STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of American National Property and Casualty Company as of December 31, 2006

ORDER

After full consideration and review of the report of the financial examination of American National Property and Casualty Company for the period ended December 31, 2006, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Linda Bohrer, Acting Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER American National Property and Casualty Company, to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this June 20, 2008.

Linda Bohrer

Linda Bohrer, Acting Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF

ASSOCIATION FINANCIAL EXAMINATION

AMERICAN NATIONAL PROPERTY AND CASUALTY COMPANY

AS OF

DECEMBER 31, 2006

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND

PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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Springfield, Missouri
May 2, 2008

Honorable Alfred W. Gross, Commissioner
Virginia Bureau of Insurance
Chairman, (E) Financial Condition Committee, NAIC

Honorable Merle Scheiber, Commissioner
South Dakota Division of Insurance
Midwestern Zone Secretary

Honorable Douglas M. Ommen, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65102

Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

American National Property and Casualty Company

hereinafter referred to as such, as the "Company" or as "ANPAC." Its main administrative office is located at 1949 East Sunshine, Springfield, Missouri 65899, telephone number (417) 887-4990. This examination began on March 5, 2007 and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior comprehensive financial examination of American National Property and Casualty Company was made as of December 31, 2003. It was conducted concurrently with the examination of the Company's subsidiary, American National General Insurance Company (ANGIC), by examiners from the State of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC).

The current full scope association financial examination of the Company covers the period from January 1, 2004 through December 31, 2006 and has been conducted by examiners from the State of Missouri representing the Midwestern Zone of the NAIC with no other zones participating. This examination was conducted concurrently with the examination of the Company's subsidiary, ANGIC.

This examination also included the material transactions and/or events occurring subsequent to the examination date which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (the DIFP) and statutes of the State of Missouri prevailed.

The examiners relied upon information supplied by the independent auditor, KPMG LLP of Houston Texas, from its audit covering the period from January 1, 2006 through December 31, 2006. This information included, but was not limited to, attorney letters, account analysis information, and internal control evaluations.

Comments-Previous Examination

Listed below are notes, comments, and recommendations of the previous examination report dated as of December 31, 2003 and the subsequent response or action taken by the Company.

Intercompany Transactions

Comment: ANPAC was party to a service agreement with American National Insurance Company, its ultimate parent, effective November 1, 2001 for various services. This agreement had not been filed with the DIFP as required by the Missouri holding company laws. The Company was directed to file the agreement with the DIFP in accordance with Section 382.195 RSMo (Prohibited transactions, exceptions).

Company's Response: The agreement was filed with the DIFP.

Current Findings: The agreement was filed with the DIFP and later withdrawn. The prior service agreement, executed in December 1991, remains in effect.

Other Deposits

Comment: The assets held in a trust account as part of the Company's reinsurance agreement with Royal Surplus Lines Insurance Company were not disclosed on Schedule E - Part 3 (Special Deposits) of the 2003 Annual Statement. The NAIC Annual Statement Instructions require disclosure of assets in a trust, since these assets are not for the benefit of all policyholders, claimants, and creditors of the Company. The Company was directed to ensure that the trust assets are properly listed on Schedule E - Part 3 of the Annual Statement in the future.

Company's Response: The assets held in trust as part of the Company's reinsurance agreement with Royal Surplus Lines Insurance Company were disclosed on Schedule E – Part 3 of the 2004 Annual Statement.

Current Findings: No disclosure problems were noted with respect to this deposit during the current examination.

Territory and Plan of Operations
Comment: The Company could not provide documentation of the semi-annual reviews of its appointed managing general agents (MGAs) as required by Section 375.147 through 375.153 RSMo (Managing General Agents statutes) and Missouri Regulation 20 CSR 200-10 (Managing General Agents regulations). The Company was directed to perform its statutory functions with respect to its MGAs and to maintain evidence of such compliance for review during future examinations.
Company's Response: The Company will perform its statutory functions with respect to its MGAs and will maintain evidence of such reviews.
Current Findings: The Company did provide documentation of annual reviews during the current examination period; however, it is still not performing the required semi-annual reviews. See the Territory and Plan of Operations section of the current examination report for details.

Territory and Plan of Operations
Comment: The Company improperly appointed Aerospace Insurance Managers Inc. as an MGA without licensure by the state of Missouri as required by Section 375.149 RSMo (License Required; Surety Requirements). The Company was directed to require all current MGAs to be so licensed as required by law and to ensure that all future MGAs were licensed prior to entering into agreements with the Company.
Company's Response: The Company will insure that it is in compliance with Section 375.149 RSMo in its appointment of MGAs in the future.
Current Findings: No problems with unlicensed MGAs were noted during the current examination procedures.

Accounts and Records
Comment: The accuracy and adequacy of the reported liability for the Company's CA$BACK program to qualified insureds was compromised by the following problems noted by the examination:

1. The underlying database did not match the summary reports supporting the Annual Statement amount. Numerous runs of the Company's computer system by its informational system personnel were required to obtain a usable download.
2. Given the significance of the persistency ratios in calculating the liability reserves, the Company should have its appointed actuary review and attest to the adequacy of these ratios.
3. The accounting and reporting practice employed by the Company is not consistent with the guidance provided by SSAP #66, which covers transactions such as the CA$BACK program.
4. The Company improperly included the liability for the CA$HBACK program as part of the unearned premium liability on the Annual Statement. The NAIC's Annual Statement Instructions require this liability to be reported as part of Aggregate Write-Ins for Liabilities and separately identified below the surplus line on the Annual Statement.

The Company was directed to implement and/or correct the issues noted above without delay.

Company's Response: The computer problem matching the detail reports to the summary program has been corrected. The summary reports were correct; it was the computer program that listed the underlying database which was incorrect. The CA$HBACK liability was recorded as a write-in liability on the 2004 Annual Statement.
Current Findings: The Company's actuary determined that the CA$HBACK retrospective premium write-in liability was understated as of December 31, 2006. See the examination change for further details. In addition, the Company failed to provide to the examination staff a detailed database that supported the initial liability accrued at December 31, 2006.

Custodial Agreement
Comment: The custodial agreement with Moody National Bank did not contain all the controls and safeguards required for such agreements as contained in the NAIC's Financial Examiners Handbook. The Company was directed to update its custodial agreement with Moody Bank to comply with the required standard.
Company's Response: The Company is working with Moody National Bank to amend its custodial agreement.
Current Findings: During the current examination, ANPAC amended its custodial agreement to contain the controls and safeguards recommended by the NAIC.

SCA Valuation
Comment: The Company overstated the value of its investment in ANPAC Lloyds Insurance Management, Inc. (ANLIM), a wholly owned subsidiary incorporated in Texas. The Company calculated the value of ANLIM without following the requirements of SSAP #46, paragraph 7 (b) (ii) (Investments in Subsidiary, Controlled and Affiliated Entities). Based on the prior examination's materiality threshold, no examination change was made to reflect this overstatement at that time. The Company was directed to report the value of its investment in ANLIM in accordance with the guidance provided by SSAP #46, paragraph 7 (b) (ii) in the future.
Company's Response: The Company will monitor its valuation of ANPAC Lloyds Management, Inc. to insure the guidelines are followed.
Current Findings: The Department of Insurance, Financial Institutions, and Professional Registration approved the Company's permitted practice request to admit the value of its investment in ANPAC Lloyd's Insurance Management (ALIM) at an amount equal to the surplus as regards policyholders of American National Lloyd's Insurance Company (ANLIC) in accordance with SSAP 88 paragraph 8.b.i.

HISTORY

General

American National Property and Casualty Company was incorporated on October 1, 1973 and commenced business on January 2, 1974. The Company operates as a stock casualty company under the laws of Chapter 379 (Insurance other than life), Revised Statutes of Missouri (RSMo).

Capital Stock

The Company is wholly owned by American National Property and Casualty Holding Company, LLC, a Nevada corporation, which in turn, is wholly owned by American National Insurance Company (ANICO), a Texas corporation located in Galveston, Texas. As of December 31, 2006, the Company had authority to issue 125,000 shares of common stock with a par value of $33.60 per share. All of the 125,000 shares were issued and outstanding for a balance of $4.2 million in the Company's capital stock account at December 31, 2006.

Dividends

No dividends were declared or paid during the period under examination.

Management

As of December 31, 2006, nine directors were serving on ANPAC's Board of Directors as follows:

Name	Address	Occupation & Business Affiliation
Charles H. Addison	Galveston, TX	Senior Vice President – Systems Planning, American National Insurance Company
Robert J. Campbell	Springfield, MO	Senior Vice President, General Counsel, Secretary, and Chief Claims Officer ANPAC and ANGIC
G. Richard Ferdinandsten	Galveston, TX	President and Chief Operating Officer American National Insurance Company
James E. Pozzi	Galveston, TX	Senior Exec. Vice President – Corp. Planning, Systems & Life Admin, American National Insurance Company
Irwin M. Herz, Jr.	Galveston, TX	Attorney Greer, Herz & Adams, LLP
Ross R. Moody	Austin, TX	President National Western Life Insurance Company
Gregory V. Ostergren	Springfield, MO	Chairman, President and Chief Executive Officer - ANPAC and ANGIC
Stephen E. Pavlicek	League City, TX	Senior Vice President and Controller American National Insurance Company
Ronald J. Welch	Galveston, TX	Senior Vice President and Chief Actuary American National Insurance Company

The Executive Committee members elected and serving as of December 31, 2006 were the following directors: G. Richard Ferdinandtsen and Gregory V. Ostergren.

The Finance Committee members elected and serving as of December 31, 2006 were the following individuals: S.F. Brast, F.V. Broll, G.D. Dixon, G.R. Ferdinandtsen, Ann LeMire, R.K. Kirchner, E.V. Matthews, M.W. McCroskey, W.L. Moody, IV, R.L. Moody, and J. Mark Flippin.

The officers elected and serving as of December 31, 2006 were as follows:

Name	Title
Gregory V. Ostergren	Chairman of the Board – President & CEO
Robert J. Campbell	Senior Vice President, General Counsel, Secretary, and Chief Claims Officer
James A. Cybulski	Vice President – Controller, Treasurer
Bernard S. Gerwel	Senior Vice President – MLEA, Chief Field Admin Officer
Michael W. McCroskey	Vice President – Investments
Byron W. Smith	Vice President – Actuarial Services
Janet A. Clark	Vice President – Underwriting Services
Deborah A. Foell	Vice President – IS, General Services
Jerry W. Jones	Vice President – Claim Services
Ronald E. Rathburn	Underwriting Compliance Officer

Conflict of Interest

The Company requires all directors and officers to complete conflict of interest disclosure statements annually. The statements were reviewed for the period under examination. Conflicts were noted for Mr. Herz and three members of the extended Moody family due to cross ownerships and family relationships. No other material conflicts were indicated.

Corporate Records

A review was made of the Articles of Incorporation and Bylaws for the examination period. Effective October 28, 2005, the shareholder amended the Articles of Incorporation, changing the par share value of common stock from \$20.00 per share to \$33.60 per share. Effective October 28, 2004, the Board of Directors amended the Bylaws, changing the composition of the Executive Committee from "three or more members" to "two or more." The minutes of the Company's Board of Directors' and the shareholder's meetings were reviewed and appear to properly reflect and approve the significant corporate transactions and events for the period under examination.

Acquisitions, Mergers and Major Corporate Events

During 2007, ANPAC's ultimate parent, ANICO, reorganized its property and casualty business, merging American National Property and Casualty Holding, LLC (ANPAC Holding) with Farm Family Holdings, Inc. (FFH) with ANPAC Holding as the surviving entity. See the "Affiliated Companies" section of this report for additional details of this reorganization.

Surplus Debentures

On June 28, 2002, the Company issued a surplus note in the amount of \$50 million to its parent, ANPAC Holding. Under the terms of the surplus note, an annual payment of \$5 million plus interest at 7.5% is due each March 31st, subject to minimum surplus stipulations and approval by the Director of the Missouri Department of Insurance, Financial Regulation and Professional Development. The surplus note allows for the deferral of interest and principal payments at the discretion of the Board of Directors of ANPAC.

ANPAC made the following principal and interest payments during the current examination period, as approved by the Director of the DIFP:

Date	Principal	Interest
June 30, 2004	\$0	\$3,750,000
June 30, 2005	\$15,000,000	\$3,750,000
May 31, 2006	\$0	\$2,625,000

AFFILIATED COMPANIES

Holding Company, Subsidiaries and Affiliates

ANPAC is a member of an Insurance Holding Company System as defined by Section 382.010 RSMo (Definitions). In June 2002, ANPAC's then direct parent, ANICO, contributed all outstanding common stock shares of ANPAC to ANICO's subsidiary, American National Property and Casualty Holding Company, LLC (ANPAC Holding), a Nevada corporation. ANPAC Holding became the direct parent of ANPAC as a result of the transaction. ANPAC Holding is owned 94% by ANICO and 6% by Comprehensive Investment Services, Inc., which is wholly owned by ANICO. ANICO, a stock casualty company domiciled in Texas, is 23.3% owned by the Moody Foundation and 37.35% by the Libbie S. Moody Trust. Moody National Bank (owned by a separate Moody trust known as the Three R Trust) serves as the trustee for an additional 6.2% of ANICO stock. The remaining stock ownership interest is publicly traded.

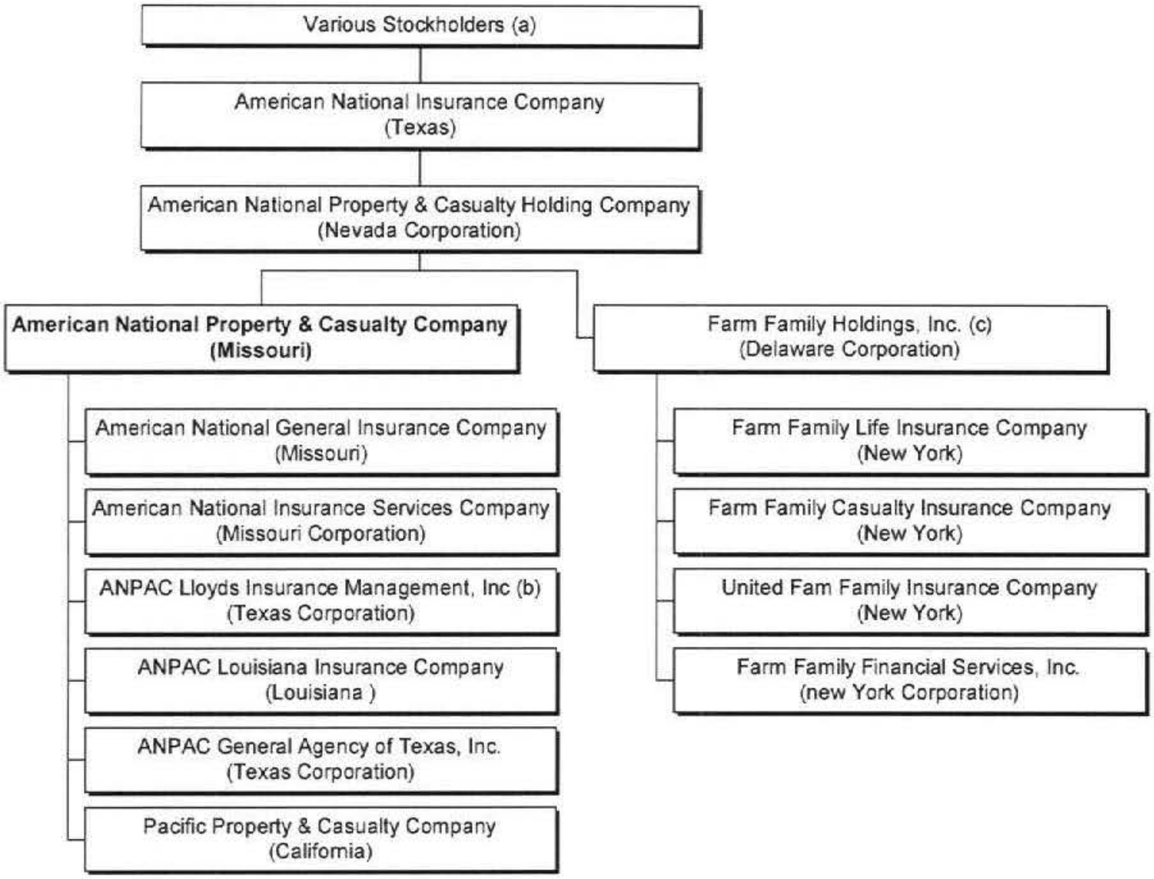
ANPAC wholly owns the following subsidiaries: American National General Insurance Company (ANGIC), a Missouri property and casualty insurance company; American National Insurance Services Company (ANISCO), a Missouri corporation that brokers commercial lines; ANPAC Lloyd's Insurance Management, Inc. (ANLIM), a Texas corporation which serves as attorney-in-fact for American National Lloyd's Insurance Company (ANLIC); ANPAC Louisiana Insurance Company (ANPAC-LA), a Louisiana property and casualty insurance company; Pacific Property and Casualty Company (Pacific), a California property and casualty insurance company; and ANPAC General Agency of Texas, Inc. (ANGAT).

In 2007, ANICO realigned its subsidiaries. Farm Family Holdings, Inc. and ANPAC Holding were merged. After the merger, ANICO owns 100% of the common stock in the ANPAC Holding Inc., while Comprehensive Investment Services, Inc. (CIS), a downstream subsidiary of ANICO, owns 100% of the preferred stock. ANPAC Holding Inc. directly owns ANPAC, Farm Family Life Insurance Company, Farm Family Casualty Insurance Company, United Farm Family Insurance Company, and Farm Family Financial Services, Inc.

Insurance Holding Company System Registration Statements have been filed by ANPAC with the DIFP on behalf of itself and its subsidiary, ANGIC, for the period under examination.

Organizational Chart

The following organizational chart partially depicts the ownership and holding company structure of ANPAC, as of December 31, 2006. This partial list is depicted as there are over 40 companies within the ANICO holding company:



(a) Those stockholders owning 10% or more of the outstanding stock at December 31, 2006 are Libby S. Moody Trust (37.35%) and the Moody Foundation (23.3%).

(b) ANLIM is the attorney-in-fact for ANLIC, domiciled in Texas.

(c) FFH is owned 94.3% by ANPAC Holding; 0.7% by Comprehensive Investment Services, Inc, a wholly owned subsidiary of ANICO; and 5.0% owned by TMNY Investments, LLC, which is 17.0% owned by ANICO, 17.0% owned by ANPAC, and 66.0% owned by employees of the holding company group.

Intercompany Transactions

ANPAC has the following agreements with its affiliated companies:

1. Type: Lease Agreement
   Parties: ANREM and ANPAC
   Effective: December 1, 1998
   Terms: ANREM provides office space for ANPAC's Texas operations. Space is provided at market cost on actual square footage rented.

2. Type: Service Agreement
   Parties: ANICO and ANPAC, ANGIC, and various other affiliates
   Effective: December 31, 1991
   Terms: ANICO provides various listed services necessary for the affiliates to conduct business. Services are to be provided at cost, based on ANICO's direct cost or allocations where required.
   Exception: ANICO is not following the terms of this agreement as it relates to allocation methods. ANICO must change its practices to comply with the agreement or ANPAC must amend the agreement to reflect current practices and submit the amended agreement for approval with the DIFP as required by RSMo 382.195 (Prohibited transactions, exceptions) and 20 CSR 200-11.300 (Management contracts to be filed).

3. Type: Service Agreement
   Parties: ANPAC and ANGIC
   Effective: December 31, 1998
   Terms: ANPAC provides operational facilities and services to ANGIC at cost. Costs are allocated on various measures, primarily as cost per policy, or cost per claim.
   Exception: ANPAC is allocating costs based on per claim and per policy factors which are several years old with no adjustment to actual cost. ANPAC must either change its practices to comply with the agreement or amend the agreement to reflect current practices and submit the amended agreement for approval with the DIFP as required by RSMo 382.195 (Prohibited transactions, exceptions) and 20 CSR 200-11.300 (Management contracts to be filed).

4. Type: Service Agreement
   Parties: ANPAC and ANISCO
   Effective: November 12, 1979
   Terms: ANPAC provides necessary operational services and facilities for ANISCO to operate as a broker of commercial lines business. ANISCO agrees to reimburse ANPAC a percentage of gross commissions received, such percentage varying from year-to-year. As ANISCO did not broker any business for ANPAC during the

examination period, no fees were received under the agreement during the examination period.

5. Type: Service Agreement
   Parties: ANPAC, ANGIC, and ANGAT
   Effective: February 1, 1992
   Terms: ANPAC and ANGIC allow ANGAT to use their captive agents to place business in the state of Texas for Progressive Casualty Insurance Company. ANGAT pays ANPAC gross commissions received by ANGAT, net of expenses incurred.

6. Type: Service Agreement
   Parties: ANPAC and ANLIM
   Effective: August 15, 1994
   Terms: ANPAC provides, at actual cost, necessary operational services and facilities for ANLIM to perform as attorney-in-fact for ANLIC.
   Exception: ANPAC is allocating costs based on per claim and per policy factors which are several years old with no adjustment to actual cost. ANPAC must either change its practices to comply with the agreement or amend the agreement to reflect current practices and submit the amended agreement for approval with the DIFP as required by RSMo 382.195 (Prohibited transactions, exceptions) and 20 CSR 200-11.300 (Management contracts to be filed.

7. Type: Service Agreement
   Parties: ANPAC and Pacific
   Effective: January 31, 1996
   Terms: ANPAC provides various administrative, accounting and other incidental services to Pacific on a cost basis.
   Exception: ANPAC is allocating costs based on per claim and per policy factors which are several years old with no adjustment to actual cost. ANPAC must either change its practices to comply with the agreement or amend the agreement to reflect current practices and submit the amended agreement for approval with the DIFP as required by RSMo 382.195 (Prohibited transactions, exceptions) and 20 CSR 200-11.300 (Management contracts to be filed.

8. Type: Service Agreement
   Parties: ANPAC and ANPAC-LA
   Effective: November 1, 2001
   Terms: ANPAC provides various administrative, accounting and other incidental services to ANPAC-LA at cost.
   Exception: ANPAC is allocating costs based on per claim and per policy factors which are several years old with no adjustment to actual cost. ANPAC must either change its practices to comply with the

agreement or amend the agreement to reflect current practices and submit the amended agreement for approval with the DIFP as required by RSMo 382.195 (Prohibited transactions, exceptions) and 20 CSR 200-11.300 (Management contracts to be filed.

9. Type: Service Agreement
   Parties: ANPAC and Farm Family Life Insurance Company (FFLIC)
   Effective: April 10, 2001
   Terms: ANPAC is to provide various administrative, accounting and other incidental services to FFLIC at cost. No services have been provided under the agreement as of the examination date.

10. Type: Service Agreement
    Parties: ANPAC and Farm Family Casualty Insurance Company (FFCIC)
    Effective: April 10, 2001
    Terms: The agreement allows for ANPAC and FFCIC to both provide to and receive from the other, services related to insurance business ceded to FFCIC under a quota share reinsurance agreement. The services are to be provided at cost.

11. Type: Management Fee Allocation Agreement
    Parties: American National County Mutual Insurance Company (ANCMC) and ANICO
    Effective: July 1, 2001
    Terms: Under the agreement, ANICO delegates its authority for the management of the property and casualty business of ANCMC to ANPAC as allowed for under the management service contract between ANICO and ANCMC. ANICO agrees to pay ANPAC a portion of the management fee received from ANCMC, which is equal to the proportion of net premium of ANCMC generated by agents appointed by ANPAC bears to the total net premium of ANCMC.

12. Type: Cash Management Agreement
    Parties: ANPAC and ANGIC, ANLIM, ANPLA, Pacific, and other affiliates
    Effective: January 1, 2002
    Terms: ANPAC provides at cost certain cash management services to subsidiaries and affiliates including the timely processing of premium payments for each party.

13. Type: Tax Sharing Agreement
    Parties: ANICO and ANPAC, ANGIC, and various other affiliates
    Effective: January 1, 1996
    Terms: Each member's tax expense is calculated separately on the tax rate of the affiliated group. Any net operating loss benefits are

received on a "wait and see" method which provides for the Company to receive its tax benefit when it can absorb the loss on a separate-company-basis in a later year.

The amounts (paid to) and received from subsidiaries during the period under examination under the above agreements were as follows:

	2006	2005	2004
Service Agreement (Lease) – ANICO	$ (269,737)	$ (257,846)	$ (210,042)
Service Agreement – ANICO	(2,070,429)	(1,958,181)	(1,065,919)
Service Agreement – ANGIC	1,865,321	2,637,100	2,916,862
Service Agreement - ANISCO	-	-	-
Service Agreement – ANGAT	8,178	15,188	51,706
Service Agreement – ANLIM	1,131,058	1,304,902	1,193,095
Service Agreement – Pacific	1,415,386	1,432,985	1,392,435
Service Agreement – ANPAC-LA	3,271,873	7,811,447	2,618,167
Service Agreement - FFLIC	-	-	-
Service Agreement – FFCIC	(4,107,702)	(3,598,077)	1,442,697
Service Agreement - ANCMC	458,450	621,578	579,163
Cash Mgt Agreement – ANGIC	6,763	9,892	12,257
Cash Mgt Agreement – ANLIC	7,482	9,733	10,238
Cash Mgt Agreement – ANCMC	-	-	-
Cash Mgt Agreement – Pacific	7,677	9,513	9,387
Cash Mgt Agreement – ANPAC-LA	12,574	15,615	16,093
Tax Sharing Agreement – ANICO	(6,236,671)	(15,228,609)	(30,779,345)
Net Amount (Paid)/Received	$(4,499,777)	$(7,174,760)	$(21,813,206)

The Company cedes business under quota share reinsurance agreements with affiliates ANICO and Farm Family Casualty Insurance Company. The Company also assumes business from several affiliates. The terms of the significant agreements are described in the Reinsurance section of this report.

The Company also engaged in the following intercompany transactions:

A. For the surplus note issued in 2002, ANPAC made the following principal and interest payments during the current examination period as approved by the Director of the Missouri Department of Insurance, Financial Regulation and Professional Development:

Date	Principal	Interest
June 30, 2004	$ 0	$3,750,000
June 30, 2005	$15,000,000	$3,750,000
May 31, 2006	$ 0	$2,625,000

B. On December 30, 2005, ANPAC purchased a surplus note in the amount of $50 million from its subsidiary, ANPAC-LA. Under the terms of the surplus note, an annual payment of $5 million plus interest at 9% is due each March 31st, beginning 2007, subject to approval by the Director of the Louisiana Department of Insurance and minimum surplus stipulations. In April 2007, ANPAC received the first $5 million principal payment. Due to AM Best rating concerns, ANPAC-LA retired the remaining $45 million balance on the note and simultaneously issued a new $50 million surplus note to ANPAC.

C. On February 17, 2006, the Company made a surplus contribution of $17 million in cash to its subsidiary, ANPAC-LA.
D. On May 23, 2006, the Company received a surplus contribution of $22.1 million from its ultimate parent ANICO in the form of bonds.
E. On May 25, 2007, ANPAC made a $24.4 million surplus contribution to its subsidiary, ANPAC-LA, in the form of bonds totaling $23.6 million and cash of $0.8 million.

FIDELITY BOND AND OTHER INSURANCE

American National Property and Casualty Company is a named insured on fidelity bond coverage maintained by ANICO. The aggregate limit of coverage is $3 million with a single loss limit of $1.5 million and a deductible of $50,000.

The Company is also a named insured on various other insurance policies maintained by its ultimate parent, ANICO. These policies include the following coverages: commercial general liability, excess liability, automobile liability, workers compensation and employer's liability, and directors and officer liability.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

ANPAC employees are provided a variety of standard benefits which include, but are not limited to, the following: medical and disability coverages; term life insurance; retirement and 401(k) savings plans; and executive incentive plans. Adequate provision appears to have been made in the Company's financial statements with regards to its obligations for these benefits.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance, Financial Institutions and Professional Registration as of December 31, 2006, as reflected below, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with RSMo Section 379.098 (Insurance other life-Security deposits). The funds on deposit as of December 31, 2006 were as follows:

Type of Security	Par Value	Fair Value	Statement Value
U.S. Treasury Note	\$2,150,000	\$2,120,200	\$2,129,311

Deposits with Other States

The Company also has funds on deposit with various other states in which it is licensed. Those funds on deposit as of December 31, 2006 were as follows:

State or Territory	Type of Security	Par Value	Fair Value	Stmt Value
Arizona	U.S. Treasury Notes	\$110,000	\$109,274	\$109,396
Georgia	U.S. Treasury Notes	100,000	99,801	99,876
Idaho	U.S. Treasury Notes	260,000	251,189	249,721
Louisiana	U.S. Treasury Notes	22,000	21,990	22,007
New Mexico	U.S. Treasury Notes	375,000	373,699	375,049
North Carolina	U.S. Treasury Notes	800,000	794,826	797,957
Ohio	U.S. Treasury Notes	260,000	251,189	249,721
Oregon	U.S. Treasury Notes	110,000	109,298	109,900
Virginia	U.S. Treasury Notes	225,000	223,261	223,273
Puerto Rico	Puerto Rico Bond	750,000	788,625	810,867
Totals		\$3,012,000	\$3,023,152	\$3,047,767

Other Deposits

Effective September 2, 2003, the Company established a trust with United Missouri Bank for reserves assumed from Royal Surplus Lines Insurance Company. The beneficiary and administrator of the trust is Royal Indemnity Company, an affiliate of Royal Surplus Lines Insurance Company. The following assets were held in the trust as of December 31, 2006:

Type of Security	Par Value	Fair Value	Stmt Value
Anheuser Busch Companies Inc. Note	\$3,000,000	\$2,883,330	\$2,971,719
Bankboston N.A. Note	3,000,000	3,038,283	2,976,582
Bear Sterns & Co. Inc. Note	3,000,000	3,045,390	3,105,677
Coca Cola Enterprises Inc. Note	2,000,000	2,020,200	1,970,783
Totals	\$11,000,000	\$10,987,203	\$11,024,761

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

American National Property and Casualty Company is licensed as a multiple-line stock casualty company by the Missouri Department of Insurance, Financial Institutions and Professional Registration under Chapter 379 RSMo (Insurance other than life) to write the business of property and casualty insurance in the State of Missouri. As of December 31, 2006, the Company was licensed to transact the business of insurance in forty-five states, the District of Columbia, and Puerto Rico.

The Company offers a large variety of products including preferred private passenger automobile, homeowners, rental dwelling, boat owner, recreational vehicles, umbrella, and business owner's insurance coverage. As of December 31, 2006, the Company's largest line of business with approximately 38% of the total direct written premium was private passenger automobile liability coverage, followed by homeowner's coverage (21%) and automobile physical damage (15%). Major direct premium writings by state were (in millions): Colorado ($46.5), Tennessee ($43.0), Oklahoma ($42.1), Texas ($38.9), Nevada ($36.0), and Missouri ($35.5).

Approximately 1,400 captive agents and general agents sell the Company's products. The Company is required under the statutes dealing with managing general agents (MGAs), Section 375.147 through 375.153 RSMo, and Missouri Regulation 20 CSR 200-10 (Managing General Agent) to perform semi-annual, on-site reviews of its MGA operations. The Company did provide documentation of annual reviews; however, as noted above, Missouri statues and regulations require semi-annual reviews. The Company should institute procedures to ensure its statutory functions with respect to its MGAs are performed, including the aforementioned semi-annual reviews. Evidentiary documentation attesting to this compliance should be maintained.

Since the prior examination, the Company's focus has shifted. Due to severe losses related to Hurricanes Rita and Katrina, the Company has been exiting the Gulf Coast states. This loss of business has been offset by the marketing of the Company's products by FFH agents, a new subsidiary purchased by ANPAC's parent with significant operations in the Northeast.

The Company enrolls all eligible policyholders in its CA$HBACK program. Under this program, the Company returns 25% of the premiums to the policyholder if for three years the insured is both claim-free and has continuous policies for both comprehensive automobile and homeowner's coverage.

Policy Forms and Underwriting, Advertising & Sales Material, Treatment of Policyholders

The Missouri Department of Insurance, Financial Institutions and Professional Registration has a market conduct staff, which performs a review of these issues and generates a separate market conduct report. The Company's most recent Missouri market conduct report was made public in 2004 and had no violations noted. No problems were disclosed which would appear to have a significant effect on the financial condition of the Company. No other states have conducted or concluded market conduct examinations during the current financial examination period.

REINSURANCE

General

The Company's reinsurance premium activity for the years ending December 31, 2006, 2005, and 2004 are detailed in the table below.

	2006	2005	2004
Direct Business	\$737,039,936	\$754,282,818	\$620,672,546
Reinsurance Assumed			
Affiliates	89,448,301	147,732,168	155,088,234
Non-affiliates	(1,222,425)	5,497,681	72,537,698
Reinsurance Ceded:			
Affiliates	(174,580,740)	(183,973,455)	(160,818,702)
Non-affiliates	(48,885,666)	(52,143,910)	(50,546,656)
Net Premiums Written	\$601,799,406	\$671,395,302	\$636,933,120

Assumed

The Company assumes 100% of all private passenger automobile business from American National County Mutual Insurance Company of Galveston, Texas, an affiliate, under a fronting arrangement. Assumed premiums in 2006 under this agreement totaled approximately \$39.2 million.

The Company assumes credit-property policies under a retrocession agreement with its ultimate parent, American National Insurance Company (ANICO). Under separate agreements, the Company assumes on a quota share basis, 100% of all premiums and losses on credit-related policies from Royal Indemnity Company. The Company cedes 100% of this business to ANICO, its parent, which is then retroceded to ANPAC. Assumed premiums in 2006 under this agreement totaled approximately \$37.9 million.

The Company assumes on a quota share basis, 80% of fire, allied lines and homeowners multiple peril policies from American National Lloyds Insurance Company (ANLIC), a subsidiary. ANPAC also assumes from ANLIC on an excess of loss basis, all homeowners multiple peril losses, in excess of ultimate net loss of \$20.5 million resulting from losses occurring and/or claims made as of December 31, 2002. Assumed premiums in 2006 under these agreements totaled approximately \$4.7 million.

The Company assumes from ANPAC-LA, its subsidiary, the following written policies on a quota share basis: 100% of credit-related policies and 50% of all other policies. Assumed premiums in 2006 under these agreements totaled approximately $7.7 million.

The Company assumes business under other reinsurance agreements that are not material at this time.

Ceded

ANPAC participates with other affiliated companies in a multi-line and casualty clash excess of loss reinsurance agreements, and a property catastrophe excess of loss reinsurance agreement, which together, are placed with multiple reinsurers in multiple layers through an intermediary, Benfield, Inc.

The multi-line agreement provides coverage for all property and casualty risks, excluding credit property, aircraft and other specified exclusions. This agreement provides $5 million coverage in excess of $1 million.

Casualty clash coverage for casualty perils, excluding aircraft and other specified exclusions, is placed in three layers. The first casualty clash layer generally provides for $4 million in excess of $6 million, the second layer coverage is $20 million in excess of $10 million, and the third layer is $20 million in excess of $30 million.

Property catastrophe coverage for all property coverages, excluding credit property, aircraft and other specified exclusions, is placed in five layers and generally provided coverage up to a total of $335 million in excess of $25 million. For 2007, some changes were made to the limits within each level and total coverage was increased to $460 million.

Effective June 1, 1994, ANPAC entered into a 100% quota share reinsurance agreement with its parent, ANICO, ceding the credit-related business underwritten by the Royal Group. This agreement was amended effective October 1, 2003 for all assumed business as of July 1, 2003 to retrocede 50% of the business to ANPAC.

Effective October 1, 2001, the Company entered into an 80% quota share agreement with Farm Family Casualty Insurance Company (FFCIC), an affiliate, for the agri-business policies underwritten by FFCIC within the Company's territorial limits. The agreement was amended in 2004 to cede 100% of the subject business. This agreement is currently in run-off.

Additionally, the Company fronts several immaterial blocks of business for ceding commissions and fees; and participates in various voluntary and mandatory pools.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

ACCOUNTS AND RECORDS

Financial statements of the Company were audited by the CPA firm KPMG LLP of Houston, Texas for the years ending December 31, 2006, 2005, and 2004. In each of the years under examination, KPMG LLP concluded that the financial statements of the Company, in all material aspects, presented fairly the admitted assets, liabilities, capital and surplus, results of operations, and cash flows in conformity with the accounting practices prescribed or permitted by the Missouri Department of Insurance, Financial Institutions and Professional Registration.

Loss reserves of the Company were reviewed and certified as of December 31, 2006, 2005, and 2004 by John F. Butcher, FCAS, MAAA of the actuarial firm Tillinghast-Towers Perrin.

As discussed in the "Territory and Plan of Operations" section of this report, the Company enrolls all eligible policyholders in its CA$HBACK program. Under this program, the Company returns 25% of the premiums to the policyholder if for three years the insured is both claim-free and has continuous policies for both comprehensive automobile and homeowner's coverage. As participation in this program has grown, its related liability has also increased. The CA$HBACK accrued return retrospective premium liability is now a material liability. The Company estimates the persistency ratio using incomplete data. The Company should improve the data upon which it bases its CA$HBACK persistency ratios. The Company should also have its appointed actuary review the persistency ratios used in the calculation and opine upon the adequacy of the CA$HBACK accrued return retrospective premium liability at each year-end prior to filing its statutory financial statements.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the year ending December 31, 2006. Any examination adjustments to the amount reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements." (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There were differences found in the course of this examination which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial concerning their effect on the financial statements. Therefore they were communicated to the Company and/or noted in the workpapers for each individual Annual Statement item.

Assets

	ASSETS	ASSETS NOT ADMITTED	NET ADMITTED ASSETS
Bonds	$627,309,099		$627,309,099
Preferred stocks	30,740,453	$734,451	30,006,002
Common Stock (Note 3)	217,859,015	195,334	217,663,681
Real estate occupied by the company	16,142,286		16,142,286
Cash and short-term investments	39,459,736		39,459,736
Other invested assets (Note 1)	63,626,648	31,514,873	32,111,775
Receivable for securities	234,294		234,294
Investment income due and accrued	9,179,469		9,179,469
Premiums and considerations	92,509,839	390,190	92,119,649
Amounts recoverable from reinsurers	2,990,928		2,990,928
Current federal income tax recoverable	5,938,105		5,938,105
Net deferred tax asset	28,034,262	121,355	27,912,907
Guaranty funds receivable or on deposit	906,315	750	905,565
Electronic data processing equipment	2,033,163		2,033,163
Furniture and equipment	2,640,391	2,640,391	0
Receivable from affiliates	4,851,794		4,851,794
Aggregate write-ins for other assets:			
Agent's finance plan receivable	18,101,606	18,101,606	0
Paid claims advance	9,652,538		9,652,538
Other assets	2,868,452	2,619,021	249,431
Total Assets	$1,175,078,393	$56,317,971	$1,118,760,422

Liabilities, Surplus and Other Funds

Losses	$251,933,912
Loss adjustment expenses	45,383,332
Commissions payable, contingent commissions and other similar charges	23,115,954
Other expenses	1,711,680
Taxes, licenses and fees (excluding federal and foreign income taxes)	3,796,912
Unearned premiums	268,207,711
Advance premium	4,461,004
Ceded reinsurance premiums payable	1,682,461
Funds held by company under reinsurance treaties	260,059
Amounts withheld or retained by company for account of others	20,007
Remittances and items not allocated	1,990,738
Payable to parent, subsidiaries and affiliates	1,244,065
Aggregate write-ins for liabilities:	
CA$HBACK retrospective premiums (Note 2)	91,626,166
Escheat funds held in trust	1,375,455
Total Liabilities	**$696,809,456**
Common capital stock	4,200,000
Surplus notes	36,968,750
Gross paid in and contributed surplus	118,507,864
Unassigned funds (surplus)	262,274,352
Surplus as regards policyholders	**$421,950,966**
Total Liabilities and Surplus	**$1,118,760,422**

Statement of Income

Underwriting Income		
Premiums earned		$590,398,705
Deductions		
Losses incurred	$398,995,077	
Loss expenses incurred	68,962,647	
Other underwriting expenses incurred	139,833,280	
Total underwriting deductions		607,791,004
Net underwriting gain/(loss)		(17,392,299)
Investment Income		
Net investment income earned	39,418,539	
Net realized capital gains or (losses)	2,770,628	
Net investment gain or (loss)		42,189,167
Other Income		
Net (loss) from agents' or premium balances charged off	(721,135)	
Finance and service charges not included in premiums	1,386,639	
Miscellaneous other income	3,358,182	
Total other income		4,023,686
Net income before federal income taxes		28,820,554
Federal and foreign income taxes incurred		2,763,873
Net income		$26,056,681

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2005		$380,867,255
Net income	$26,056,681	
Change in net unrealized capital gains (losses)	(619,101)	
Change in net deferred income tax	14,612	
Change in nonadmitted assets	18,815,762	
Change in provision for reinsurance	19,430	
Change in surplus notes	1,968,750	
Cumulative effect of changes in accounting principles	(1,925,042)	
Surplus adjustment – paid in	22,100,000	
Interest paid or accrued on surplus notes	(4,593,750)	
Examination changes	(20,753,631)	
Net change in surplus as regards policyholders for the year		41,083,711
Surplus as regards policyholders, December 31, 2006		$421,950,966

NOTES TO THE FINANCIAL STATEMENTS

Note 1– Other Invested Assets **$32,111,775**

Other Invested Assets was decreased by $24,400,000 to $32,111,775 at December 31, 2006 related to a decrease in the admitted value of ANPAC's investment in the surplus note of ANPAC-LA, ANPAC's subsidiary. This $24.4 million reduction was the result of a prior period accounting error by ANPAC-LA. ANPAC-LA understated by $24.4 million the portion of its income tax recoverable which should have been non-admitted.

Note 2– CA$HBACK Retrospective Premium **$91,626,166**

At December 31, 2006, the CA$HBACK retrospective premium write-in liability was increased by $10,813,848 to $91,626,166. This increase corrected the Company's failure to recognize the accrued retrospective premium liability from the time premium is earned on the policy in accordance with SSAP 66, paragraph 6ai., rather than at the expiration of the policy.

Note 3– Common Stocks **$217,663,681**

The Department of Insurance, Financial Institutions, and Professional Registration approved the Company's permitted practice request allowing ANPAC to admit the value of its investment in ANPAC Lloyd's Insurance Management (ALIM) at an amount equal to the surplus as regards policyholders of American National Lloyd's Insurance Company (ANLIC). ANLIC's policyholder surplus is $28,460,217 as of December 31, 2006, an increase of $14,460,217 from the $14 million already reported as the investment in ALIM.

EXAMINATION CHANGES

Total Capital and Surplus Per Company, December 31, 2006:

Common capital stock	$ 4,200,000	
Surplus notes	36,968,750	
Gross paid in and contributed surplus	118,507,864	
Unassigned funds (surplus)	283,027,983	
Total Capital and Surplus		$442,704,597

Examination Changes (effect on surplus):

	Increase in Surplus	Decrease in Surplus	
Assets:			
Common Stocks	14,460,217		
Other Invested Assets		24,400,000	
Liabilities:			
CA$HBACK Liability		10,813,848	
Totals	$14,460,217	$35,213,848	
Net Change			$(20,753,631)

Total Capital and Surplus Per Examination, December 31, 2006:

Common capital stock	$ 4,200,000	
Surplus notes	36,968,750	
Gross paid in and contributed surplus	118,507,864	
Unassigned funds (surplus)	262,274,352	
Total Capital and Surplus		**$421,950,966**

GENERAL COMMENTS AND/OR RECOMMENDATIONS

Intercompany Transactions (page 9)
ANICO is not following the terms of its Service Agreement with ANPAC as it relates to allocation methods. ANICO must change its practices to comply with the agreement or ANPAC must amend the agreement to reflect current practices and submit the amended agreement for approval with the DIFP as required by RSMo 382.195 (Prohibited transactions, exceptions) and 20 CSR 200-11.300 (Management contracts to be filed).

Intercompany Transactions (pages 9 and 10)
ANPAC is not following the terms of its Services Agreements with ANGIC, ANISCO, ANLIM, Pacific, or ANPAC-LA. ANPAC is allocating costs based on per claim and per policy factors which are several years old with no adjustment to actual cost. ANPAC must either change its practices to comply with the agreements or amend the agreements to reflect current practices and submit the amended agreements for approval with the DIFP as required by RSMo 382.195 (Prohibited transactions, exceptions) and 20 CSR 200-11.300 (Management contracts to be filed).

Territory and Plan of Operations (page 15)
The Company was only able to provide documentation of annual reviews of its Managing General Agents rather than semi-annual reviews as required under Section 375.147 through 375.153 RSMo (Managing General Agents) and Missouri Regulation 20 CSR 200-10 (Managing General Agents). The Company should institute procedures to ensure its statutory functions with respect to its MGAs are performed, including the aforementioned semi-annual reviews, and maintain evidentiary documentation attesting to this compliance.

Accounts and Records (page 18)
The Company should improve the data upon which it bases its CA$HBACK persistency ratios. The Company should also have its appointed actuary review the persistency ratios used in the calculation and opine upon the adequacy of the CA$HBACK accrued return retrospective premium liability at each year-end prior to filing its statutory financial statements.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of American National Property and Casualty Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Karen Baldree, CFE, Angela Campbell, CFE, Steven Koonse, CFE, and Bernie Troop, CFE, examiners for the Missouri Department of Insurance, Financial Institutions and Professional Registration, participated in this examination. Glenn Tobleman, FCAS, FSA, MAAA, of the actuarial firm of Lewis & Ellis, Inc. of Dallas, Texas performed an actuarial analysis as part of this examination.

VERIFICATION

State of Missouri)
County of)

I, Vicki L. Denton, CFE, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Vicki L. Denton

Vicki L. Denton, CFE
Examiner-In-Charge
Missouri Department of Insurance, Financial Institutions and Professional Registration

Sworn to and subscribed before me this 15 day of May, 2008.

My commission expires: STEPHANIE R. STRAIN
Notary Public - Notary Seal
State of Missouri
County of Jackson
My Commission Exp. 08/25/2008

Stephanie R. Stue
Notary Public

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

Frederick G. Heese

Frederick G. Heese, CFE, CPA
Chief Financial Examiner
Missouri Department of Insurance, Financial Institutions and Professional Registration

American National Insurance Company
Credit Insurance Division
Administrator for American National Property and Casualty

Memorandum

Date: June 18, 2008

To: Jim Cybulski

From: Charlie Delgado

Subject: MGA Audits

The Credit Insurance Division has instituted procedures to conduct semi-annual audits onsite of its MGA's beginning in 2007 who meet 5% of ANPAC's surplus. Additional staffing and an audit manager have been added to stay current with these requirements. The audit staff will be reporting me monthly to ensure the audit schedule being completed on a timely basis. Although there might not have been two onsite visits in prior years the audit consisted of testing for the entire period from the previous audit to confirm the MGA was meeting all of the contract requirements.

Cc: Tom Carpentier
Sheila Weitzel

June 18, 2008

Frederick G. Heese, CFE, CPA
Chief Financial Examiner & Acting Division Director
Department of Insurance
Financial Institutions
301 West High Street, Room 530
P.O. Box 690
Jefferson City, Missouri 65102-0690

James M. Cybulski
Vice President/Controller
American National Property and Casualty Company
American National General Insurance Company
American National Corporate Centre
1949 East Sunshine
Springfield, Missouri 65899

Re: Audit of American National Property and Casualty and American National General Insurance Companies.

Dear Mr. Heese:

The following is the responses to the audits reports of the respective companies. It would be our desire to make these responses as part of the public document.

For American National Property and Casualty:

1. Intercompany Transactions:

Beginning in 2007, Anpac has corrected its procedures to adjust its allocation costs every year based on current year actual costs. At the end of each year, as new allocation costs are calculated, adjustments are made to reflect actual costs.

Anico and Anpac are in the process of adjusting the service agreement to insure that billings and service agreements are the same.

2. Territory and Plan of Operations:

Beginning in 2007, the Company has adjusted it operations to insure that semi-annual reviews of its Managing General Agents will be completed.

3. Accounts and Records:

Our appointed Actuary, Tillinghast, has been requested to review our Cashback program and give an opinion of our Cashback reserves. This opinion will include persistency ratios that can be used to insure adequacy of future Cashback reserves. This opinion is expected the week of June 16, 2008.

For American National General Insurance Company:

1. Intercompany Transactions:

Beginning in 2007, Anpac has corrected its procedures to adjust its allocation costs every year based on current year actual costs. At the end of each year, as new allocation costs are calculated, adjustments are made to reflect actual costs.

2. Accounts and Records:

Our appointed Actuary, Tillinghast, has been requested to review our Cashback program and give an opinion of our Cashback reserves. This opinion will include persistency ratios that can be used to insure adequacy of future Cashback reserves. This opinion is expected the week of June 16, 2008.

I trust you will find these responses satisfactory. If you have any questions please to not hesitate to call. I am also including a copy of a e-mail from ANICO confirming the semi-annual audits for MGA's.

Sincerely,

James Cybulski
Vice President/Controller