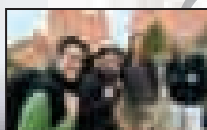


An eye to the future



2006

annual report



2006

key results

*Assets reached \$17,932,171,000,
an increase of 2.5% over year-end 2005.*

*Stockholders' equity reached
\$3,575,623,000, or \$134.36 per share.*

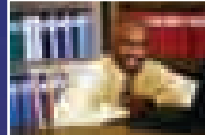
*Net income for 2006 totaled
\$273,231,000, or \$10.27 per share.*

*Life insurance in force totaled
\$65,990,820,000, an increase of
3.0% over year-end 2005.*

*Dividends are currently
paid by American National at a
rate of \$3.04 per share.*

*The year 2006 was the 96th
consecutive year that dividends have
been paid to stockholders.*





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ROBERT L. MOODY

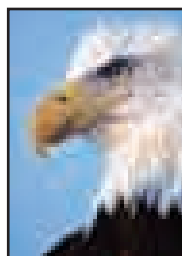
Chairman of the Board • Chief Executive Officer



G. RICHARD FERDINANDTSEN

President • Chief Operating Officer

American National's
strength is built
on a stable foundation
of life insurance.



Strength and stability are hallmarks of American National. With more than 100 years of experience, over \$17.9 billion in assets and a resolute focus on excellence, American National is a preeminent leader in the insurance industry. Thousands of people every year trust American National by purchasing the company's products to provide for their future financial security.

Another year of solid operations added to American National's strength in 2006. Total revenue increased 2% to \$3.1 billion. Consolidated net income increased 15% to \$273.2 million, or \$10.27 per share. The after-tax net gain from operations was \$208.0 million, or \$7.82 per share. These income numbers increased the value to our stockholders by contributing to a 5% increase in stockholders' equity to \$3.5 billion.

The company paid dividends to its stockholders for the 96th consecutive year. The amount of the dividend was increased in October to an annual rate of \$3.04 per share, the 30th increase in the last 33 years.

American National's strength is built on a stable foundation of life insurance. Competitive pressure in the life insurance

The foundation built by life insurance
has allowed American National to expand
and develop expertise in other areas.

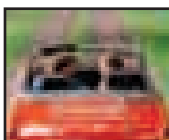
arena is intense. American National meets this challenge with products that offer solid value to the policyholder and that enable the company to be strong enough to stand the test of time. In 2006, the volume of life insurance sales totaled \$11.2 billion of policy face value, and total life insurance in force increased by 3%.

The foundation built by life insurance has allowed American National to expand and develop expertise in other areas. Over the past decade, the company has successfully developed and marketed a strong, competitive portfolio of annuity products. The pension business has grown significantly, with over 1,500 plans now under administration, a 21% increase over 2005. Overall annuity results were up 10% in 2006, with a total after-tax gain from operations of \$22.1 million.

Property and casualty operations posted a solid after-tax gain from operations of \$65.1 million. In 2005, hurricanes Katrina and Rita redefined

property and casualty risk management. American National was better prepared than the majority of companies in the insurance industry in 2005, and risk mitigation was strengthened in 2006. Significant changes were made to reinsurance coverage, and there was a strategic withdrawal from writing certain business in areas along the Atlantic and Gulf coasts. Growth in other targeted areas has enabled the company to maintain premium volume after the strategic withdrawal.

The Farm Family companies experienced a record year, resulting in a contribution of \$30 million to the after-tax profit of property and casualty operations. Since acquisition of the Farm Family companies in 2001, significant synergies have been realized. These are evidenced by the expansion of agribusiness insurance sales for American National throughout the United States. Additionally, the personal lines expertise of American National is



now growing in the Northeast where Farm Family's presence is strong.

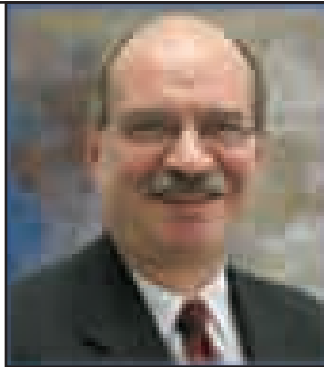
The current inverted yield curve has been a factor affecting the sales of annuities. It has also enabled the company to shift a large portion of 2006 investments to short-term. The resulting increase in cash and short-term investments reduced the risk of potential negative cash flows in future years that results from rising interest rate scenarios, with minimal opportunity cost. American National's overall investment yield for 2006 was 5.98%. This yield was enhanced by strong results from our real estate holdings.



For more than 100 years American National has maintained its home office on Galveston Island and has taken action to protect its policyholders in the event of a hurricane or other natural disaster. In 2005, the company's information technology center was relocated to a state-of-the-art mainland facility built to withstand a Category 5 hurricane. The facility also features increased security against other threats. The company also has large-scale data centers in three additional cities, and is currently finalizing plans to create an additional full-time remote business processing center outside of the hurricane-prone Gulf Coast. This will further enhance business continuity preparedness in the event of a disaster.



American National has built
a staff of qualified and
dedicated associates, both in
the offices and in the field.



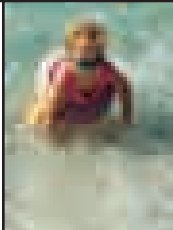
James E. Pozzi
Senior Executive Vice President
Corporate Planning, Systems
and Life Administration

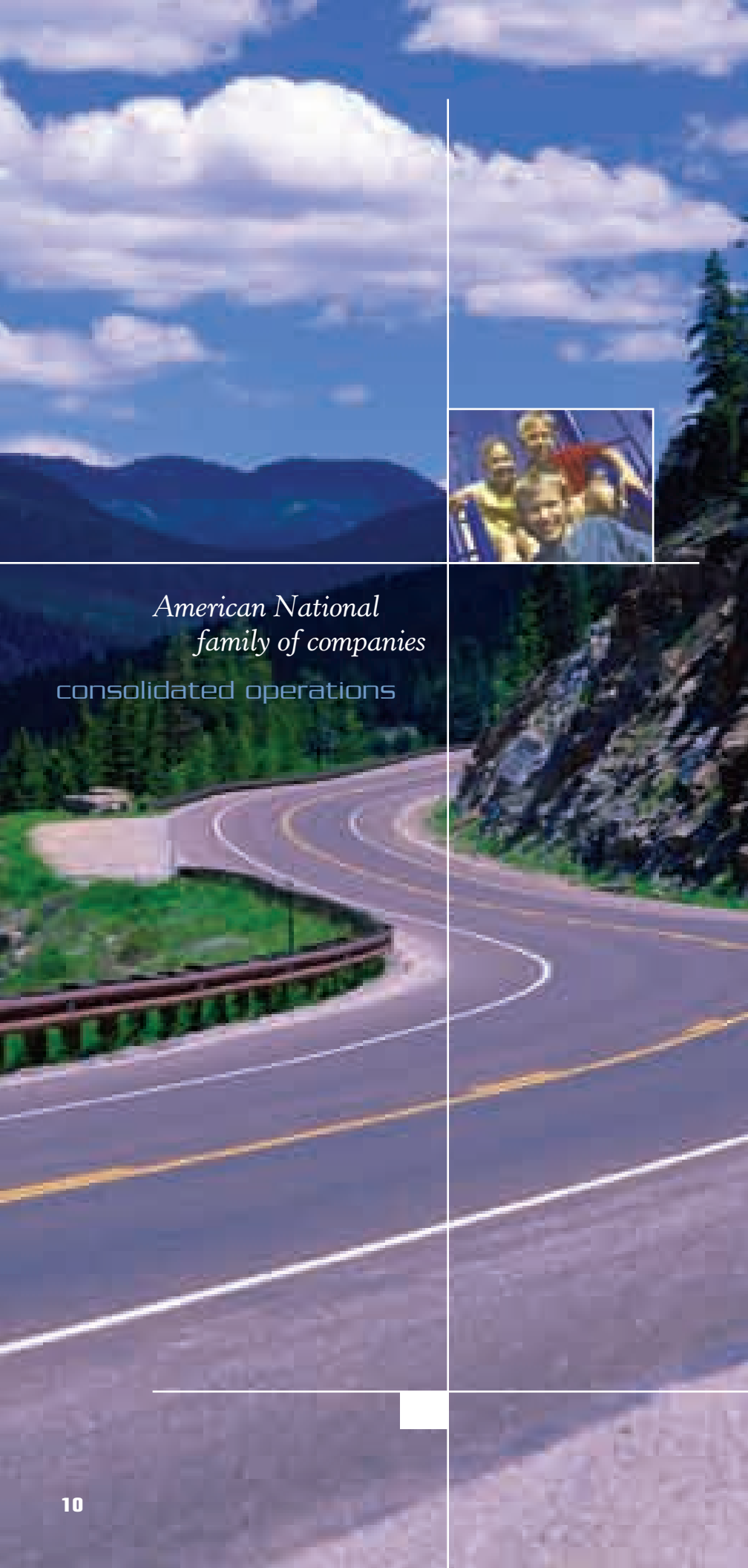


Ronald J. Welch
Senior Executive Vice President,
Chief Actuary, Chief Corporate
Risk Management Officer

Strong business ethics are a cornerstone of American National's culture. Management holds to the highest standards of compliance and business conduct, which pays dividends in dealing with ever increasing numbers of unreasonable lawsuits. Still, increased regulation, litigation and onerous requirements on registered products are increasing the cost of insurance products.

People are the backbone of any organization. American National has built a staff of qualified and dedicated associates, both in the offices and in the field. The company is committed to providing a good work environment, with stable career and advancement opportunities, competitive benefits and fair compensation. Strong relationships and superb service have been responsible for increasing the number and quality of the company's sales force. American National is committed to providing competitive products, exceptional service, training and sales support to earn the business entrusted to us by our field associates and policyholders.





American National
family of companies
consolidated operations

(Dollars in thousands)

2006

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

2005

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

	TOTAL	Capital and Surplus	Independent Marketing Group	Career Sales & Service Division	Multiple Line	Senior Age Marketing	Direct Marketing	Credit Insurance Division	Health Division	All Other
.....	\$ 167,795	\$ 100,304	\$ 25,313	\$ 22,608	\$ 26,722	\$ —	\$ —	\$ (2,335)	\$ (6,973)	\$ 2,156
.....	34,274	17,395	—	(5,659)	664	17,404	(1,135)	514	4,229	862
.....	115,341	20,029	—	—	95,312	—	—	—	—	—
.....	(11,347)	(28,170)	—	—	—	(239)	—	—	—	17,062
.....	(8,681)	(9,809)	—	—	1,816	(980)	107	—	—	185
.....	297,382	99,749	25,313	16,949	124,514	16,185	(1,028)	(1,821)	(2,744)	20,265
.....	7,220	6,496	—	—	—	—	—	—	—	724
.....	(96,563)	(31,106)	(8,353)	(5,593)	(41,090)	(5,341)	339	601	906	(6,926)
.....	208,039	75,139	16,960	11,356	83,424	10,844	(689)	(1,220)	(1,838)	14,063
.....	65,192	65,192	—	—	—	—	—	—	—	—
.....	\$ 273,231	\$ 140,331	\$ 16,960	\$ 11,356	\$ 83,424	\$ 10,844	\$ (689)	\$ (1,220)	\$ (1,838)	\$ 14,063

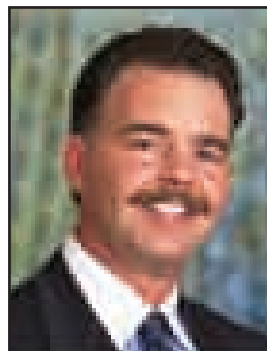
.....	\$ 193,508	\$ 94,055	\$ 35,430	\$ 25,655	\$ 20,289	\$ —	\$ —	\$ 12,112	\$ 875	\$ 5,092
.....	32,281	16,692	—	(7,250)	101	18,904	2,908	(188)	(823)	1,937
.....	80,329	12,921	—	—	67,408	—	—	—	—	—
.....	(40,043)	(31,214)	—	—	—	(681)	—	—	—	(8,148)
.....	(14,045)	(12,394)	—	—	(705)	(807)	(95)	—	—	(44)
.....	252,030	80,060	35,430	18,405	87,093	17,416	2,813	11,924	52	(1,163)
.....	5,762	5,551	—	—	—	—	—	—	—	211
.....	(77,213)	(20,393)	(11,692)	(6,074)	(28,741)	(5,747)	(928)	(3,935)	(17)	314
.....	180,579	65,218	23,738	12,331	58,352	11,669	1,885	7,989	35	(638)
.....	55,300	55,300	—	—	—	—	—	—	—	—
.....	\$ 235,879	\$ 120,518	\$ 23,738	\$ 12,331	\$ 58,352	\$ 11,669	\$ 1,885	\$ 7,989	\$ 35	\$ (638)

operations commentary

The family of companies includes six life insurance companies, eight property and casualty insurance companies, and several non-insurance enterprises ...

Operations of American National are conducted through seven marketing segments. Product distribution is aligned to satisfy specific target markets in such a way that channel conflict is minimized and key brand identities are maintained. Whenever possible, products are cross-sold by marketing segments to maximize product offerings and the return on the investment in products and distribution.

Independent Marketing Group (IMG) distributes life insurance and annuities through independent agents, focusing on a higher-income marketplace as well as



David A. Behrens
Executive Vice President
INDEPENDENT
MARKETING GROUP



Bill J. Garrison
Executive Vice President, Director
CAREER SALES & SERVICE DIVISION



Gregory V. Ostergren
Executive Vice President, Director
MULTIPLE LINE
Chairman, President and C.E.O.
AMERICAN NATIONAL PROPERTY AND
CASUALTY COMPANIES



Scott K. Luchesi
President and C.E.O.
GARDEN STATE LIFE
INSURANCE COMPANY

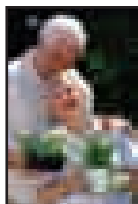


James W. Pangburn
Senior Vice President
CREDIT INSURANCE DIVISION

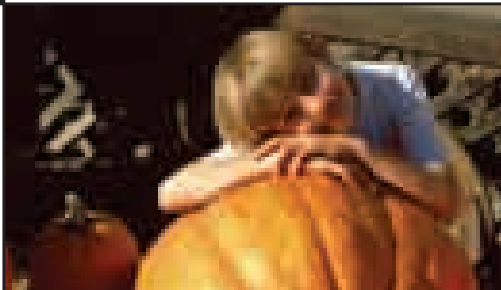


Steven H. Schouweiler
Senior Vice President
HEALTH DIVISION

marketing segments



INDEPENDENT MARKETING GROUP	Life, annuities	American National Insurance Company
CAREER SALES & SERVICE DIVISION	Life, annuities, health	American National Insurance Company American National de México Compañía de Seguros de Vida
MULTIPLE LINE	Life, annuities, health, property and casualty	American National Insurance Company The American National Property and Casualty Companies The Farm Family companies
SENIOR AGE MARKETING	Life, annuities, health (particularly Medicare supplement)	Standard Life and Accident Insurance Company American National Life Insurance Company of Texas
DIRECT MARKETING	Life	Garden State Life Insurance Company
CREDIT INSURANCE DIVISION	Credit life, credit disability, credit-related property and casualty	American National Insurance Company The American National Property and Casualty Companies
HEALTH DIVISION	Group life, group health	American National Insurance Company American National Life Insurance Company of Texas Standard Life and Accident Insurance Company



IMG provides
excellent products,
service and
concepts to
clients in need of
wealth protection,
accumulation,
distribution
and transfer.

targeted niche markets, including the small pension plan arena. IMG provides excellent products, service and concepts to clients in need of wealth protection, accumulation, distribution and transfer. This segment markets through financial institutions, large marketing organizations, employee benefit firms, broker-dealers and independent insurance agents and brokers.

Total gain from operations for Independent Marketing Group was \$25.3 million in 2006, compared with \$35.4 million in 2005. The decrease in earnings was primarily the result of resolving pending litigation. The results also reflect a shift in product mix from single premium life products to recurring premium products.

Independent Marketing Group continued to grow in 2006, with life insurance in force increasing more than three percent to \$4.5 billion. Statutory reserves in this segment exceed \$6 billion.

The **Career Sales & Service Division** (formerly the Home Service Division) continued its tradition of serving the lower- to middle-income markets through employee agents of American National. The division markets life insurance, annuities and limited benefit health insurance products in the United States, and with the introduction of new products continues to grow its operations in Mexico.

The Career Sales & Service Division had a total gain from operations of \$16.9 million in 2006, compared with \$18.4 million the previous year. The extended low interest rate environment has affected the earnings on the \$1.9 billion in assets supporting the division's products. An emphasis on expense controls and efficiency enables the division to continue with profitable operations.

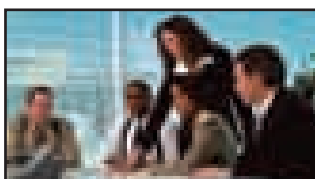


Reynelle Cornish González
Director General
American National de México,
Compañía de Seguros de Vida,
S.A. de C.V.

INDEPENDENT MARKETING GROUP

(Dollars in thousands)

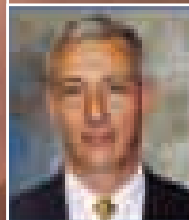
	LIFE	ANNUITY	TOTAL
2006			
Life insurance in force	\$ 4,544,725	\$ —	\$ 4,544,725
Paid annualized premium from new sales	11,322	83,400	94,722
Policy account deposits	23,093	829,576	852,669
Earned premium income	6,226	100,008	106,234
Pre-tax gain from operations	(4,255)	29,568	25,313
2005			
Life insurance in force	4,403,215	—	4,403,215
Paid annualized premium from new sales	12,864	91,467	104,331
Policy account deposits	81,631	882,835	964,466
Earned premium income	4,486	58,108	62,594
Pre-tax gain from operations	4,359	31,071	35,430



CAREER SALES & SERVICE DIVISION

(Dollars in thousands)

	LIFE	ANNUITY	ACCIDENT AND HEALTH	TOTAL
2006				
Life insurance in force	\$ 14,500,410	\$ —	\$ —	\$ 14,500,410
Paid annualized premium from new sales	28,007	314	1,060	29,381
Policy account deposits	20,426	4,008	—	24,434
Earned premium income	182,587	340	9,542	192,469
Pre-tax gain from operations	13,320	(262)	3,891	16,949
2005				
Life insurance in force	14,498,488	—	—	14,498,488
Paid annualized premium from new sales	30,628	493	1,822	32,943
Policy account deposits	21,045	5,658	—	26,703
Earned premium income	181,506	707	9,826	192,039
Pre-tax gain from operations	17,995	(534)	944	18,405



Timothy A. Walsh
President and Chief Executive Officer
Farm Family

Premium income in Mexico rose 2%, while expenses decreased 9% from the previous year. With an emphasis on monthly rather than weekly premium collection products, agent productivity and lapse rates in Mexico have improved. New products were also introduced into new markets and have begun to show a positive trend in sales.

Multiple Line offers a combination of life insurance, annuities, financial services and property and casualty insurance for personal lines, agribusiness, and targeted commercial exposures. Policyholders do business with a single agent representing a strong, sound company, a concept that has been identified as an important driver to client satisfaction.

Multiple Line agents have access to specialized home and automobile products, as well as unique farm, agribusiness and targeted commercial products. They also have an extensive portfolio of life insurance and annuity products to address the risks clients face.

Multiple Line's 2006 operating results improved significantly from the hurricane-impacted 2005 results. Total gain from operations was \$124.5 million in 2006, compared with \$87.1 million in 2005. Of the 2006 gain from operations, \$49.0 million was generated by the Farm Family companies.

Total property and casualty results for Multiple Line improved to a gain of \$97.1 million in 2006, compared with a gain of

MULTIPLE LINE

(Dollars in thousands)

	LIFE	ANNUITY	ACCIDENT AND HEALTH	PROPERTY AND CASUALTY	TOTAL
2006					
Life insurance in force	\$ 33,709,918	\$ —	\$ —	\$ —	\$ 33,709,918
Paid annualized premium from new sales	20,068	5,481	753	—	26,302
Net written premiums	—	—	—	1,091,980	1,091,980
Policy account deposits	111,668	79,876	—	—	191,544
Earned premium income	54,766	4,104	12,926	1,119,399	1,191,195
Pre-tax gain from operations	25,136	2,004	246	97,128	124,514
2005					
Life insurance in force	31,797,011	—	—	—	31,797,011
Paid annualized premium from new sales	22,472	5,494	902	—	28,868
Net written premiums	—	—	—	1,134,954	1,134,954
Policy account deposits	109,906	72,603	—	—	182,509
Earned premium income	56,968	4,799	13,513	1,140,437	1,215,717
Pre-tax gain from operations	20,272	(527)	645	66,703	87,093



Multiple Line offers a combination of life insurance, annuities, financial services, and property and casualty insurance for personal lines, agribusiness, and targeted commercial exposures.

SENIOR AGE MARKETING

(Dollars in thousands)

	LIFE	ANNUITY	ACCIDENT AND HEALTH	ALL OTHER	TOTAL
2006					
Life insurance in force	\$ 435,888	\$ —	\$ —	—	\$ 435,888
Paid annualized premium from new sales	1,014	1,847	5,171	—	8,032
Policy account deposits	352	18,635	—	—	18,987
Earned premium income	18,065	300	137,243	—	155,608
Pre-tax gain from operations	1,681	1,845	12,898	(239)	16,185
2005					
Life insurance in force	451,583	—	—	—	451,583
Paid annualized premium from new sales	1,006	3,288	6,436	—	10,730
Policy account deposits	879	32,994	—	—	33,873
Earned premium income	18,225	85	164,619	—	182,929
Pre-tax gain from operations	256	(102)	17,943	(681)	17,416



DIRECT MARKETING

(Dollars in thousands)

	2006	2005
Life insurance in force	\$ 6,175,501	\$ 6,155,712
Paid annualized premium from new sales	9,084	11,711
Earned premium income	40,130	39,030
Pre-tax gain from operations	(1,028)	2,813

\$66.7 million in 2005. The primary improvement was in the homeowner lines, where the loss ratio decreased from 106.1% in 2005 to 66.1% in 2006. To maintain strong results, Multiple Line utilizes an active risk management program that includes the strategic management of exposures.

Net operating gain for Multiple Line's life operations was \$25.1 million in 2006, compared with \$20.2 million in 2005. An increase in sales of interest sensitive life products produced a 6% increase in life insurance in force to a total of \$33.7 billion.

Senior Age Marketing, through independent agents, provides an array of products for this growing segment of the population made up of individuals preparing for and enjoying retirement. Gain from operations remained strong at \$16.2 million.

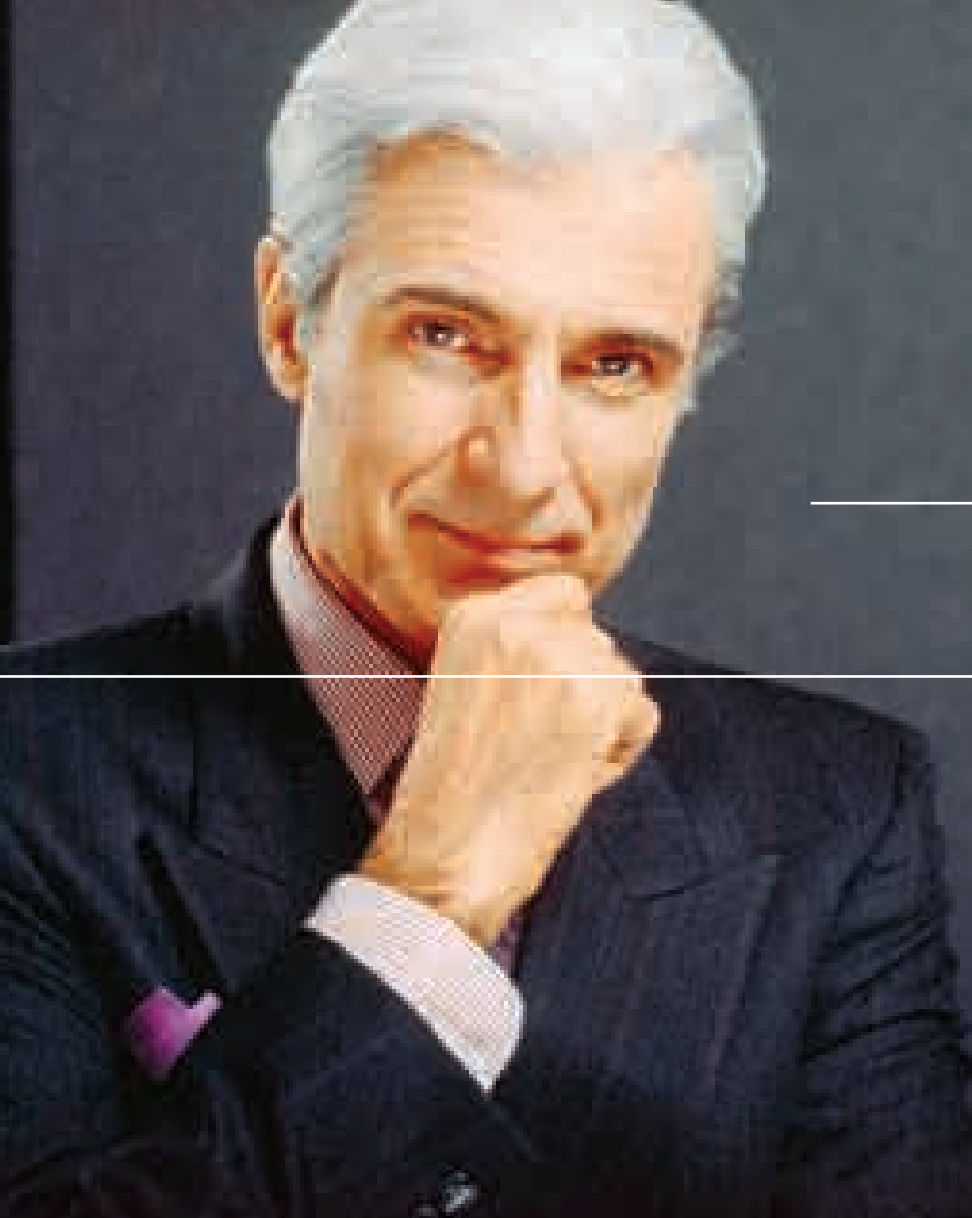
Medicare changes to shift risks to the private sector had significant impact on the market in 2006. While the health lines in Senior Age Marketing were affected, the segment remains committed to traditional Medicare supplement products that are considered good value for individuals and prudent risks for the company. The annuity deposits for Senior Age Marketing decreased in 2006 as a result of the interest rate environment and an inverted yield curve.

Direct Marketing focuses on individuals who favor purchasing insurance directly from insurance companies. Life insurance products are marketed through the Internet, mail, print and broadcast media.

Operations resulted in a loss of \$1.0 million in 2006. This was the result of claims volatility and some product experience not meeting expectations. Pricing has been increased on a number of products to reflect this experience.

In addition to more difficult sales because of

Direct Marketing
focuses on
individuals who
favor purchasing
insurance
directly from
insurance
companies.



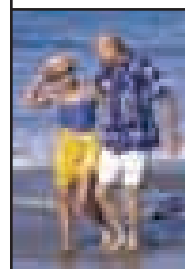
higher product prices, Direct Marketing has been affected by changes in the marketplace. The historically strong television market has weakened as television viewing habits have changed. This resulted in 2006 sales growing at a rate less than the record pace of recent years. With repricing and retooling to other direct marketing opportunities in progress, earned premium still grew by almost 3% during 2006.

The **Credit Insurance Division** provides protection against specific unpaid debt in the event of loss due to death or disability. It also covers specific losses in “ability to repay,” such as involuntary unemployment or untimely loss of collateral.

CREDIT INSURANCE DIVISION

(Dollars in thousands)

	2006	2005
Life insurance in force	\$ 5,192,054	\$ 5,412,849
Sales of life insurance (face amount)	2,818,112	2,759,318
Written premium	283,681	294,367
Earned premium income	165,151	155,975
Pre-tax gain from operations	(1,821)	11,924



The Credit Insurance Division is focusing its
marketing efforts on increasing sales in the
traditional life and disability lines ...

Distribution includes general agents who market to financial institutions, automobile dealers and furniture dealers.

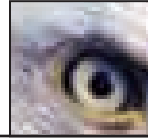
The Credit Insurance Division is focusing its marketing efforts on increasing sales in the traditional life and disability lines, as well as expanding its product portfolio. Product review and pricing refinements resulted in lower overall sales in 2006, and are expected to result in even lower sales in 2007.

The Credit Insurance Division lost \$1.8 million in 2006. This is primarily due to

provision for litigation involving an industry-wide legal matter.

The **Health Division** markets limited-benefit health products and health reinsurance through managing general underwriters. The Health Division is also responsible for the administration and management of all health products sold by other marketing segments within American National. The combined health business for American National produced a pre-tax gain from operations of \$14.9 million in 2006.

looking forward



American National is committed to providing value to shareholders through sustainable, profitable growth. In keeping with this strategic vision, American National provides a diversified mix of products and distribution channels that provide the maximum potential to meet the company's goals.

The company's strategic plan clearly states important performance objectives. A continuous review process measures progress toward those objectives. American National's senior management team meets monthly to analyze performance progress and take prompt action where appropriate.

In accordance with this vision, the strategic plans for 2007 include a number of bold and promising initiatives.

Independent Marketing Group will expand its distribution into the one market it has not yet penetrated – the state of New York. Over nine percent of all annuity deposits received in the United States are

sold in New York, so penetrating this market is very important. Operations are expected to begin late in 2007.

Independent Marketing Group will also continue to build distribution by recruiting additional agents, marketing organizations, banks, broker-dealers and employee benefit firms. While the emphasis to increase life insurance sales will continue, new annuity and pension products will be developed to maintain and increase the company's presence in the annuity marketplace. Already recognized for the excellent support it provides to the field, Independent Marketing Group will leverage that support to provide additional reasons for independent agents and organizations to do business with American National.

The Career Sales and Service Division will continue to provide personal, face-to-face service to life insurance markets that are largely underserved by other financial services companies. A continued focus on



expense controls will enable the division to remain profitable in this niche market. The division will also further refine its business model in Mexico.

Multiple Line will continue to capitalize on the sharing of strengths of its two property and casualty operations. The personal lines excellence of ANPAC will be expanded throughout the Farm Family states. The agribusiness expertise of Farm Family will be further leveraged throughout the entire ANPAC distribution. Farm Family's signature product, the Special Farm Package, is being further improved to ensure that it remains the leading product for the farm and agribusiness market.

As the overall property and casualty operations continue to expand, Multiple

Line is committed to remain the industry leader in tri-line sales (sales of homeowner, auto and life insurance). Each of the targeted Multiple Line markets has significant life insurance sales opportunities. To take full advantage of these opportunities, Multiple Line is introducing life specialists into its distribution to make the life sale part of every agent's regular activities. The emphasis on a Million Dollar Round Table culture among multiple line agents has been a significant contributor to tri-line sales, and continues to be an important initiative.

Multiple Line has created a specialized unit to increase life insurance sales by recruiting career life agents. A unique sales concept is also in place called Designed Benefits. This program is designed to assist

in the sale of life insurance products to employees of businesses.

Senior Age Marketing will continue to focus on the Medicare supplement line. The target market will be more broadly defined to include baby boomers, pre-retirees and successful under age-65 consumers, as well as traditional seniors. The product portfolio will be broadened beyond current health and final expense life products to provide fully for the needs of the target market.

Direct Marketing will continue to rely heavily on expansion of successful third-party-endorsed direct mail activities as it focuses development efforts on emerging distribution channels. In addition to core relationships with banks and credit card issuers, opportunities are being pursued with non-bank retailers that have large and loyal customer bases. While direct mail will continue to be a significant direct marketing effort, attention will be focused on making further inroads into e-commerce. The e-commerce initiatives include search engine marketing, partner Web site links, e-mail marketing, and most recently, streaming audio and video ads on local television and radio station Web sites.

The Credit Insurance Division will continue its efforts to expand credit life and credit disability sales in all the markets it serves. Additional opportunities in credit products other than the traditional life and

disability lines will be pursued. Review and refinement of all existing products will be implemented to ensure profit and risk profiles are achieved. This attention to careful product pricing and design is expected to result in reduced sales in 2007, as other companies move more slowly with their product revisions.



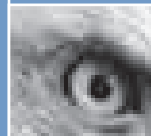
The Health Division will enhance distribution where profitability is clearly attainable. Products will remain focused on limited benefits that are fairly priced. Additionally, the division will continue to manage the health products sold by other marketing segments of the corporation.

The officers and staff of American National will remain focused on the vision and strategies necessary to maintain and enhance the company's value. Through this focus, the company will continue its long history of profitable growth and solid returns to shareholders, and will remain the company of choice for its field associates and policyholders.

American National Insurance Company and subsidiaries

2006

financial statements



CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except for per share data)

	2006	2005	2004
PREMIUMS AND OTHER REVENUE			
Premiums:			
Life.....	\$ 336,690	\$ 333,496	\$ 337,498
Annuity	112,455	64,660	35,429
Accident and health.....	303,285	338,437	350,939
Property and casualty	1,234,300	1,248,153	1,182,310
Other policy revenues.....	139,605	131,309	123,253
Net investment income.....	836,665	788,523	739,321
Realized gains on investments.....	100,295	85,077	54,404
Other income.....	51,136	55,819	56,182
Total revenues	3,114,431	3,045,474	2,879,336
BENEFITS AND EXPENSES			
Death and other benefits:			
Life.....	251,097	247,557	242,866
Annuity	130,830	112,523	92,340
Accident and health.....	227,329	249,877	253,877
Property and casualty	881,806	947,438	817,606
Increase (decrease) in liability for future policy benefits:			
Life.....	32,209	22,683	33,867
Annuity	4,554	(25,269)	(32,617)
Accident and health.....	(10,554)	(7,307)	(2,062)
Interest credited to policy account balances	297,551	292,074	296,319
Commissions for acquiring and servicing policies	423,291	437,614	450,451
Other operating costs and expenses.....	389,217	373,299	356,163
Taxes, licenses and fees.....	61,838	59,798	59,470
Decrease (increase) in deferred policy acquisition costs	8,501	(25,066)	(71,135)
Minority interest and participating policyholders share of operations	19,085	23,146	13,524
Total benefits and expenses	2,716,754	2,708,367	2,510,669
Income from operations before equity in earnings of unconsolidated affiliates and federal income taxes	397,677	337,107	368,667
Equity in earnings of unconsolidated affiliates	7,220	5,762	6,339
Income from operations before federal income taxes	404,897	342,869	375,006
Provision (benefit) for federal income taxes:			
Current.....	121,082	114,772	138,074
Deferred.....	10,584	(7,782)	(18,661)
Net income	\$ 273,231	\$ 235,879	\$ 255,593
Net income per common share - basic	\$ 10.32	\$ 8.91	\$ 9.65
Net income per common share - diluted.....	\$ 10.27	\$ 8.87	\$ 9.63

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In thousands, except for per share data)

	December 31,	
	2006	2005
ASSETS		
Investments, other than investments in unconsolidated affiliates:		
Debt securities:		
Bonds held-to-maturity, at amortized cost	\$ 6,789,250	\$ 7,215,825
Bonds available-for-sale, at fair value	3,465,405	3,479,761
Marketable equity securities, at fair value:		
Preferred stocks	70,931	52,062
Common stocks	1,156,147	1,067,059
Mortgage loans on real estate	1,379,344	1,336,392
Policy loans	338,855	333,967
Investment real estate, net of accumulated depreciation of \$166,140 and \$134,763	505,623	548,960
Short-term investments	714,200	155,622
Other invested assets	106,478	66,955
Total investments	14,526,233	14,256,603
Cash	214,877	59,427
Investments in unconsolidated affiliates	69,083	69,998
Accrued investment income	174,287	185,810
Reinsurance ceded receivables	468,615	493,935
Prepaid reinsurance premiums	76,070	76,515
Premiums due and other receivables	296,152	279,070
Deferred policy acquisition costs	1,187,879	1,182,713
Property and equipment, net	81,433	90,790
Other assets	187,971	255,082
Separate account assets	649,571	543,193
Total assets	\$ 17,932,171	\$ 17,493,136
LIABILITIES		
Policyholder funds:		
Future policy benefits:		
Life	\$ 2,341,420	\$ 2,303,375
Annuity	524,119	469,822
Accident and health	98,036	108,282
Policy account balances	7,513,006	7,457,057
Policy and contract claims	1,396,414	1,390,178
Participating policyholder share	167,010	157,762
Other policyholder funds	987,092	989,229
Total policyholder liabilities	13,027,097	12,875,705
Current federal income taxes	14,613	20,276
Deferred federal income taxes	69,234	52,584
Liability for retirement benefits	122,191	73,244
Notes payable	124,075	139,034
Other liabilities	343,755	408,821
Minority interests in subsidiaries	6,012	2,232
Separate account liabilities	649,571	543,193
Total liabilities	14,356,548	14,115,089
STOCKHOLDERS' EQUITY		
Capital stock	30,832	30,832
Additional paid-in capital	4,160	2,212
Accumulated other comprehensive income	141,869	139,024
Retained earnings	3,498,306	3,305,523
Treasury stock, at cost	(99,544)	(99,544)
Total stockholders' equity	3,575,623	3,378,047
Total liabilities and stockholders' equity	\$ 17,932,171	\$ 17,493,136

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(In thousands, except for per share data)

	2006	2005	2004
COMMON STOCK			
Balance at beginning and end of year	\$ 30,832	\$ 30,832	\$ 30,832
ADDITIONAL PAID-IN CAPITAL			
Balance at beginning of year	2,212	1,698	7,841
Issuance of treasury shares as restricted stock	—	(1,139)	(7,177)
Amortization of restricted stock	1,948	1,653	1,034
Balance at end of year	4,160	2,212	1,698
ACCUMULATED OTHER COMPREHENSIVE INCOME			
Balance at beginning of year	139,024	214,755	208,712
Change in unrealized gains on marketable securities (net)	28,935	(66,956)	6,612
Foreign exchange adjustments	36	87	(33)
Minimum pension liability adjustment	8,497	(8,862)	(536)
Effect of FAS158 Implementation on Pension Liability, net of tax	(34,623)	—	—
Balance at end of year	141,869	139,024	214,755
RETAINED EARNINGS			
Balance at beginning of year	3,305,523	3,149,156	2,972,498
Net income	273,231	235,879	255,593
Cash dividends to common stockholders (\$3.01, \$2.97 and \$2.96 per share)	(80,448)	(79,315)	(78,848)
Cash dividends to minority stockholders of subsidiaries	—	(37)	(87)
Redemption premium on subsidiary preferred stock	—	(160)	—
Balance at end of year	3,498,306	3,305,523	3,149,156
TREASURY STOCK			
Balance at beginning of year	(99,544)	(100,683)	(99,097)
Net issuance of restricted stock	—	1,139	(1,586)
Balance at end of year	(99,544)	(99,544)	(100,683)
STOCKHOLDERS' EQUITY			
Balance at end of year	\$ 3,575,623	\$ 3,378,047	\$ 3,295,758

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	2006	2005	2004
Net income	\$ 273,231	\$ 235,879	\$ 255,593
Other comprehensive income (loss):			
Change in unrealized gains on marketable securities (net)	28,935	(66,956)	6,612
Foreign exchange adjustments	36	87	(33)
Minimum pension liability adjustment	8,497	(8,862)	(536)
Total other comprehensive income (loss)	37,468	(75,731)	6,043
Total comprehensive income	\$ 310,699	\$ 160,148	\$ 261,636

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	2006	2005	2004
OPERATING ACTIVITIES			
Net income	\$ 273,231	\$ 235,879	\$ 255,593
Adjustments to reconcile net income to net cash provided by operating activities:			
Increase in liabilities for policyholders' funds.....	95,443	216,075	155,738
Decrease (increase) in reinsurance ceded receivable.....	25,320	4,461	68,192
Charges to policy account balances.....	(137,802)	(130,219)	(108,643)
Interest credited to policy account balances	297,551	292,074	296,319
Deferral of policy acquisition costs	(411,141)	(424,550)	(425,414)
Amortization of deferred policy acquisition costs	419,642	399,481	354,279
Deferred federal income tax expense (benefit)	10,584	(7,782)	(18,661)
Depreciation	38,146	15,046	34,969
Accrual and amortization of discounts and premiums	983	6,063	6,777
Gain from sale or disposal of investments, net.....	(100,295)	(85,077)	(54,404)
Equity in earnings of unconsolidated affiliates	(7,220)	(5,762)	(6,339)
Decrease (increase) in premiums receivable	(17,082)	(28,184)	6,142
Decrease (increase) in accrued investment income.....	11,523	(2,985)	(14,694)
Increase to liability for retirement benefits	22,774	20,448	21,789
Other changes (net)	(18,164)	(57,871)	96,604
Net cash provided by operating activities	503,493	447,097	668,247
INVESTING ACTIVITIES			
Proceeds from sale or maturity of investments:			
Bonds.....	1,002,301	1,317,935	813,248
Stocks	196,131	242,015	229,203
Real estate	153,101	67,155	17,306
Other invested assets	94,562	69,266	144,424
Principal payments received on:			
Mortgage loans.....	157,474	207,065	226,087
Policy loans	13,085	11,039	8,059
Purchases of investments:			
Bonds.....	(599,406)	(1,843,744)	(2,074,345)
Stocks	(233,422)	(215,231)	(297,687)
Real estate	(2,157)	(15,686)	(11,788)
Mortgage loans.....	(323,207)	(311,768)	(360,958)
Policy loans	(20,589)	(19,278)	(19,254)
Other invested assets	(22,294)	(101,180)	(117,399)
Decrease (increase) in short-term investments (net)	(558,578)	(106,786)	61,859
Decrease (increase) in investment in unconsolidated affiliates (net).....	915	(679)	7,787
Increase in property and equipment (net)	(6,752)	(17,730)	(22,961)
Net cash used in investing activities.....	(148,836)	(717,607)	(1,396,419)
FINANCING ACTIVITIES			
Policyholders' deposits to policy account balances	1,091,608	1,211,864	1,553,930
Policyholders' withdrawals from policy account balances	(1,195,408)	(925,664)	(747,339)
Increase (decrease) in notes payable	(14,959)	10,531	9,459
Dividends to stockholders	(80,448)	(79,352)	(78,935)
Net cash provided by (used in) financing activities.....	(199,207)	217,379	737,115
NET INCREASE (DECREASE) IN CASH.....	155,450	(53,131)	8,943
Cash:			
Beginning of the year	59,427	112,558	103,615
End of the year	\$ 214,877	\$ 59,427	\$ 112,558

See accompanying notes to consolidated financial statements.

1 NATURE OF OPERATIONS

American National Insurance Company and its consolidated subsidiaries (collectively “American National”) operate primarily in the insurance industry. Operating on a multiple 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 (95%) 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. (See Note 15.)

Certain reclassifications have been made to the 2005 and 2004 financial information to conform to the 2006 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

Additional disclosures on securities

At its meeting on November 12-13, 2003, the Emerging Issues Task Force of the FASB adopted new disclosure requirements regarding debt and marketable equity securities with unrealized losses that have not been recognized as other-than-temporary impairments. On November 3, 2005 FASB Staff Position 115-1 provided further guidance on the application of the unrealized loss disclosures. The new disclosures require tabular information as to the length of time securities have had unrealized losses, and a narrative description of why the company has not recorded an other-than-temporary impairment. These disclosures are included in Note 3 to these consolidated financial statements.

Stock-based compensation

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 consolidated 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 consolidated 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 consolidated 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 effect of adopting SOP 05-01 is not yet certain, but it is not expected to be material to American National's consolidated 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 consolidated 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. American National adopted FIN 48 on January 1, 2007. The effect of adopting FIN 48 is not yet certain, but it is not expected to be material to American National's consolidated financial statements.

INVESTMENTS

Marketable securities

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

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

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

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

Realized gains and losses are derived as the difference between the amortized cost and the proceeds of each security sold.

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

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 on 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, 2006 and 2005 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 and casualty premiums are recognized as revenue proportionately over the contract period. Policy benefits consist of actual claims and the change in reserves for losses and loss adjustment expenses. 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, 2006. 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 7.9% of the life insurance in force at December 31, 2006 and 5.7% of life premiums in 2006. Of the total participating business, 67.6% was written by Farm Family Life Insurance Company (Farm Family Life). For the participating business excluding Farm Family Life, the allocation of dividends to participating policyowners is based upon a comparison of experienced rates of mortality, interest and expenses, as determined periodically for representative plans of insurance, issue ages and policy durations, with the corresponding rates assumed in the calculation of premiums.

For the Farm Family Life participating business, profits earned on participating business are reserved for the payment of dividends to policyholders except for the stockholders' share of profits on participating policies, which is limited to the greater of 10% of the profit on participating business, or 50 cents per thousand dollars of the face amount of participating life insurance in force. Participating policyholders' interest includes the accumulated net income from participating policies reserved for payment to such policyholders in the form of dividends (less net income allocated to stockholders as indicated above), as well as a pro rata portion of unrealized investment gains (losses), net of tax.

FEDERAL INCOME TAXES

American National and its eligible subsidiaries will file a consolidated life/non-life federal income tax return for 2006. 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.

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 fair value. Deposits, net investment income, and realized investment gains and losses for these accounts are excluded from revenues, and related liability increases are excluded from benefits and expenses in 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, 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
December 31, 2005				
DEBT SECURITIES				
Bonds held-to-maturity:				
U.S. Government and agencies	\$ 243,968	\$ 296	\$ (5,569)	\$ 238,695
States and political subdivisions	221,764	5,031	(1,634)	225,161
Foreign governments	5,952	772	—	6,724
Public utilities	567,666	12,118	(4,128)	575,656
All other corporate bonds	5,415,436	116,662	(71,231)	5,460,867
Mortgage-backed securities	761,039	4,454	(11,467)	754,026
Total bonds held-to-maturity	7,215,825	139,333	(94,029)	7,261,129
Bonds available-for-sale:				
U.S. Government and agencies	64,337	389	(499)	64,227
States and political subdivisions	244,637	2,349	(2,567)	244,419
Foreign governments	821	—	(30)	791
Public utilities	344,729	14,064	(1,087)	357,706
All other corporate bonds	2,390,053	27,798	(34,368)	2,383,483
Mortgage-backed securities	437,973	918	(9,756)	429,135
Total bonds available-for-sale	3,482,550	45,518	(48,307)	3,479,761
Total debt securities	10,698,375	184,851	(142,336)	10,740,890
MARKETABLE EQUITY SECURITIES				
Preferred stock	51,205	2,173	(1,316)	52,062
Common stock	820,130	274,644	(27,715)	1,067,059
Total marketable equity securities	871,335	276,817	(29,031)	1,119,121
Total investments in securities	\$ 11,569,710	\$ 461,668	\$ (171,367)	\$ 11,860,011

DEBT SECURITIES

The amortized cost and estimated fair value, by contractual maturity, of debt securities at December 31, 2006, 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.....	\$ 286,276	\$ 287,580	\$ 101,561	\$ 102,032
Due after one year through five years	1,208,438	1,232,607	818,670	824,371
Due after five years through ten years	3,875,774	3,824,587	1,895,788	1,849,314
Due after ten years	686,092	672,579	229,675	238,476
	6,056,580	6,017,353	3,045,694	3,014,193
Without single maturity date.....	732,670	721,452	460,562	451,212
	\$ 6,789,250	\$ 6,738,805	\$ 3,506,256	\$ 3,465,405

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).

	2006	2005	2004
Proceeds from sales of available-for-sale securities.....	\$ 425,033	\$ 308,763	\$ 221,520
Gross gains realized.....	73,541	67,384	62,474
Gross losses realized.....	8,040	4,408	2,795
Proceeds from bonds called or otherwise redeemed by the issuer	\$ 773,399	\$ 1,251,187	\$ 696,082
Gross gains realized.....	9,781	7,255	3,982
Gross losses realized.....	557	420	640

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.

In 2004, securities with an amortized cost of \$11,673,000 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 \$349,000 was established at the time of the transfer. Additionally in 2004, held-to-maturity securities with an amortized cost of \$11,751,000 were sold to maintain American National's credit risk policy. Proceeds from sales of these bonds totaled \$11,766,000 with net realized gains of \$15,000.

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

UNREALIZED GAINS AND LOSSES ON SECURITIES

Unrealized gains on marketable equity securities and bonds available-for-sale, presented in the stockholders' equity section of the consolidated statements of financial position, are net of deferred tax liabilities of \$101,114,000, \$84,925,000, and \$121,817,000 for 2006, 2005, and 2004 respectively.

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

	2006	2005	2004
Bonds available-for-sale	\$ (38,062)	\$ (79,308)	\$ (7,616)
Preferred stocks	150	1,748	(1,358)
Common stocks	70,520	(52,753)	30,898
Index options	—	75	(38)
Amortization of deferred policy acquisition costs	13,675	24,544	(7,173)
	46,283	(105,694)	14,713
Provision for federal income taxes	(16,189)	36,894	(4,844)
	\$ 30,094	\$ (68,800)	\$ 9,869
Change in unrealized gains of investments attributable to participating policyholders' interest	(1,159)	1,844	(3,257)
Total	\$ 28,935	\$ (66,956)	\$ 6,612

Gross unrealized losses on investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of December 31, 2006, are summarized as follows (in thousands):

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

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, 2006, mortgage loans have fixed rates from 5.15% to 12.00% and variable rates from 6.00% to 9.00%. The majority of the mortgage loan contracts require periodic payments of both principal and interest, and have amortization periods of 1 year to 30 years.

American National has investments in first lien mortgage loans on real estate with carried values of \$1,379,344,000 and \$1,336,392,000 at December 31, 2006 and 2005, respectively. Problem loans, on which valuation allowances were established, totaled \$9,693,000 and \$9,877,000 at December 31, 2006 and 2005, respectively. The valuation allowances on those loans totaled \$1,053,000 at both December 31, 2006 and 2005.

POLICY LOANS

All of American National's policy loans carried interest rates ranging from 4.00% to 8.00% at December 31, 2006.

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		
	2006	2005	2004	2006	2005	2004
Bonds	\$ 591,666	\$ 590,117	\$ 562,287	\$ 3,192	\$ (8,737)	\$ 227
Preferred stocks	3,356	3,107	2,879	(6)	110	100
Common stocks	29,038	23,457	25,909	62,872	64,805	56,031
Mortgage loans	104,052	100,727	78,162	—	—	(1,016)
Real estate	151,099	107,725	113,429	26,888	9,510	6,156
Other invested assets	75,239	63,386	52,421	92	17,480	471
Investment in unconsolidated affiliates	—	—	—	—	—	37
	954,450	888,519	835,087	93,038	83,168	62,006
Investment expenses	(117,785)	(99,996)	(95,766)	—	—	—
Decrease (increase) in valuation allowances	—	—	—	7,257	1,909	(7,602)
	\$ 836,665	\$ 788,523	\$ 739,321	\$ 100,295	\$ 85,077	\$ 54,404

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 \$8,667,000 in 2006, \$13,633,000 in 2005, and \$6,678,000 in 2004.

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:

	2006	2005
AAA	20%	18%
AA	10%	6%
A	40%	43%
BBB	26%	28%
BB	2%	2%
Below BB	2%	3%
	100%	100%

COMMON STOCK

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

	2006	2005
Materials	3%	3%
Industrials	9%	10%
Consumer goods	18%	19%
Energy and utilities	11%	11%
Financials	28%	26%
Information technology	11%	11%
Health care	10%	10%
Communications	4%	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	
	2006	2005	2006	2005
Office buildings	31%	25%	20%	22%
Shopping centers	30%	32%	21%	24%
Commercial	4%	2%	2%	2%
Hotels/Motels	17%	14%	2%	3%
Industrial	7%	14%	44%	47%
Amusement	5%	7%	—	—
Other.....	6%	6%	11%	2%
	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	
	2006	2005	2006	2005
New England.....	7%	7%	—	1%
Middle Atlantic	10%	10%	—	—
East North Central.....	13%	11%	10%	9%
West North Central	2%	2%	1%	5%
South Atlantic.....	12%	12%	17%	22%
East South Central	5%	4%	11%	12%
West South Central	28%	34%	58%	46%
Mountain	6%	5%	1%	3%
Pacific.....	17%	15%	2%	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, 2006 or 2005.

VALUES

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

	2006		2005	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
FINANCIAL ASSETS				
Bonds:				
Held-to-maturity	\$ 6,789,250	\$ 6,738,805	\$ 7,215,825	\$ 7,261,129
Available-for-sale	3,465,405	3,465,405	3,479,761	3,479,761
Preferred stock	70,931	70,931	52,062	52,062
Common stock	1,156,147	1,156,147	1,067,059	1,067,059
Mortgage loans on real estate	1,379,344	1,390,372	1,336,392	1,361,724
Policy loans	338,855	338,855	333,967	333,967
Short-term investments	714,200	714,200	155,622	155,622
FINANCIAL LIABILITIES				
Investment contracts	5,841,358	5,841,358	5,750,391	5,750,391
Notes payable	124,075	124,075	139,034	139,034

6 DEFERRED POLICY ACQUISITION COSTS

Deferred policy acquisition costs and premiums for the years ended December 31, 2006, 2005, and 2004 are summarized as follows (in thousands):

	Life and Annuity	Accident and Health	Property and Casualty	Total
Balance at December 31, 2003	\$ 878,791	\$ 97,611	\$ 89,556	\$ 1,065,958
Additions.....	198,639	14,097	212,678	425,414
Amortization	(138,151)	(19,182)	(196,946)	(354,279)
Effect of change in unrealized gains on available-for-sale securities	(7,173)	—	—	(7,173)
Net change.....	53,315	(5,085)	15,732	63,962
Acquisitions.....	2,755	357	—	3,112
Foreign exchange effect	(1)	—	—	(1)
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
2006 premiums	\$ 449,145	\$ 303,285	\$ 1,234,300	\$ 1,986,730
2005 premiums	\$ 398,156	\$ 338,437	\$ 1,248,153	\$ 1,984,746
2004 premiums	\$ 372,927	\$ 350,939	\$ 1,182,310	\$ 1,906,176

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 consolidated balance sheet.

7 FUTURE POLICY BENEFITS AND POLICY ACCOUNT BALANCES

LIFE INSURANCE

Assumptions used in the calculation of future policy benefits or policy account balances for individual life policies are 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	8%
1981-1995.....	8% for years 1 through 5, graded to 6% at the end of year 25, and level thereafter	18%
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	4%
1969-1971.....	6% for years 1 through 5, graded to 3.5% at the end of year 30, and level thereafter	3%
1962-1968.....	4.5% for years 1 through 5, graded to 3.5% at the end of year 15, and level thereafter	6%
1948-1961.....	4% for years 1 through 5, graded to 3.5% at the end of year 10, and level thereafter	4%
1947 and prior.....	Statutory rates of 3% or 3.5%	1%
Participating business acquired.....	Level rates of 3% to 5.5%	9%
Industrial		
1948-1967.....	4% for years 1 through 5, graded to 3.5% at the end of year 10, and level thereafter	3%
1947 and prior.....	Statutory rates of 3%	2%
Universal Life		
	Future policy benefits for universal life are equal to the current account value	36%
		100%

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

ANNUITIES

Fixed annuities included in future policy benefits are calculated using a level interest rate of 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).

	2006	2005	2004
Balance at January 1	\$ 1,359,452	\$ 1,275,405	\$ 1,245,350
Less reinsurance recoverables	454,872	455,395	500,583
Net beginning balance	904,580	820,010	744,767
Incurring related to:			
Current year	1,085,736	1,191,939	1,085,422
Prior years	(29,238)	(70,435)	(29,546)
Total incurred	1,056,498	1,121,504	1,055,876
Paid related to:			
Current year	645,777	706,105	648,984
Prior years	428,435	330,829	331,649
Total paid.....	1,074,212	1,036,934	980,633
Net balance at December 31	886,866	904,580	820,010
Plus reinsurance recoverables	421,737	454,872	455,395
Balance at December 31	\$ 1,308,603	\$ 1,359,452	\$ 1,275,405

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

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 \$2,378,000.

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, 2006, amounts recoverable from reinsurers with a carrying value of \$40,102,315 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 \$43,132,753. 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 \$468,615,000 at December 31, 2006. Of this total, \$15,536,000 represents amounts that are the subject of litigation or are in dispute with the reinsurers involved. Management believes these disputes will not have a significant effect on American National's financial position.

As a result of the September 11, 2001 terrorist attack on the United States, American National accrued losses (primarily on reinsurance assumed) as of December 31, 2001 totaling \$239,406,000, with reinsurance in place providing coverage of \$218,606,000 on those claims. During subsequent years, claims were paid and reinsurance recovered, reducing the amount accrued to \$210,062,000, with \$186,782,000 of reinsurance in place as of December 31, 2006. American National has evaluated the reinsurers providing the coverage for these claims, and management believes that all the ceded amounts are recoverable. The failure of any single reinsurer to meet its obligations for these claims would 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):

	2006	2005	2004
Direct premiums.....	\$ 2,117,722	\$ 2,123,294	\$ 2,010,400
Reinsurance premiums assumed from other companies	198,116	199,835	262,786
Reinsurance premiums ceded to other companies.....	(329,108)	(338,383)	(367,010)
Net premiums.....	\$ 1,986,730	\$ 1,984,746	\$ 1,906,176
Reinsurance recoveries.....	\$ 591,731	\$ 373,579	\$ 229,816

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

	2006	2005	2004
Direct life insurance in force.....	\$ 65,008,408	\$ 63,194,458	\$ 60,676,603
Reinsurance risks assumed from other companies	982,412	856,414	726,927
Total life insurance in force.....	65,990,820	64,050,872	61,403,530
Reinsurance risks ceded to other companies	(26,557,877)	(23,903,319)	(21,539,440)
Net life insurance in force.....	\$ 39,432,943	\$ 40,147,553	\$ 39,864,090

10 NOTES PAYABLE

At December 31, 2006, American National's subsidiaries had notes payable to third-party lenders totaling \$124,075,000. Of this balance, \$4,236,000 represents the balance of one note owed by a subsidiary. This note has an interest rate of 7%, and does not require payment of principle or interest until maturity in 2007. The remaining notes payable balance, totaling \$119,839,000 is comprised of eight notes owed by various consolidated affiliates, in which American National's real estate holding companies are partners. These notes have interest rates ranging from 5.00% to 8.07% and maturities from 2008 to 2027. Each of these notes are 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 \$32,793,000 at December 31, 2006.

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):

	2006			2005			2004		
	Amount	Rate		Amount	Rate		Amount	Rate	
Income tax on pre-tax income.....	\$ 141,714	35.00	%	\$ 120,004	35.00	%	\$ 131,252	35.00	%
Tax-exempt investment income.....	(5,187)	(1.28)		(4,652)	(1.36)		(4,027)	(1.07)	
Dividend exclusion	(7,028)	(1.74)		(5,797)	(1.69)		(5,908)	(1.58)	
Miscellaneous tax credits, net	(2,284)	(0.56)		(1,099)	(0.32)		(1,435)	(0.38)	
Losses on foreign operations.....	1,967	0.49		2,526	0.74		2,373	0.63	
Other items, net.....	2,484	0.61		(3,992)	(1.16)		(2,842)	(0.76)	
	\$ 131,666	32.52	%	\$ 106,990	31.21	%	\$ 119,413	31.84	%

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2006 and December 31, 2005 are as follows (in thousands):

	2006	2005
DEFERRED TAX ASSETS		
Marketable securities, principally due to impairment losses	\$ 28,472	\$ 31,223
Investment in real estate and other invested assets, principally due to investment valuation allowances.....	9,187	11,539
Policyholder funds, principally due to policy reserve discount	205,649	217,612
Policyholder funds, principally due to unearned premium reserve	36,638	37,434
Interest expense on note.....	—	10,891
Non-qualified pension	23,377	21,274
Participating policyholders' surplus	30,356	27,500
Non-taxable pension	9,757	1,443
Other assets	21,758	13,781
Net deferred tax assets	\$ 365,194	\$ 372,697
DEFERRED TAX LIABILITIES		
Marketable securities, principally due to net unrealized gains	\$ (103,352)	\$ (93,604)
Investment in bonds, principally due to accrual of discount on bonds	(12,701)	(13,430)
Deferred policy acquisition costs, due to difference between GAAP and tax amortization methods.....	(311,654)	(309,810)
Property, plant and equipment, principally due to difference between GAAP and tax depreciation method	(6,721)	(8,437)
Net deferred tax liabilities	(434,428)	(425,281)
Total deferred tax	\$ (69,234)	\$ (52,584)

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

Through 1983, under the provision of the Life Insurance Company Income Tax Act of 1959, life insurance companies were permitted to defer from taxation a portion of their income (within certain limitations) until and unless it is distributed to

stockholders, at which time it was taxed at regular corporate tax rates. In 2004, tax law was changed to allow distribution of this deferred income (designated by federal law as “policyholders’ surplus”) to stockholders without taxation as long as it is distributed by December 31, 2006. In 2005, approximately \$56,909,000 of policyholders’ surplus was distributed to stockholders. During 2006, the remaining balance of the policyholders’ surplus, or \$5,721,000, was distributed to stockholders. Accordingly, no provision for deferred federal income taxes applicable to such untaxed policyholder’s surplus has been recorded.

Federal income taxes totaling approximately \$126,494,000, \$81,921,000 and \$112,853,000 were paid to the Internal Revenue Service in 2006, 2005 and 2004, respectively. The statute of limitations for the examination of federal income tax returns through 2001 for American National and its subsidiaries by the Internal Revenue Service has expired. All prior year deficiencies have been paid or provided for, and American National has filed appropriate claims for refunds through 2002. In the opinion of management, adequate provision has been made for any tax deficiencies that may be sustained.

12 COMPONENTS OF COMPREHENSIVE INCOME

The items included in comprehensive income, other than net income, are unrealized gains and losses on available-for-sale securities (net of deferred acquisition costs), foreign exchange adjustments, the change in fair value of an interest rate swap and pension liability adjustment. 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, 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 gain component of comprehensive income	\$ (103,009)	\$ (36,053)	\$ (66,956)
December 31, 2004			
Unrealized losses	\$ (46,171)	\$ (16,160)	\$ (30,011)
Less reclassification adjustment for net gains realized in net income	56,343	19,720	36,623
Net unrealized loss component of comprehensive income	\$ 10,172	\$ 3,560	\$ 6,612

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	2006	2005	2004
Shares issued	30,832,449	30,832,449	30,832,449
Treasury shares	4,105,617	4,105,617	4,191,617
Restricted shares	247,000	247,000	161,000
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. Four awards of restricted stock have been granted, with a total of 228,000

shares granted at an exercise price of zero. These awards result in compensation expense to American National over the vesting period. The amount of compensation expense recorded was \$1,948,000 in 2006, \$1,654,000 in 2005, and \$1,034,000 in 2004.

The plan provides for the award of Stock Appreciation Rights (SAR). The SAR's give the holder the right to compensation based on the difference between the price of a share of stock on the grant date and the price on the exercise date. The SARs vest at a rate of 20% per year for five years and expire five 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 \$2,044,000 and \$2,151,000 at December 31, 2006 and 2005 respectively. Compensation expense was recorded totaling \$560,000, \$1,600,000, and \$1,655,000 for the years ended December 31, 2006, 2005, and 2004, respectively.

SAR and Restricted Stock (RS) information for 2006, 2005 and 2004 follows:

	SAR Shares	SAR Weighted-Average Price per Share	RS Shares	RS Weighted-Average Price per Share
Outstanding at December 31, 2003	146,125	\$ 78.39	155,000	\$ 7.18
Granted.....	—	—	6,000	—
Exercised.....	(48,591)	66.84	—	—
Cancelled	(3,184)	86.59	—	—
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	(3,309)	89.73	—	—
Outstanding at December 31, 2005	157,432	\$ 94.04	247,000	\$ 4.51
Granted.....	2,500	119.25	—	—
Exercised.....	(22,713)	90.18	—	—
Cancelled	(4,520)	97.81	—	—
Outstanding at December 31, 2006	132,699	\$ 95.05	247,000	\$ 4.51

The weighted-average contractual remaining life for the 132,699 SAR shares outstanding as of December 31, 2006, is 6.8 years. The weighted-average exercise price for these shares is \$95.05 per share. Of the shares outstanding, 39,692 are exercisable at a weighted-average exercise price of \$87.38 per share.

The weighted-average contractual remaining life for the 247,000 Restricted Stock shares outstanding as of December 31, 2006, is 6.0 years. The weighted-average exercise price for these shares is \$4.51 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:

	2006	2005	2004
Unrestricted shares outstanding	26,479,832	26,479,832	26,479,832
Incremental shares from restricted stock	132,632	109,379	72,762
Total shares for diluted calculations	26,612,464	26,589,211	26,552,594
Diluted earnings per share	\$ 10.27	\$ 8.87	\$ 9.63

DIVIDENDS

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

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

At December 31, 2006, approximately \$1,305,271,000 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

In 2001, American National formed TMNY Investments, LLC (TMNY). Subsequently, TMNY purchased five percent of the common stock of Farm Family Holdings, Inc. from another subsidiary of American National. The purpose of TMNY is to provide certain officers with additional incentive to enhance the profitable growth of the Farm Family companies. Accordingly, shares of TMNY preferred stock, representing 66% of the value of the company, were granted to various officers of American National and its subsidiaries. The preferred shares cannot be sold or otherwise traded by the officers for a period of eight years. The total value of these preferred shares was \$4,739,000 and \$3,372,000 at December 31, 2006 and 2005, respectively.

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, 2006 and 2005.

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 \$5,477,000 and \$7,888,000 at December 31, 2006 and 2005, respectively.

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 and 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, 2006, 2005, and 2004 (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
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

2004							
Independent Marketing Group	\$ 67,070	\$ 302,601	\$ 344,603	\$ —	\$ 25,068	\$ 8,272	\$ 16,796
Career Sales & Service Division	210,407	107,072	292,416	—	25,063	8,271	16,792
Multiple Line	1,244,260	173,602	1,241,349	—	176,513	58,249	118,264
Senior Age Marketing	199,665	18,654	197,635	—	20,684	6,826	13,858
Direct Marketing	37,817	3,308	37,615	—	3,510	1,158	2,352
Credit Insurance Division	144,495	19,747	165,642	—	(1,400)	(462)	(938)
Health Division	139,132	4,125	143,764	—	(507)	(167)	(340)
Capital and Surplus	900	131,081	12,885	6,143	125,239	36,990	88,249
All Other	41,865	33,535	74,760	196	836	276	560
	\$ 2,085,611	\$ 793,725	\$ 2,510,669	\$ 6,339	\$ 375,006	\$ 119,413	\$ 255,593

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, 2006, 2005, and 2004 (in thousands):

	Life	Annuity	Accident and Health	Property and Casualty	Credit	All Other	Total Revenues
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	52,686	83,231	—	—	—	138,625
Capital and Surplus	—	—	—	—	—	227,492	227,492
All Other	24,527	12,404	2,184	—	—	50,612	89,727
	\$ 654,130	\$ 549,182	\$ 249,247	\$ 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
2004							
Independent Marketing Group	\$ 52,182	\$ 317,489	\$ —	\$ —	\$ —	\$ —	\$ 369,671
Career Sales & Service Division	302,838	3,652	10,989	—	—	—	317,479
Multiple Line	204,560	33,657	16,728	1,162,917	—	—	1,417,862
Senior Age Marketing	26,912	3,003	188,394	—	—	10	218,319
Direct Marketing	40,739	92	294	—	—	—	41,125
Credit Insurance Division	—	—	—	—	164,242	—	164,242
Health Division	2,585	—	140,672	—	—	—	143,257
Capital and Surplus	—	—	—	—	—	131,981	131,981
All Other	28,180	19,323	3,340	—	—	24,557	75,400
	\$ 657,996	\$ 377,216	\$ 360,417	\$ 1,162,917	\$ 164,242	\$ 156,548	\$ 2,879,336

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, 2006 and 2005 (in thousands):

	2006	2005
Independent Marketing Group	\$ 6,915,329	\$ 6,826,403
Career Sales & Service Division.....	1,912,687	1,906,420
Multiple Line.....	4,166,628	4,097,643
Senior Age Marketing.....	405,756	417,385
Direct Marketing.....	127,335	119,553
Credit Insurance Division.....	503,310	490,652
Health Division.....	431,904	451,407
Capital and Surplus	2,603,611	2,296,505
All Other	865,611	887,168
	\$ 17,932,171	\$ 17,493,136

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 2006, no single customer or organization was responsible for more than 4% of total premium revenue and policy deposits. This compares with 8% in 2005 and 8% in 2004. Of the total business written by these organizations, the majority was policy account deposits for annuities.

15 RECONCILIATION TO STATUTORY ACCOUNTING

American National and its insurance subsidiaries are required to file statutory financial statements with state insurance regulatory authorities. Accounting principles used to prepare these statutory financial statements differ from those used to prepare financial statements on a GAAP basis.

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

	2006	2005	2004
Statutory net income of insurance companies	\$ 209,218	\$ 217,819	\$ 271,043
Net gain (loss) of non-insurance companies.....	64,578	38,660	37,099
Combined net income	\$ 273,796	\$ 256,479	\$ 308,142
Increases (decreases):			
Deferred policy acquisition costs.....	(8,501)	27,156	71,135
Policyholder funds	48,530	(13,678)	(104,653)
Deferred federal income tax benefit	(10,584)	12,727	16,792
Premiums deferred and other receivables	(1,188)	7,055	75
Gain on sale of investments	(1,180)	387	(5,785)
Change in interest maintenance reserve.....	(4,039)	(2,455)	(3,047)
Asset valuation allowances.....	581	(3,040)	(1,991)
Investment income	(7,820)	(9,287)	(1,954)
Other adjustments, net.....	(17,534)	15	(5,323)
Consolidating eliminations and adjustments	1,170	(39,480)	(17,798)
Net income reported herein.....	\$ 273,231	\$ 235,879	\$ 255,593
	2006	2005	2004
Statutory capital and surplus of insurance companies	\$ 3,392,794	\$ 3,165,093	\$ 2,948,000
Stockholders' equity of non-insurance companies.....	444,975	374,410	310,285
Combined capital and surplus	\$ 3,837,769	\$ 3,539,503	\$ 3,258,285
Increases (decreases):			
Deferred policy acquisition costs.....	1,187,879	1,146,714	1,133,031
Policyholder funds	81,710	32,436	36,259
Deferred federal income taxes	(149,847)	(158,571)	(184,956)
Premiums deferred and other receivables	(92,183)	(90,697)	(90,974)
Reinsurance in "unauthorized companies"	15,757	30,876	42,566
Statutory asset valuation reserve	403,763	353,597	398,725
Statutory interest maintenance reserve	10,228	13,832	15,858
Asset valuation allowances.....	(9,054)	(20,637)	(15,759)
Investment market value adjustments	(25,739)	(9,902)	79,844
Non-admitted assets and other adjustments, net	(23,498)	33,627	61,630
Consolidating eliminations and adjustments	(1,661,162)	(1,492,731)	(1,438,751)
Stockholders' equity reported herein.....	\$ 3,575,623	\$ 3,378,047	\$ 3,295,758

In accordance with various government and state regulations, American National and its insurance subsidiaries had bonds with an amortized value of \$82,804,000 at December 31, 2006, on deposit with appropriate regulatory authorities.

16 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 the 2006 balances 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):

	2006	2005	2004
Reconciliation of benefit obligation			
Obligation at beginning of year	\$ 277,877	\$ 251,373	\$ 229,928
Service cost benefits earned during period	9,633	8,981	8,687
Interest cost on projected benefit obligation	15,474	14,737	13,705
Participant contributions	751	767	750
Amendments	—	—	5,571
Actuarial gain (loss)	(6,247)	16,490	13,926
Benefits paid	(14,144)	(14,471)	(21,194)
Obligation at end of year	\$ 283,344	\$ 277,877	\$ 251,373
Reconciliation of fair value of plan assets			
Fair value of plan assets at beginning of year	\$ 158,141	\$ 157,085	\$ 158,119
Actual return on plan assets	9,231	8,763	12,695
Employer contributions	13,499	5,997	6,715
Participant contributions	751	767	750
Benefits paid	(14,144)	(14,471)	(21,194)
Fair value of plan assets at end of year	\$ 167,478	\$ 158,141	\$ 157,085
Funded status at end of year	\$ 115,866	\$ 119,736	\$ 94,288

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

	2006	2005
Assets	\$ —	\$ 8,320
Liabilities	(115,866)	(74,814)
	\$ (115,866)	\$ (66,494)

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

	2006	2005	2004
Service cost	\$ 9,664	\$ 9,035	\$ 8,753
Interest cost	15,474	14,737	13,705
Expected return on plan assets	(11,808)	(11,425)	(10,319)
Amortization of prior service cost	4,613	4,613	3,630
Amortization of transition obligation	47	10	93
Amortization of net gain (loss)	4,784	3,481	5,927
Net periodic benefit cost	\$ 22,774	\$ 20,451	\$ 21,789

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

	2006	2005	2004
Prior service cost	\$ (12,973)	\$ —	\$ —
Net actuarial loss	26,045	(13,634)	(825)
Deferred tax benefit	(4,575)	4,772	289
Other comprehensive loss, net of tax	\$ 8,497	\$ (8,862)	\$ (536)

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 \$4,300,000 and \$4,600,000, respectively.

	2006	2005
Prior service cost	\$ (12,973)	\$ —
Net actuarial loss	(45,589)	(18,368)
Deferred tax benefit	20,497	6,429
Amounts included in accumulated other comprehensive income	\$ (38,065)	\$ (11,939)

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 1/1/2006 to 12/31/2006	Used for Benefit Obligations as of 12/31/2006
Discount rate	5.50%	5.77%
Rate of compensation increase	3.75%	3.72%
Long-term rate of return	7.65%	7.66%

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 did not contribute to the qualified retirement plan in 2005, because the plan was over-funded. During 2006, \$7,200,000 was contributed to the qualified plan.

American National expects to contribute \$7,100,000 to its qualified pension plan in fiscal year 2007. The Farm Family Insurance Companies expect to contribute \$500,000 to their pension plans in fiscal year 2007.

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

Year	Pension Benefits
2007	\$ 13,678
2008	14,745
2009	16,150
2010	18,737
2011	22,558
2012-2016	130,385

The pension plan asset allocations at December 31, 2006 and December 31, 2005 by asset category are as follows:

	Plan Assets at December 31,	
	2006	2005
Asset Category		
Equity securities	33.8%	43.1%
Debt securities	47.6%	46.7%
Other	18.6%	10.2%
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 on 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.

POST-RETIREMENT 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 \$6,300,000 and \$6,700,000 at December 31, 2006 and 2005, 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 \$2,800,000 for 2006, \$2,600,000 for 2005 and \$2,400,000 for 2004.

17 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, 2006, were approximately \$3,993,000.

In the ordinary course of their operations, the companies also had commitments outstanding at December 31, 2006, to purchase, expand or improve real estate, to fund mortgage loans, and to purchase other invested assets aggregating \$123,831,000, all of which are expected to be funded in 2007. As of December 31, 2006, 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, 2006, was approximately \$353,018,000, while the total cash values of the related life insurance policies was approximately \$359,323,000.

LITIGATION

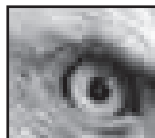
American National and its subsidiary American National Life Insurance Company of Texas are defendants in several lawsuits alleging, among other things, improper calculation and/or cancellation of benefits under certain group health contracts. Management believes that the companies have meritorious legal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

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

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. Management believes that the company has meritorious legal defenses against this lawsuit. The provision for possible losses on this case 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, 2006 and 2005, 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, 2006. 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, 2006 and 2005, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2006 in conformity with U.S. generally accepted accounting principles.

KPMG LLP
March 19, 2007
Houston, Texas



ten-year financial highlights

(In millions, except per share data and ratios)

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Operating Results										
Revenues	\$ 3,114	\$ 3,045	\$ 2,879	\$ 2,629	\$ 2,221	\$ 2,138	\$ 1,834	\$ 1,890	\$ 1,745	\$ 1,740
Operating earnings (a)	208	181	220	161	102	61	125	166	155	182
Realized capital gains (b)	65	55	36	21	(85)	4	15	101	42	66
Net income	273	236	256	182	17	65	140	267	197	248
Operating earnings per share, diluted (a)	7.82	6.79	8.30	6.07	3.87	2.29	4.73	6.26	5.86	6.88
Realized capital gains per share, diluted (b)	2.45	2.08	1.33	0.81	(3.23)	0.16	0.56	3.81	1.59	2.50
Net income per share, diluted	10.27	8.87	9.63	6.88	0.64	2.45	5.29	10.07	7.45	9.38
Financial Position										
Assets	\$ 17,932	\$ 17,493	\$ 16,571	\$ 15,140	\$ 12,237	\$ 11,258	\$ 9,270	\$ 9,090	\$ 8,816	\$ 8,483
Investments	14,526	14,257	13,365	11,962	9,173	8,280	6,990	7,254	7,143	6,982
Liabilities	14,357	14,115	13,275	12,028	9,363	8,322	6,247	6,027	5,901	5,778
Policyholder liabilities	13,027	12,876	12,212	11,062	8,467	7,516	5,590	5,368	5,283	5,261
Total equity	3,575	3,378	3,296	3,112	2,874	2,936	3,023	3,063	2,915	2,705
Total equity, excluding SFAS 115	3,601	3,379	3,246	3,057	2,839	2,926	3,062	3,075	2,884	2,681
Insurance Production Information										
Life insurance sales	\$ 11,263	\$ 12,077	\$ 13,021	\$ 12,373	\$ 12,874	\$ 11,821	\$ 11,487	\$ 11,224	\$ 10,208	\$ 10,091
Life insurance in force (c)	65,991	64,051	61,404	58,736	56,504	54,414	48,777	46,953	44,848	43,805
Policy account deposits	1,092	1,212	1,554	2,695	936	588	325	310	290	392
Common Stock Statistics										
Market close	\$ 114.11	\$ 116.99	\$ 104.16	\$ 84.48	\$ 82.02	\$ 84.10	\$ 73.00	\$ 63.75	\$ 82.75	\$ 93.00
Book value per share, basic	135.03	127.57	124.46	117.52	108.52	110.89	114.19	115.68	110.07	102.17
Dividends per share	3.01	2.97	2.96	2.96	2.96	2.92	2.86	2.78	2.70	2.62
Shares outstanding (000's) (d)	26,480	26,480	26,480	26,480	26,480	26,480	26,479	26,479	26,479	26,479
Financial Ratios										
Return on equity (e)	8.2%	4.7%	8.4%	11.0%	0.5%	(0.3)%	1.2%	7.6%	10.4%	12.2%
Operating return on equity (f)	6.1%	5.6%	7.2%	5.7%	3.5%	2.0%	4.1%	5.7%	5.8%	7.4%
Dividend payout (g)	38.7%	43.9%	35.8%	49.0%	76.8%	127.8%	60.5%	44.5%	46.1%	38.1%
Assets per \$100 of liabilities	\$ 125	\$ 124	\$ 125	\$ 126	\$ 131	\$ 135	\$ 148	\$ 151	\$ 149	\$ 147

(a) After tax and excluding gains from sale of investments

(b) After-tax gains from sale of investments

(c) Includes insurance acquired of \$4,125 million in 2001

(d) Number of unrestricted shares outstanding at year end

(e) Change in total equity before dividends to stockholders divided by total equity at the beginning of the year

(f) Operating earnings per share divided by book value per share at the beginning of the year, adjusted to exclude the effect of SFAS 115

(g) Total dividends paid to stockholders divided by operating earnings

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Vice President, Investments

Byron W. Smith
Vice President
Actuarial Services

Patrick Leeper
Assistant Vice President
Licensing and Field
Performance
Administration

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

Charles Swearingen
Assistant Vice President
Computing and
Distribution Services

Linda F. Ward
Assistant Vice President
Corporate Actuary

J. Mark Flippin
Assistant Secretary

Ronald E. Rathbun
Underwriting Compliance
Officer

SECURITIES MANAGEMENT AND RESEARCH, INC. A FLORIDA CORPORATION TEXAS

DIRECTORS

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

OFFICERS

Michael W. McCroskey
President
Chief Executive Officer
Gordon D. Dixon
Senior Vice President
Chief Investment Officer
Teresa E. Axelson
Vice President
Secretary, Chief Compliance Officer
Brenda T. Koelemay
Vice President
Treasurer
Chief Financial and
Administrative Officer
Andrew R. Duncan
Vice President
Derivatives Strategies and
Alternative Investments
T. Brett Harrington
Vice President
Fund Marketing
Anne M. LeMire
Vice President
Head of Fixed Income
John S. Maidlow
Vice President
Head of Portfolio Management
Ronald C. Price
Vice President
Vicki R. Douglas
Assistant Vice President
Steven D. Geib
Assistant Vice President
Sally F. Praker
Assistant Vice President
Michele S. Lord
Assistant Secretary

FARM FAMILY CASUALTY INSURANCE COMPANY NEW YORK

DIRECTORS

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

OFFICERS

Gregory V. Ostergren Chairman of the Board	Patrick A. Wejrowski Senior Vice President Information Services
G. Richard Ferdinandtsen Vice Chairman of the Board	Roy S. Davies Vice President Accounting
Timothy A. Walsh President, Chief Executive Officer	Gordon D. Dixon Vice President Investments
James J. Bettini Executive Vice President Operations	Thomas E. Kelley Vice President Casualty Claims
Victoria M. Stanton Executive Vice President General Counsel and Secretary	Michael W. McCroskey Vice President Investments
Barry L. Bablin Senior Vice President Casualty Actuarial Services	Melissa G. McGrath Vice President Legal
Michele M. Bartkowski Senior Vice President Chief Financial Officer and Treasurer	Margaret A. Paris Vice President Casualty Compliance
William T. Conine Senior Vice President Marketing Services	
Lewis E. Dufort Senior Vice President Marketing	
Richard E. Long Senior Vice President Casualty Claims	

FARM FAMILY LIFE INSURANCE COMPANY NEW YORK

DIRECTORS

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

OFFICERS

Gregory V. Ostergren Chairman of the Board	Patrick A. Wejrowski Senior Vice President Information Services
G. Richard Ferdinandtsen Vice Chairman of the Board	John A. Cole Vice President Life Operations
Timothy A. Walsh President, Chief Executive Officer	Roy S. Davies Vice President Accounting
James J. Bettini Executive Vice President Operations	Gordon D. Dixon Vice President Investments
Victoria M. Stanton Executive Vice President General Counsel and Secretary	Kathryn Lentivech Vice President Life Actuarial Services
Michele M. Bartkowski Senior Vice President Chief Financial Officer and Treasurer	Michael W. McCroskey Vice President Investments
William T. Conine Senior Vice President Marketing Services	Melissa G. McGrath Vice President Legal
Lewis E. Dufort Senior Vice President Marketing	

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

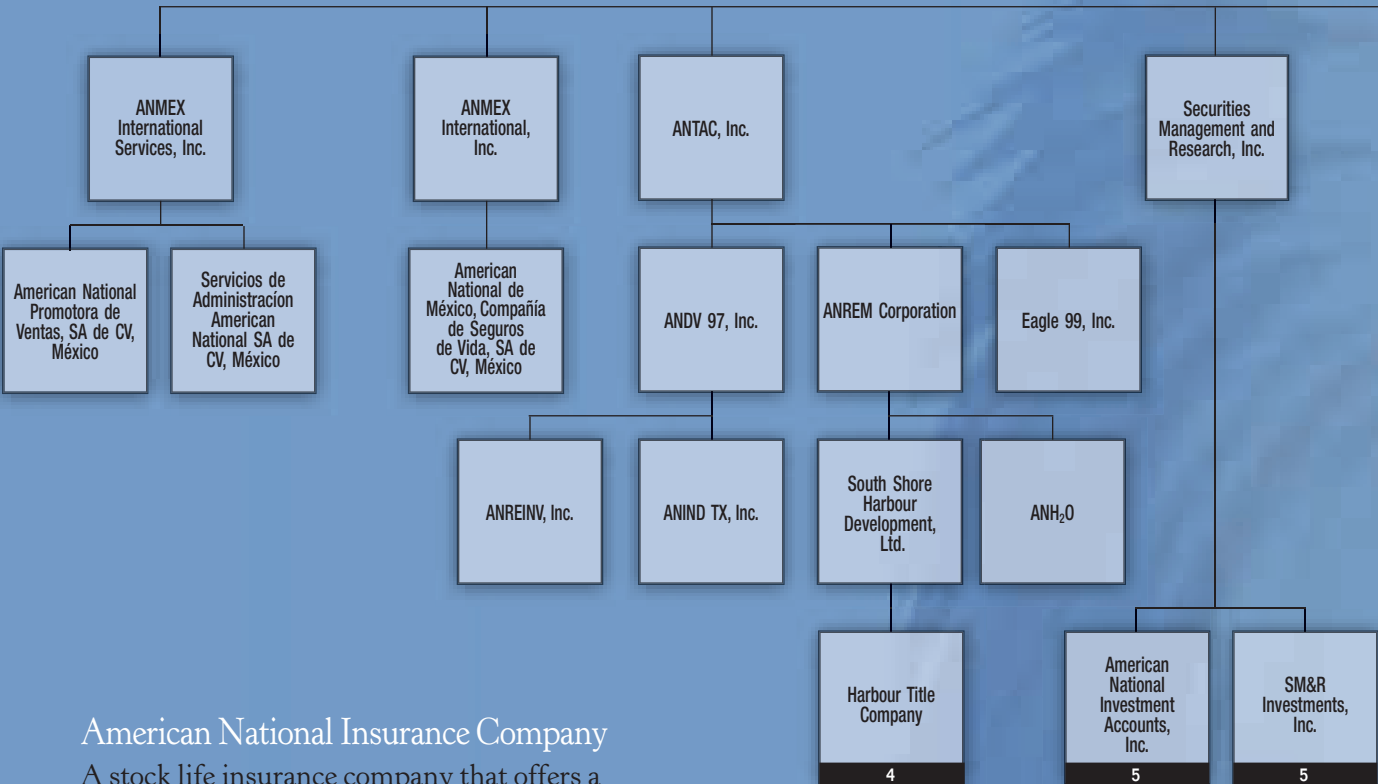
DIRECTORS

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

OFFICERS

Reynelle Cornish González
Director General
Francisco García Pérez
Director,
Administration Department
Francisco Quintanilla
De La Garza
Normative Controller

american national insurance company



American National Insurance Company

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

American National Life Insurance Company of Texas

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

Standard Life and Accident Insurance Company

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

Garden State Life Insurance Company

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

American National de México, Compañía de Seguros de Vida, S.A. de C.V.

A Mexican life insurance company specializing in Career Sales & Service Division life products

The American National Property and Casualty Companies

Property and casualty insurers that write primarily auto and homeowners insurance

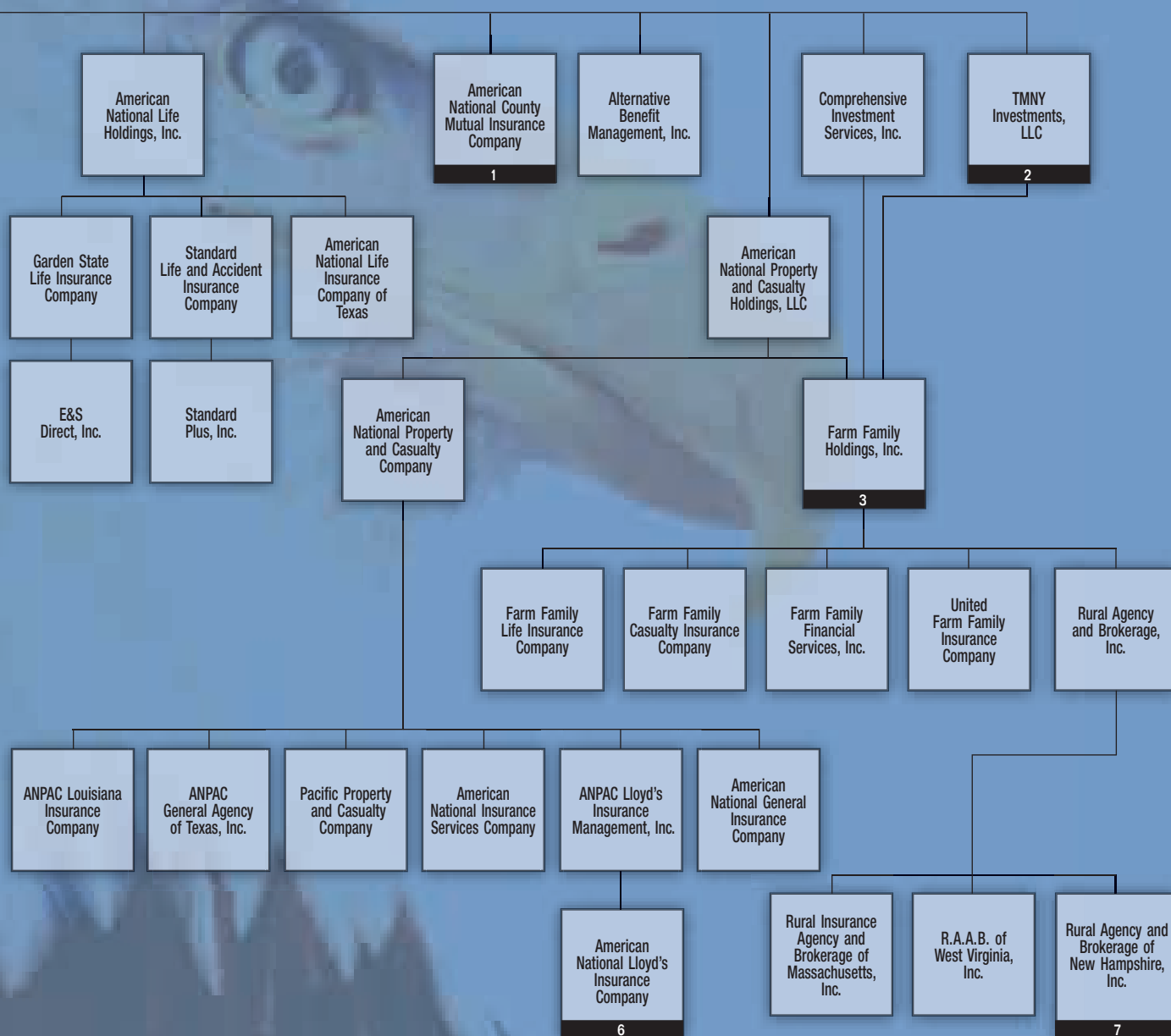
The Farm Family Companies

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

Securities Management and Research, Inc.

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

family of companies



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

- 1** Not a subsidiary company, but managed by American National Insurance Company
- 2** 17% owned by American National Insurance Company, 17% owned by ANPAC and 66% owned by employees
- 3** 94.3% owned by American National Property and Casualty Holding Company, LLC., 5% owned by TMNY Investments, LLC, and 0.7% owned by Comprehensive Investment Services, Inc.
- 4** 50% owned by South Shore Harbour Development Ltd. and 50% owned by Lawyers Title Company
- 5** Not subsidiaries, but mutual funds managed by Securities Management and Research, Inc. (SM&R) in which SM&R and/or American National Insurance Company may have investments from time to time
- 6** Not a subsidiary company, but managed by ANPAC Lloyd's Insurance Management, Inc.
- 7** 75% owned by New Hampshire Farm Bureau, and 25% owned by Rural Agency and Brokerage, Inc.



financial strength ratings

American National Insurance Company (“American National”) has been evaluated and assigned the following ratings by nationally recognized, independent rating agencies. The ratings are current as of March 1, 2006.

A.M. BEST: A+ (SUPERIOR)

Second highest of 13 active company ratings¹

“A superior ability to meet their ongoing obligations to policyholders.”

STANDARD & POOR’S: AA (VERY STRONG)

Third highest of 20 active company ratings²

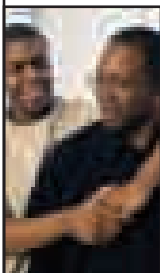
“Very strong financial security characteristics, differing only slightly from those rated higher.”

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

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

Ratings may be changed, suspended, or withdrawn at any time. For the most current ratings, view the full rating reports on American National’s Internet site at www.anico.com.

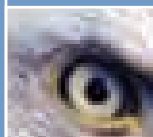
1. A.M. Best’s active company rating scale is:
A++ (Superior), A+ (Superior), A (Excellent), A- (Excellent), B++ (Very Good), B+ (Very Good), B (Adequate), B- (Adequate), C++ (Fair), C+ (Fair), C (Marginal), C- (Marginal) and D (Poor).
2. Standard & Poor’s active company rating scale is:
AAA (Extremely Strong), AA (Very Strong), A (Strong), BBB (Good), BB (Marginal), B (Weak); CCC (Very Weak), and CC (Extremely Weak). Plus (+) or Minus (-) modifiers show the relative standing within the categories from AA to CCC.



code of ethics

American National Insurance Company has adopted a Code of Business Conduct and Ethics applicable to all directors, officers and employees of the company and its subsidiaries. A copy of this code can be found on the company's Web site, www.anico.com. Any waivers of the code's provisions will also be posted on the Web site.

forward-looking statement



Safe Harbor Statement under The Private Securities Litigation Reform Act of 1995: This Annual Report contains “forward-looking” statements within the meaning of the Private Securities Litigation Reform Act of 1995 that are based on American National management’s current knowledge, expectations, estimates, beliefs and assumptions. The forward-looking statements in this Annual Report include, but are not limited to, statements describing the marketing plans of American National. Such forward-looking statements generally include the words “may,” “could,” “should,” “would,” “believe,” “anticipate,” “expect,” “intend,” “plan,” or a similar expression or statement regarding future periods. Readers are hereby cautioned that certain events or circumstances could cause actual results to differ materially from those estimated, projected, or predicted. The forward-looking statements in this Annual Report are not

guarantees of future events or performance and are subject to a number of important risks and uncertainties, many of which are outside of American National’s control, that could cause actual results to differ materially. These risks and uncertainties include, but are not limited to: (1) adverse decisions from regulatory authorities; (2) changes in regulatory requirements; (3) the potential occurrence of major disasters; (4) adverse litigation results; (5) competition from existing insurance companies; (6) the volatility of the securities markets; and (7) general economic conditions. Forward-looking statements may also be made in American National’s press releases, as well as by American National’s management in oral statements. American National undertakes no obligation to update or revise any forward-looking statements for events or circumstances after the date on which such statement is made.

vision

*To be a leading
provider of
financial products
and services for
current and future
generations*



mission

*To be the company
of choice for
insurance and other
financial products
and services while
maintaining
superior financial
strength*





Corporate office

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

Legal counsel

Greer, Herz & Adams LLP, Galveston, Texas

Independent auditors

KPMG LLP, 700 Louisiana, Houston, Texas 77002

Stock transfer agent and registrar (Shareholder information)

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

Mellon Investor Services, LLC, 480 Washington Boulevard, Jersey City, NJ 07310-1900

or P.O. Box 3315, South Hackensack, NJ 07606, 1-866-258-7757.

International Shareholders: 1-201-680-6578. TDD: 1-800-231-5469.

TDD International Shareholders: 1-201-680-6610.

www.melloninvestor.com/isd

