realized.....	34,033	73,541	67,384
Gross losses realized.....	2,069	8,040	4,408
Proceeds from bonds called or otherwise redeemed by the issuer.....	\$ 769,068	\$ 773,399	\$ 1,251,187
Gross gains realized.....	3,973	9,781	7,255
Gross losses realized.....	4,492	557	420

In 2007, securities with an amortized cost of \$27,239,000 were transferred from held-to-maturity to available-for-sale due to evidence of a significant deterioration in the issuers' creditworthiness. An unrealized loss of \$98,000 was established at the time of the transfer.

In 2006, securities with an amortized cost of \$69,631,000 were transferred from held-to-maturity to available-for-sale due to evidence of a significant deterioration in the issuers' creditworthiness. An unrealized loss of \$6,822,000 was established at the time of the transfer.

In 2005, securities with an amortized cost of \$28,014,000 were transferred from held-to-maturity to available-for-sale due to evidence of a significant deterioration in the issuers' creditworthiness. At the time of the transfer, no unrealized gain or loss was recognized.

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

In accordance with various government and state regulations, American National and its insurance subsidiaries had bonds with an amortized value of \$55,109,000 at December 31, 2007, on deposit with appropriate regulatory authorities.

UNREALIZED GAINS AND LOSSES ON SECURITIES

Unrealized gains on marketable equity securities and bonds available-for-sale, presented in the stockholder's equity section of the consolidated statements of financial position, are net of deferred tax liabilities of \$101,244,000, \$101,114,000, and \$84,925,000 for 2007, 2006, and 2005 respectively.

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

	2007	2006	2005
Bonds available-for-sale.....	\$ (4,443)	\$ (38,062)	\$ (79,308)
Preferred stocks.....	(9,544)	150	1,748
Common stocks.....	11,161	70,520	(52,753)
Index options.....	—	—	75
Amortization of deferred policy acquisition costs.....	3,080	13,675	24,544
	254	46,283	(105,694)
Provision for federal income taxes.....	(130)	(16,189)	36,894
	\$ 124	\$ 30,094	\$ (68,800)
Change in unrealized gains of investments attributable to participating policyholders' interest.....	144	(1,159)	1,844
Total.....	\$ 268	\$ 28,935	\$ (66,956)

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 are summarized as follows (in thousands):

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

December 31, 2006	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	\$ 2,860	\$ 85,999	\$ 3,527	\$ 140,028	\$ 6,387	\$ 226,027
States and political subdivisions	42	160,064	1,124	54,089	1,166	214,153
Public utilities	809	84,292	6,875	177,338	7,684	261,630
All other corporate bonds	4,951	589,254	96,657	2,876,138	101,608	3,465,392
Mortgage-backed securities.....	730	109,273	12,972	513,568	13,702	622,841
Total held-to-maturity	9,392	1,028,882	121,155	3,761,161	130,547	4,790,043
Bonds available-for-sale:						
U.S. Government and agencies	484	46,448	237	14,527	721	60,975
States and political subdivisions	110	135,118	1,624	141,488	1,734	276,606
Foreign governments	—	—	22	789	22	789
Public utilities	(1,692)	1,417	5,377	123,381	3,685	124,798
All other corporate bonds	4,296	428,920	53,658	1,665,177	57,954	2,094,097
Mortgage-backed securities.....	52	34,967	11,111	359,931	11,163	394,898
Total available-for-sale	3,250	646,870	72,029	2,305,293	75,279	2,952,163
Total debt securities.....	12,642	1,675,752	193,184	6,066,454	205,826	7,742,206
Marketable equity securities:						
Preferred stock	885	60,226	—	—	885	60,226
Common stock.....	26,641	360,457	—	—	26,641	360,457
Total marketable equity securities.....	27,526	420,683	—	—	27,526	420,683
Total investments in securities	\$ 40,168	\$ 2,096,435	\$ 193,184	\$ 6,066,454	\$ 233,352	\$ 8,162,889

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 fair 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, 2007, mortgage loans have fixed rates from 5.15% to 12.00% and variable rates from 5.75% to 9.00%. The majority of the mortgage loan contracts require periodic payments of both principal and interest, and have amortization periods of 3 years to 30 years.

American National has investments in first lien mortgage loans on real estate with carried values of \$1,547,207,000 and \$1,379,344,000 at December 31, 2007 and 2006, respectively. Problem loans, on which valuation allowances were established, totaled \$9,394,000 and \$9,693,000 at December 31, 2007 and 2006, respectively. The valuation allowances on those loans totaled \$1,053,000 at both December 31, 2007 and 2006.

POLICY LOANS

All of American National's policy loans carried interest rates ranging from 4.00% to 8.00% at December 31, 2007.

INVESTMENT INCOME AND REALIZED GAINS (LOSSES)

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

	Investment Income			Gains (Losses) on Investments		
	2007	2006	2005	2007	2006	2005
Bonds	\$ 620,035	\$ 610,268	\$ 590,117	\$ 366	\$ 3,192	\$ (8,737)
Preferred stocks	4,561	3,356	3,107	—	(6)	110
Common stocks	27,002	28,641	23,457	23,913	62,872	64,805
Mortgage loans.....	103,627	104,052	100,727	—	—	—
Real estate	126,926	151,099	107,725	24,035	26,888	9,510
Other invested assets	41,770	57,034	63,386	(40)	92	17,480
Investment in unconsolidated affiliates	—	—	—	—	—	—
	923,921	954,450	888,519	48,274	93,038	83,168
Investment expenses	(110,176)	(117,785)	(99,996)	—	—	—
Decrease (increase) in valuation allowances.....	—	—	—	(1,775)	7,257	1,909
	\$813,745	\$836,665	\$788,523	\$ 46,499	\$100,295	\$ 85,077

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 \$7,166,000 in 2007, \$8,667,000 in 2006, and \$13,633,000 in 2005.

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 at right:

	2007	2006
AAA	20%	20%
AA	10%	10%
A	36%	40%
BBB	29%	26%
BB	2%	2%
Below BB	3%	2%
	100%	100%

COMMON STOCK

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

	2007	2006
Materials	3%	3%
Industrials	8%	9%
Consumer goods	19%	18%
Energy and utilities	13%	11%
Financials	24%	28%
Information technology	13%	11%
Health care	11%	10%
Communications	3%	4%
Mutual funds	6%	6%
	100%	100%

MORTGAGE LOANS AND INVESTMENT REAL ESTATE

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

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

	Mortgage Loans		Investment Real Estate	
	2007	2006	2007	2006
Office buildings	25%	24%	20%	20%
Shopping centers	24%	30%	23%	21%
Commercial	9%	7%	1%	2%
Hotels/motels	15%	17%	2%	2%
Industrial	24%	19%	43%	44%
Other	3%	3%	11%	11%
	100%	100%	100%	100%

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

	Mortgage Loans		Investment Real Estate	
	2007	2006	2007	2006
New England	7%	7%	—	—
Middle Atlantic	11%	10%	—	—
East North Central	15%	13%	6%	10%
West North Central	3%	2%	2%	1%
South Atlantic	16%	12%	17%	17%
East South Central	4%	5%	11%	11%
West South Central	23%	28%	60%	58%
Mountain	5%	6%	1%	1%
Pacific	16%	17%	3%	2%
	100%	100%	100%	100%

5 FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair 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 fair 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, because the policy loans cannot be separated from the policy contract.

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 fair value.

NOTES PAYABLE

The carrying amount for notes payable approximates their fair value.

INVESTMENT COMMITMENTS

American National's investment commitments are all short-term in duration, and the fair value was not significant at December 31, 2007 or 2006.

VALUES:

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

	2007		2006	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
FINANCIAL ASSETS				
Bonds:				
Held-to-maturity	\$ 6,692,447	\$ 6,685,173	\$ 6,789,250	\$ 6,738,805
Available-for-sale	3,837,988	3,837,988	3,465,405	3,465,405
Preferred stock	78,885	78,885	70,931	70,931
Common stock	1,194,982	1,194,982	1,156,147	1,156,147
Mortgage loans on real estate	1,547,207	1,549,488	1,379,344	1,390,372
Policy loans	346,002	346,002	338,855	338,855
Short-term investments	698,262	698,262	714,200	714,200
FINANCIAL LIABILITIES				
Investment contracts	5,927,300	5,927,300	5,841,358	5,841,358
Notes payable	128,799	128,799	124,075	124,075

6 DEFERRED POLICY ACQUISITION COSTS

Deferred policy acquisition costs and premiums for the years ended December 31, 2007, 2006, and 2005 are summarized as follows (in thousands):

	Life and Annuity	Accident and Health	Property and Casualty	Total
Balance at December 31, 2004	\$ 934,860	\$ 92,883	\$ 105,288	\$ 1,133,031
Additions.....	170,016	17,830	236,704	424,550
Amortization.....	(154,296)	(18,917)	(226,268)	(399,481)
Effect of change in unrealized gains on available-for-sale securities.....	24,544	—	—	24,544
Net change.....	40,264	(1,087)	10,436	49,613
Foreign exchange effect.....	69	—	—	69
Balance at December 31, 2005	\$ 975,193	\$ 91,796	\$ 115,724	\$ 1,182,713
Additions.....	151,023	16,799	243,319	411,141
Amortization.....	(158,848)	(22,929)	(237,865)	(419,642)
Effect of change in unrealized gains on available-for-sale securities.....	13,675	—	—	13,675
Net change.....	5,850	(6,130)	5,454	5,174
Foreign exchange effect.....	(8)	—	—	(8)
Balance at December 31, 2006	\$ 981,035	\$ 85,666	\$ 121,178	\$ 1,187,879
Additions.....	216,660	18,735	232,138	467,533
Amortization.....	(156,017)	(24,508)	(224,499)	(405,024)
Effect of change in unrealized gains on available-for-sale securities.....	3,080	—	—	3,080
Net change.....	63,723	(5,773)	7,639	65,589
Acquisitions.....	(2,170)	—	—	(2,170)
Foreign exchange effect.....	(13)	—	—	(13)
Balance at December 31, 2007	\$ 1,042,575	\$ 79,893	\$ 128,817	\$ 1,251,285
2007 premiums	\$ 547,394	\$ 283,765	\$ 1,177,217	\$ 2,008,376
2006 premiums	\$ 449,145	\$ 303,285	\$ 1,234,300	\$ 1,986,730
2005 premiums	\$ 398,156	\$ 338,437	\$ 1,248,153	\$ 1,984,746

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

Acquisitions relate to the purchase of various insurance portfolios under assumption reinsurance agreements.

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

7 FUTURE POLICY BENEFITS AND POLICY ACCOUNT BALANCES

LIFE INSURANCE

Assumptions used in the calculation of future policy benefits or policy account balances for life policies are as follows:

Policy Issue Year	Interest Rate	Percentage of Future Policy Benefits So Valued
Ordinary		
2006+	Level rate of 6%	1%
1996-2005	7.5% for years 1 through 5, graded to 5.5% at the end of year 25, and level thereafter	10%
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	5%
1972-1975	6% for years 1 through 5, graded to 4% at the end of year 25, and level thereafter	3%
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	4%
1947 and prior	Statutory rates of 3% or 3.5%	1%
Participating business acquired	Level rates of 2.5% to 6%	9%
Industrial		
1948-1979	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	36%
		100%

Future policy benefits for group life policies have been calculated using level interest rates ranging from 3% to 5.5%. 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 5%. 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 graded interest rates ranging from 3.5% to 8%. Morbidity and termination assumptions are based on American National's experience.

8 LIABILITY FOR UNPAID CLAIMS AND CLAIM ADJUSTMENT EXPENSES

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

	2007	2006	2005
Balance at January 1	\$ 1,308,603	\$ 1,359,452	\$ 1,275,405
Less reinsurance recoverables	421,737	454,872	455,395
Net beginning balance	886,866	904,580	820,010
Incurred related to:			
Current year	1,073,249	1,085,736	1,191,939
Prior years	(93,524)	(29,238)	(70,435)
Total incurred	979,725	1,056,498	1,121,504
Paid related to:			
Current year	636,234	645,777	706,105
Prior years	336,799	428,435	330,829
Total paid	973,033	1,074,212	1,036,934
Net balance at December 31	893,558	886,866	904,580
Plus reinsurance recoverables	363,140	421,737	454,872
Balance at December 31	\$ 1,256,698	\$ 1,308,603	\$ 1,359,452

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

Estimates for ultimate incurred losses and loss adjustment expenses attributable to insured events of prior years has decreased by approximately \$94,000,000 in 2007 and \$29,000,000 in 2006 as a result of reestimation of unpaid losses and loss adjustment expenses. This change is generally the result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

9 REINSURANCE

As is customary in the insurance industry, 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 \$2,444,000.

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, 2007, amounts recoverable from reinsurers with a carrying value of \$38,502,912 were associated with various auto dealer credit insurance program reinsurers domiciled in the Caribbean islands of Nevis or the Turks and Caicos Islands. American National holds collateral related to these reinsurers totaling \$36,727,326. This collateral is in the form of custodial accounts controlled by the company, which can be drawn on for amounts that remain unpaid for more than 90 days. American National believes that the failure of any single reinsurer to meet its obligations would not have a significant effect on its financial position or results of operations.

American National had amounts receivable from reinsurers totaling \$438,066,000 at December 31, 2007. Of this total, \$19,400,000 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.

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

	2007	2006	2005
Direct premiums.....	\$ 2,134,669	\$ 2,117,722	\$ 2,123,294
Reinsurance premiums assumed from other companies.....	176,357	198,116	199,835
Reinsurance premiums ceded to other companies.....	(302,650)	(329,108)	(338,383)
Net premiums.....	\$ 2,008,376	\$ 1,986,730	\$ 1,984,746
Reinsurance recoveries.....	\$ 198,553	\$ 591,731	\$ 373,579

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

	2007	2006	2005
Direct life insurance in force.....	\$ 67,604,695	\$ 65,008,408	\$ 63,194,458
Reinsurance risks assumed from other companies.....	1,078,371	982,412	856,414
Total life insurance in force.....	68,683,066	65,990,820	64,050,872
Reinsurance risks ceded to other companies.....	(29,635,648)	(26,557,877)	(23,903,319)
Net life insurance in force.....	\$ 39,047,418	\$ 39,432,943	\$ 40,147,553

10 NOTES PAYABLE

At December 31, 2007, American National's real estate holding companies were partners in affiliates that had notes payable to third-party lenders totaling \$128,799,000. These notes have interest rates ranging from 5.15% to 8.07% and maturities from 2008 to 2014. Each of these notes is secured by the real estate owned through the respective affiliated entity, and American National's liability for these notes is limited to the amount of its investment in the respective affiliate, which totaled \$18,950,000 at December 31, 2007.

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 follows (in thousands, except percentages):

	2007			2006			2005		
	Amount	Rate	%	Amount	Rate	%	Amount	Rate	%
Income tax on pre-tax income.....	\$ 122,141	35.00	%	\$ 141,714	35.00	%	\$ 120,004	35.00	%
Tax-exempt investment income	(6,360)	(1.82)		(5,187)	(1.28)		(4,652)	(1.36)	
Dividend exclusion	(6,589)	(1.89)		(7,028)	(1.74)		(5,797)	(1.69)	
Miscellaneous tax credits, net.....	(3,862)	(1.11)		(2,284)	(0.56)		(1,099)	(0.32)	
Losses on foreign operations	—	—		1,967	0.49		2,526	0.74	
Other items, net	2,872	0.82		2,484	0.61		(3,992)	(1.16)	
	\$ 108,202	31.00	%	\$ 131,666	32.52	%	\$ 106,990	31.21	%

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2007 and December 31, 2006 are as follows (in thousands):

	2007	2006
DEFERRED TAX ASSETS		
Marketable securities, principally due to impairment losses.....	\$ 26,875	\$ 28,518
Investment in real estate and other invested assets, principally due to investment valuation allowances.....	9,614	9,712
Policyholder funds, principally due to policy reserve discount.....	201,702	207,265
Policyholder funds, principally due to unearned premium reserve.....	31,066	36,638
Non-qualified pension.....	25,693	23,377
Participating policyholders' surplus.....	32,198	30,356
Non-taxable pension.....	18,127	18,681
Other assets.....	7,018	4,430
Net deferred tax assets.....	\$ 352,293	\$ 358,977
DEFERRED TAX LIABILITIES		
Marketable securities, principally due to net unrealized gains	\$ (96,441)	\$ (97,389)
Investment in bonds, principally due to accrual of discount on bonds.....	(13,395)	(12,701)
Deferred policy acquisition costs, due to difference between GAAP and tax amortization methods.....	(332,328)	(311,654)
Property, plant and equipment, principally due to difference between GAAP and tax depreciation method.....	(6,233)	(6,467)
Net deferred tax liabilities	(448,397)	(428,211)
Total deferred tax.....	\$ (96,104)	\$ (69,234)

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

Upon implementation of FASB No. 48, "Accounting for Uncertainty in Income Taxes," on January 1, 2007, American National decreased retained earnings approximately \$3,614,000 and increased its reserve for unrecognized tax benefits. The reserve is included with the "Other liabilities" in the Consolidated Statements of Financial Position. The change in the reserve during the year is as follows (in thousands):

	2007
UNRECOGNIZED TAX POSITIONS	
Balance at beginning of year	5,832
Tax positions from prior years	—
Current year tax positions	—
Settlements during the year	(1,214)
Lapse in statute of limitations	—
Balance at end of year	4,618

Interest expense of approximately \$791,000 has also been recognized in conjunction with the uncertain tax positions. Of this amount, approximately \$569,000 was charged to the beginning balance of retained earnings in the Consolidated Statements of Financial Position and approximately \$222,000 is included with the "Other operating costs and expenses" in the Consolidated Statements of Income. No provision was provided for penalties related to American National's uncertain tax positions.

Within the next twelve months, the reserve for unrecognized tax benefits is expected to decrease by approximately \$1,200,000 as a result of settlements and will have no impact on the company's effective tax rate. However, management believes that it is reasonably possible that certain tax benefits could be recognized within the next twelve months that would decrease the company's effective tax rate. The amount of such tax benefits is undeterminable at this time but would be immaterial to the company's financial position.

The statute of limitations for the examination of federal income tax returns by the Internal Revenue Service for years 2002 to 2006 has either been extended or has not expired. In the opinion of management, all prior year deficiencies have been paid or adequate provisions have been made for any tax deficiencies that may be upheld.

Federal income taxes totaling approximately \$101,333,000, \$126,494,000, and \$81,921,000 were paid to the Internal Revenue Service in 2007, 2006 and 2005, respectively.

12 COMPONENTS OF COMPREHENSIVE INCOME

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

	Before Federal Income Tax	Federal Income Tax Expense	Net of Federal Income Tax
December 31, 2007			
Unrealized losses	\$ (20,082)	\$ (7,029)	\$ (13,053)
Less reclassification adjustment for net gains realized in net income	20,494	7,173	13,321
Net unrealized gain component of comprehensive income	\$ 412	\$ 144	\$ 268
December 31, 2006			
Unrealized losses	\$ (21,145)	\$ (7,401)	\$ (13,744)
Less reclassification adjustment for net gains realized in net income	65,660	22,981	42,679
Net unrealized gain component of comprehensive income	\$ 44,515	\$ 15,580	\$ 28,935
December 31, 2005			
Unrealized losses	\$ (159,187)	\$ (55,715)	\$ (103,472)
Less reclassification adjustment for net gains realized in net income	56,178	19,662	36,516
Net unrealized loss component of comprehensive income	\$ (103,009)	\$ (36,053)	\$ (66,956)

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 follows:

COMMON STOCK	2007	2006	2005
Shares issued	30,832,449	30,832,449	30,832,449
Treasury shares	4,099,617	4,105,617	4,105,617
Restricted shares	253,000	247,000	247,000
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. Five awards of restricted stock have been granted, with a total of 234,000 shares granted at an exercise price of zero. These awards result in compensation expense to American National over the vesting period. The amount of compensation expense recorded was \$2,000,000 in 2007, \$1,948,000 in 2006, and \$1,654,000 in 2005.

The plan provides for the award of Stock Appreciation Rights (SAR). The SARs 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 \$1,874,000 and \$2,044,000 at December 31, 2007 and 2006, respectively. Compensation expense was recorded totaling \$1,376,000, \$560,000, and \$1,600,000 for the years ended December 31, 2007, 2006, and 2005, respectively.

SAR and Restricted Stock (RS) information for 2007, 2006 and 2005 follows:

	SAR Shares	SAR Weighted-Average Price per Share	RS Shares	RS Weighted-Average Price per Share
Outstanding at December 31, 2004	94,350	\$ 84.06	161,000	\$ 6.92
Granted	92,500	100.46	86,000	—
Exercised	(26,109)	81.27	—	—
Cancelled.....	(3,366)	89.85	—	—
Outstanding at December 31, 2005	157,375	\$ 94.04	247,000	\$ 4.51
Granted	2,500	119.25	—	—
Exercised	(22,713)	90.18	—	—
Cancelled.....	(4,463)	97.81	—	—
Outstanding at December 31, 2006	132,699	\$ 95.05	247,000	\$ 4.51
Granted	4,500	130.52	6,000	—
Exercised	(34,795)	91.36	—	—
Cancelled.....	(5,680)	98.20	—	—
Outstanding at December 31, 2007	96,724	\$ 97.83	253,000	\$ 4.40

The weighted-average contractual remaining life for the 96,724 SAR shares outstanding as of December 31, 2007, is 6.6 years. The weighted-average exercise price for these shares is \$91.36 per share. Of the shares outstanding, 38,703 are exercisable at a weighted-average exercise price of \$90.26 per share.

The weighted-average contractual remaining life for the 253,000 Restricted Stock shares outstanding as of December 31, 2007, is 5.0 years. The weighted-average exercise price for these shares is \$4.40 per share. None of the shares outstanding was exercisable.

EARNINGS PER SHARE

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

	2007	2006	2005
Unrestricted shares outstanding.....	26,479,832	26,479,832	26,479,832
Incremental shares from restricted stock.....	158,992	132,632	109,379
Total shares for diluted calculations.....	26,638,824	26,612,464	26,589,211
Diluted earnings per share.....	\$ 9.04	\$ 10.27	\$ 8.87

DIVIDENDS

American National's payment of dividends to stockholders is restricted by statutory regulations. Generally, the restrictions require life insurance companies to maintain minimum amounts of capital and surplus, and in the absence of special approval, limit the payment of dividends to statutory net gain from operations on an annual, non-cumulative basis. Additionally, insurance companies are not permitted to distribute the excess of stockholders' equity, as determined on a GAAP basis over that determined on a statutory basis. At December 31, 2007 American National's statutory capital and surplus was \$2,164,812,092.

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, 2007, approximately \$1,404,489,000 of American National's consolidated stockholders' equity represents net assets of its insurance subsidiaries. Any transfer of these net assets to American National would be subject to statutory restrictions and approval.

MINORITY INTERESTS

American National County Mutual Insurance Company (County Mutual) is a mutual insurance company that is owned by its policyholders. However, the company has a management agreement, which effectively gives complete control of County Mutual to American National. As a result, County Mutual is included in the consolidated financial statements. The interest that the policyholders of County Mutual have in the financial position of County Mutual is reflected as a minority interest totaling \$6,750,000 at December 31, 2007 and 2006.

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 \$2,211,000 and \$5,477,000 at December 31, 2007 and 2006, respectively.

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 was 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 were purchased from the officers by American National in 2007 and TMNY was subsequently dissolved. The total value of the preferred shares that were included in minority interests was \$4,739,000 at December 31, 2006.

14 SEGMENT INFORMATION

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

The operating segments are as follows:

INDEPENDENT MARKETING GROUP

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

CAREER SALES & SERVICE DIVISION

This segment derives its revenues from the sale of individual life, annuity and accident and health insurance. In this segment, the agent collects the premiums. This segment includes business in the United States and Mexico. In prior years, this segment was referred to as "Home Service Division."

MULTIPLE LINE

This segment derives its revenues from the sale of individual life, annuity, accident and health and property and casualty products marketed through American National, American National Life Insurance Company of Texas, the American National Property & Casualty Companies and the Farm Family Companies.

SENIOR AGE MARKETING

This segment derives its revenues primarily from the sale of Medicare Supplement plans, individual life, annuities and accident and 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.

HEALTH DIVISION

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

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.

The following tables summarize net income and various components of net income by operating segment for the years ended December 31, 2007, 2006, and 2005 (in thousands):

	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
2007							
Independent Marketing Group	\$ 266,761	\$ 348,773	\$ 578,737	\$ —	\$ 36,797	\$ 12,143	\$ 24,654
Career Sales & Service Division.....	202,611	101,937	290,870	—	13,678	4,514	9,164
Multiple Line	1,220,863	174,476	1,256,274	—	139,065	45,891	93,174
Senior Age Marketing.....	138,975	16,939	151,226	—	4,688	1,547	3,141
Direct Marketing.....	41,170	3,694	40,524	—	4,340	1,432	2,908
Credit Insurance Division.....	169,250	20,259	176,204	—	13,305	4,391	8,914
Health Division.....	128,862	3,308	132,863	—	(693)	(229)	(464)
Capital and Surplus	1,915	162,622	26,326	3,928	142,139	39,947	102,192
All Other	40,456	28,236	75,054	2,019	(4,343)	(1,433)	(2,910)
	\$ 2,210,863	\$ 860,244	\$ 2,728,078	\$ 5,947	\$ 348,976	\$ 108,203	\$ 240,773
2006							
Independent Marketing Group	\$ 148,517	\$ 337,494	\$ 460,698	\$ —	\$ 25,313	\$ 8,353	\$ 16,960
Career Sales & Service Division.....	207,145	101,890	292,086	—	16,949	5,593	11,356
Multiple Line	1,275,306	174,765	1,325,557	—	124,514	41,090	83,424
Senior Age Marketing.....	161,409	19,421	164,645	—	16,185	5,341	10,844
Direct Marketing.....	40,699	3,466	45,193	—	(1,028)	(339)	(689)
Credit Insurance Division.....	170,310	18,165	190,296	—	(1,821)	(601)	(1,220)
Health Division.....	135,063	3,562	141,369	—	(2,744)	(906)	(1,838)
Capital and Surplus	3,329	224,163	27,448	6,496	206,540	66,209	140,331
All Other	35,693	54,034	69,462	724	20,989	6,926	14,063
	\$ 2,177,471	\$ 936,960	\$ 2,716,754	\$ 7,220	\$ 404,897	\$ 131,666	\$ 273,231
2005							
Independent Marketing Group	\$ 97,212	\$ 330,997	\$ 392,779	\$ —	\$ 35,430	\$ 11,692	\$ 23,738
Career Sales & Service Division.....	208,162	105,477	295,234	—	18,405	6,074	12,331
Multiple Line	1,297,013	173,010	1,382,930	—	87,093	28,741	58,352
Senior Age Marketing.....	184,195	17,949	184,728	—	17,416	5,747	11,669
Direct Marketing.....	39,706	3,343	40,236	—	2,813	928	1,885
Credit Insurance Division.....	163,929	18,778	170,783	—	11,924	3,935	7,989
Health Division.....	141,008	3,827	144,779	—	56	18	38
Capital and Surplus	993	186,775	22,631	5,551	170,688	50,170	120,518
All Other	39,656	33,444	74,267	211	(956)	(315)	(641)
	\$ 2,171,874	\$ 873,600	\$ 2,708,367	\$ 5,762	\$ 342,869	\$ 106,990	\$ 235,879

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. The following table provides revenues within each segment by line of business for the years ended December 31, 2007, 2006, and 2005 (in thousands):

	Life	Annuity	Accident and Health	Property and Casualty	Credit	All Other	Total Revenues
2007							
Independent Marketing Group	\$ 64,802	\$ 550,732	\$ —	\$ —	\$ —	\$ —	\$ 615,534
Career Sales & Service Division	290,888	3,784	9,876	—	—	—	304,548
Multiple Line	204,237	38,121	14,152	1,138,829	—	—	1,395,339
Senior Age Marketing	23,475	5,269	125,307	—	—	1,863	155,914
Direct Marketing	44,576	89	199	—	—	—	44,864
Credit Insurance Division	—	—	—	—	189,509	—	189,509
Health Division	1,925	—	130,245	—	—	—	132,170
Capital and Surplus	—	—	—	—	—	164,537	164,537
All Other	23,593	14,191	2,050	—	—	28,858	68,692
	\$ 653,496	\$ 612,186	\$ 281,829	\$ 1,138,829	\$ 189,509	\$ 195,258	\$ 3,071,107

2006							
Independent Marketing Group	\$ 57,453	\$ 428,558	\$ —	\$ —	\$ —	\$ —	\$ 486,011
Career Sales & Service Division	294,890	10,551	3,594	—	—	—	309,035
Multiple Line	205,433	38,822	14,834	1,190,982	—	—	1,450,071
Senior Age Marketing	25,310	6,071	145,138	—	—	4,311	180,830
Direct Marketing	43,809	90	266	—	—	—	44,165
Credit Insurance Division	—	—	—	—	188,475	—	188,475
Health Division	2,708	—	135,917	—	—	—	138,625
Capital and Surplus	—	—	—	—	—	227,492	227,492
All Other	24,527	12,404	2,184	—	—	50,612	89,727
	\$ 654,130	\$ 496,496	\$ 301,933	\$ 1,190,982	\$ 188,475	\$ 282,415	\$ 3,114,431

2005							
Independent Marketing Group	\$ 57,831	\$ 370,378	\$ —	\$ —	\$ —	\$ —	\$ 428,209
Career Sales & Service Division	298,627	4,094	10,918	—	—	—	313,639
Multiple Line	204,862	37,326	15,578	1,212,257	—	—	1,470,023
Senior Age Marketing	25,403	3,556	172,405	—	—	780	202,144
Direct Marketing	42,683	103	263	—	—	—	43,049
Credit Insurance Division	—	—	—	—	182,707	—	182,707
Health Division	1,954	—	142,881	—	—	—	144,835
Capital and Surplus	—	—	—	—	—	187,768	187,768
All Other	26,624	12,941	2,831	—	—	30,704	73,100
	\$ 657,984	\$ 428,398	\$ 344,876	\$ 1,212,257	\$ 182,707	\$ 219,252	\$ 3,045,474

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.

The following table summarizes assets by operating segment for the years ended December 31, 2007 and 2006 (in thousands):

	2007	2006
Independent Marketing Group	\$ 7,238,849	\$ 6,915,329
Career Sales & Service Division	1,938,996	1,912,687
Multiple Line	4,179,068	4,167,801
Senior Age Marketing.....	394,293	405,756
Direct Marketing	132,921	127,335
Credit Insurance Division.....	480,742	503,310
Health Division.....	399,434	431,904
Capital and Surplus.....	2,841,313	2,603,611
All Other	859,253	865,611
	\$ 18,464,869	\$ 17,933,344

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.

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 large third-party marketing organizations. During 2007, no single customer or organization was responsible for more than 3% of total premium revenue and policy deposits. This compares with 4% in 2006 and 8% in 2005. Of the total business written by these organizations, the majority was policy account deposits for annuities.

15 RETIREMENT BENEFITS

PENSION BENEFITS

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

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

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

As discussed in note 2, effective December 31, 2006, American National adopted the recognition and disclosure provisions of FAS 158. Statement 158 requires companies to recognize the funded status of defined benefit pension and other postretirement plans as a net asset or liability on its balance sheet. The statement precludes prior period restatement, so although the 2007 and 2006 balances are comparable, they are not comparable with those shown for 2005.

American National uses a December 31 measurement date for its defined benefit plans. Combined activity in the defined benefit pension plans was as follows (in thousands):

	2007	2006	2005
Reconciliation of benefit obligation			
Obligation at beginning of year.....	\$ 283,344	\$ 277,877	\$ 251,373
Service cost benefits earned during period.....	9,326	9,633	8,981
Interest cost on projected benefit obligation.....	16,483	15,474	14,737
Participant contributions.....	730	751	767
Amendments.....	—	—	—
Actuarial gain (loss).....	8,461	(6,247)	16,490
Benefits paid.....	(15,687)	(14,144)	(14,471)
Obligation at end of year.....	\$ 302,657	\$ 283,344	\$ 277,877
Reconciliation of fair value of plan assets			
Fair value of plan assets at beginning of year.....	\$ 167,478	\$ 158,141	\$ 157,085
Actual return on plan assets.....	15,979	9,231	8,763
Employer contributions.....	14,580	13,499	5,997
Participant contributions.....	731	751	767
Benefits paid.....	(15,750)	(14,144)	(14,471)
Fair value of plan assets at end of year.....	\$ 183,018	\$ 167,478	\$ 158,141
Funded status at end of year.....	\$ 119,639	\$ 115,866	\$ 119,736

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

	2007	2006
Assets.....	\$ —	\$ —
Liabilities.....	(119,639)	(115,866)
	\$ (119,639)	\$ (115,866)

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

	2007	2006	2005
Service cost.....	\$ 9,366	\$ 9,664	\$ 9,035
Interest cost.....	16,483	15,474	14,737
Expected return on plan assets.....	(12,375)	(11,808)	(11,425)
Amortization of prior service cost.....	3,666	4,613	4,613
Amortization of transition obligation.....	117	47	10
Amortization of net gain (loss).....	6,197	4,784	3,481
Net periodic benefit cost.....	\$ 23,454	\$ 22,774	\$ 20,451

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

	2007	2006	2005
Prior service cost.....	\$ 3,711	\$ (12,973)	\$ —
Net actuarial loss.....	2,215	26,045	(13,634)
Deferred tax benefit.....	(2,074)	(4,575)	4,772
Other comprehensive loss, net of tax.....	\$ 3,852	\$ 8,497	\$ (8,862)

Amounts recognized as a component of accumulated other comprehensive income as of year end that have not been recognized as a component of the combined net periodic benefit cost of the defined benefit pension plans are presented in the following table (in thousands). The estimated net loss and prior service cost for the plan that will be amortized from accumulated other comprehensive income into the net periodic benefit cost over the next fiscal year are \$5,300,000 and \$3,500,000, respectively.

	2007	2006
Prior service cost	\$ (9,262)	\$ (12,973)
Net actuarial loss	(43,374)	(45,589)
Deferred tax benefit	18,423	20,497
Amounts included in accumulated other comprehensive income.....	\$ (34,213)	\$ (38,065)

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

	Pension Benefits	
	Used for Net Benefit Cost in Fiscal Year 1/1/2007 to 12/31/2007	Used for Benefit Obligations as of 12/31/2007
Discount rate	5.75%	6.10%
Rate of compensation increase.....	3.75%	4.20%
Long-term rate of return	7.65%	7.65%

American National's funding policy for the pension plans is to make annual contributions in accordance with the minimum funding standards of the Employee Retirement Income Security Act of 1974. The unfunded plans will be funded out of general corporate assets when necessary. American National, excluding Farm Family, contributed \$8,300,000 and \$7,200,000 to the qualified retirement plan in 2007 and 2006, respectively. Farm Family contributed \$341,000 in 2007 and \$638,000 in 2006 to their qualified retirement plan.

American National expects to contribute \$9,200,000 to its qualified pension plan in fiscal year 2008. The Farm Family Insurance Companies expect to contribute \$2,200,000 to their pension plans in fiscal year 2008.

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

Year	Pension Benefits
2008.....	\$ 15,207
2009.....	16,737
2010.....	19,653
2011.....	23,505
2012.....	23,287
2013-17.....	143,193

The pension plan asset allocations at December 31, 2007 and December 31, 2006 by asset category are as follows:

Asset Category	Plan Assets at December 31,	
	2007	2006
Equity securities	36.5%	33.8%
Debt securities	48.0%	47.6%
Other.....	15.5%	18.6%
Total.....	100.0%	100.0%

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

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

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

POSTRETIREMENT LIFE AND HEALTH BENEFITS

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

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

The accrued post-retirement benefit obligation, included in the liability for retirement benefits, was \$6,000,000 and \$6,300,000 at December 31, 2007 and 2006, 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.

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

SAVINGS PLANS

In addition to the defined benefit pension plans, American National sponsors one defined contribution plan for all employees, excluding those of the Farm Family companies, and an incentive savings plan for employees of the Farm Family companies. The defined contribution plan (401(k) plan) allows employees to contribute up to the maximum allowable amount as determined by the Internal Revenue Service. American National does not contribute to the defined contribution plan. Company contributions are made under the incentive savings plan for the Farm Family companies, with a discretionary portion based on the profits earned by the Farm Family companies. The expense associated with this plan was \$2,700,000 for 2007, \$2,800,000 for 2006 and \$2,600,000 for 2005.

16 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, 2007, were approximately \$4,130,000.

In the ordinary course of their operations, the companies also had commitments outstanding at December 31, 2007, to purchase, expand or improve real estate, to fund mortgage loans, and to purchase other invested assets aggregating \$272,231,000, all of which are expected to be funded in 2008. As of December 31, 2007, 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, 2007, was approximately \$304,111,000, while the total cash values of the related life insurance policies was approximately \$315,966,000.

LITIGATION

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 is a defendant in several lawsuits which propose to certify one or more classes of persons who contend that American National allegedly failed to refund credit life and disability insurance premiums to persons who paid the underlying indebtedness prior to the insured loan's maturity. One of the lawsuits has been preliminarily settled as a class action, with final approval of the settlement expected in 2008. Additionally, American National has reached a settlement with the State of Texas in an action regarding this situation. The amount of expense for that settlement and the provision for additional losses regarding that settlement and for the possible lawsuits is not material to 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 (The Company) as of December 31, 2007 and 2006, 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, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American National Insurance Company and subsidiaries as of December 31, 2007 and 2006, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2007 in conformity with U.S. generally accepted accounting principles.

KPMG LLP
March 10, 2008
Houston, Texas