



American National Insurance Company (NASDAQ:ANAT)

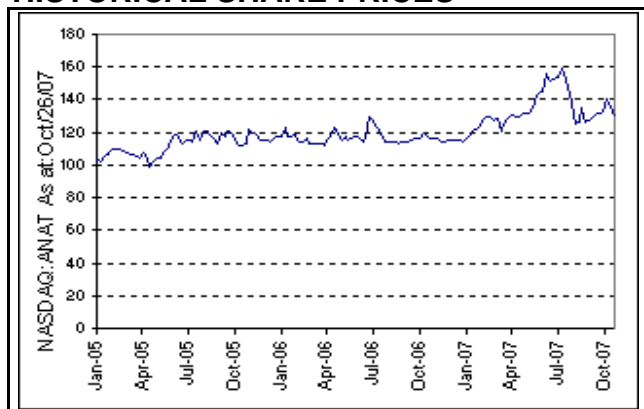
THE COMPANY

American National Insurance Company, based in Galveston, Texas, is one of the largest life insurers in the United States with over 3.4 million policyholders and \$12 billion in assets. The company's products and services include life insurance, annuities, health insurance, personal lines, property and casualty insurance, credit insurance, pension plan services, mutual funds and real estate management. American National's major subsidiaries include American National Life of Texas, Standard Life and Accident Insurance Company, Garden State Life Insurance Company, American National Property and Casualty Company as well as Farm Family Holdings Inc.

FINANCIAL DATA

	2004	2005	2006
Earnings per Share (\$)	9.65	8.91	10.32
Price to Earnings (times)	12.8	13.9	12.0
Dividend (\$)	2.96	2.96	3.04
Dividend Yield (%)	2.3	2.3	2.5
Book Value (\$)	124.95	128.08	135.76
Price to Book Value (times)	0.99	0.97	0.91

HISTORICAL SHARE PRICES



WHY ABC FUNDS BOUGHT AMERICAN NATIONAL

William Lewis Moody Jr. founded American National in 1905 at a time when he felt the Texas market was being underserved by the bigger insurance companies based in the U.S. Northeast. In the same year, the company went public by coming to the market with a common share issue. As a result, American National is now one of the oldest public companies based in the U.S. It is also interesting to note that most of American National's profits are still generated from agents who sell policies door-to-door; while this process is very old school, it remains profitable. The Moody family continues to control the company and Robert Moody, grandson of William Moody, is currently the company's Chairman and CEO.

We believe American National is undervalued at its current price of around \$82 a share. At this level the shares trade at a 28 % discount to its September 30, 2003 tangible book value of \$113.85 a share. As a measure of comparison, the average life insurance company trades at a 20 % premium to book value. Also, American National pays an annual dividend of \$2.96 per share, which represents a yield of 3.6%. This is a relatively good yield considering most money market funds in the U.S. pay only 1% or less. Furthermore, investors can take comfort in the fact that American National has not missed a dividend payment since it first began paying dividends in 1911.

One reason for American National's discounted stock price could be the low return on equity it has earned over the last few years. American National had earnings of \$2.45 and \$0.64 per share in 2002 and 2001. This represents a return on equity of just 2.2% and 0.6% respectively. Another reason for the discount could be the controlling ownership by the Moody family. The family refuses to repurchase shares and has publicly stated that the company is not for sale. Finally, American National is not officially followed by any Wall Street analysts and, moreover, the company does very little to promote itself to investors. In effect, American National Insurance Company has yet to be discovered by Wall Street. This is a very positive contrary indicator.

American National's low returns can partly be attributed to the fact that the company is virtually debt free. As a result, earnings do not get a lift from the use of financial leverage. In fact, due to its conservative balance sheet, the company boasts a credit rating that is unparalleled in the industry. For instance, the company was rated A+ (Superior) by A.M. Best Company, and AA (Very Strong) by Standard & Poor's.

Most recently, American National posted a strong third quarter performance for the period ending September 30 2003. Earnings were \$1.66 per share compared to \$1.19 per share in the same period last year, an increase of 39 %. If the company can continue to improve earnings, we believe the discount between its share price and book value could begin to narrow. In addition, given that the company is largely under-followed by the investment community, interest in the company from new investors could provide a positive catalyst for the stock. Finally, although the Moody family states that the company is not for sale, investors should not rule out "a change of heart" due to a premium price, family issues, etc. If the company was put up for sale we believe that the sum of the component parts would be worth considerably more than the current stock price.

UPDATES

On February 6th 2004, American National Insurance Company announced fourth quarter 2003 net income of \$72.3 million or \$2.73 per share compared to a net loss of \$62.8 million or \$2.37 per share for the same period in 2002. After tax net gain from operations for the fourth quarter was \$48.8 million or \$1.84 per share versus a loss of \$1.4 million or \$0.05 per share last year. Net income for the full year of 2003 was \$182.2 million or \$6.88 per share compared to net income for 2002 of \$16.9 million or \$0.64 per share. The after tax net gain from operations for the full year of 2003 was \$160.8 million or \$6.07 per share versus \$102.5 million or \$3.87 per share for 2002, an increase of 56.9%.

American National's operations showed impressive growth during 2003. Premiums for the full year grew 12.9%, revenues increased by 19.7% and assets rose by 23.7%. American National had a return on equity of approximately 6.4% in 2003, which was a noticeable improvement over its return on equity in 2002 and 2001 of just 2.2% and 0.6% respectively. Keep in mind also that American National, unlike many of its peers, has virtually no debt. As a result, the company's return on equity appears less impressive since it does not get a pick up due to the use of financial leverage. Shares of American National now trade at an 17% discount to its book value of \$113.85 per share and yield approximately 3.1%. We believe that if American National continues to post improving results, i.e. growth in premiums, higher return on equity, etc, the discount between its book value and share price will continue to narrow.

ABC Funds

February 27, 2004

American National Insurance Company announced first quarter 2004 net income of \$64,704,000 (\$2.44 per share) compared to \$40,121,000 (\$1.51 per share) for the same period in 2003, a 61.3% increase. After tax net gain from operations for the first quarter was \$62,618,000 (\$2.36 per share) compared with \$42,988,000 (\$1.62 per share) for the same period in 2003, a 45.7% increase. These gains from operations exclude any net realized investment gains and losses.

Premiums for the first quarter of 2004 increased 13.6% to \$499.9 million from \$440.0 million in 2003 while policy account deposits increased 9.2% to \$513.0 million from \$469.8 million a year earlier. A significant contributor to this quarter's results was the property and casualty multiple lines business. After tax gains more than doubled from the previous quarter to \$29.2 million while the combined ratio improved from 97.2% to 89.7%.

At \$92, shares of American National trade at a 23% discount to its tangible book value of \$119.80 per share. The company's balance sheet remains impressive given that it is debt free and has excess capital. This fact has not gone unnoticed by the rating agencies. The company is currently rated A+ (Superior) by A.M. Best Company, and AA (Very Strong) by Standard & Poor's. Earnings have shown improvement during the last two quarters and we suspect that if this trend continues, American National's stock price could begin to approach book value. In the meantime, investors can take comfort in a \$2.96 dividend, which represents a yield of over 3%.

ABC Funds

May 20, 2004

American National Insurance Company announced second quarter 2004 net income of \$64,154,000 (\$2.42 per share) compared to \$25,780,000 (\$0.97 per share) for the same period in 2003. After tax net gain from operations for the second quarter was \$49,758,000 (\$1.88 per share) compared with \$25,374,000 (\$0.96 per share) for the same period in 2003, a 96.1% increase. After tax net gain from operations excludes after tax net realized investment gains and losses which totaled \$14,396,000 for the second quarter of 2004 compared with net realized gains of \$406,000 for the same period in 2003.

Premiums for the first six months of 2004 were \$1,024,719,000, an increase of 16.1% over the amount for the first half of 2003. Policy account deposits received were \$873,558,000 versus \$1,277,040,000 for the first six months of 2003. The decrease in policy account deposits was primarily the result of reduced annuity sales consistent with the 2004 business plan. The property and casualty business of the Multiple Line operations was the largest contributor to the increase in operating earnings. After tax gain from the property and casualty business for the first half of 2004 was \$47,082,000, which was more than double the results of the first six months of 2003. The combined ratio was 92.9%, a significant improvement over the 99.9% combined ratio achieved in the first half of 2003.

Shares of American National trade at a 22% discount to its book value of \$119.54 per share and yield approximately 3.2%. We believe that if American National continues to post improving results, i.e. growth in premiums, higher earnings and return on equity, etc, the discount between its book value and share price will continue to narrow.

ABC Funds

August 6, 2004

UPDATES (cont'd)

On August 17th American National Insurance Corp. announced that its subsidiary Property and Casualty Companies estimates that the after-tax net impact from Hurricane Charley will be in the \$7 million range. This is roughly \$0.26 a share, which is not material in the context of a \$12 billion company. As of August 16, 736 homeowner, 44 auto, and 1 boat claims have been reported. Prior to Hurricane Charley making landfall, American National made early preparations for sending Catastrophe Teams to the areas damaged. We are relieved with this news given that reports estimate the damage from Hurricane Charley to insured properties at \$7.4 billion.

ABC Funds
August 20, 2004

On October 25th 2004 American National Insurance Company (ANAT) reported third quarter results. Net income was \$47.0 million (\$1.77 per share) compared to \$44.0 million (\$1.66 per share) for the same period in 2003. After tax net gain from operations, which excludes realized investment gains and losses, were \$42.7 million (\$1.61 per share) compared with \$42.8 million (\$1.62 per share) in the third quarter of 2003.

The property and casualty (P&C) business was the largest contributor to the increase in operating earnings. After tax gain from P&C for the first nine months of 2004 was \$59.4 million, which was a 60% increase over the results of the first nine months of 2003. This strong increase in earnings was achieved in spite of record catastrophe losses in 2004 as a result of hurricanes Charlie, Frances, Ivan and Jeanne. In addition, the P&C division improved its combined ratio, a common measure of profitability in the industry, from 98.6% to 95.8%.

Year to date, ANAT has earned \$6.64 per share compared to \$4.15 for the first three quarters of 2003; a 60% increase. These results have not gone unnoticed by investors. ANAT shares are up over 23% so far in 2004. ANAT shares trade at a 13% discount to its book value of \$120.72 per share while carrying a decent yield of 2.8%.

ABC Funds
October 29, 2004

On February 7th 2004 American National Insurance Company (ANAT) reported third quarter results. Net income was \$79.7 million (\$3.01 per share) compared to \$72.3 million (\$2.73 per share) for the same period in 2003. After tax net gain from operations, which excludes realized investment gains and losses, were \$65.2 million (\$2.46 per share) compared with \$49.6 million (\$1.87 per share) in the third quarter of 2003.

The property and casualty (P&C) business was the largest contributor to the increase in operating earnings. After tax gain from P&C for 2004 was \$99.4 million, which was a 70% increase over the results of 2003. In addition, the P&C division improved its combined ratio, a common measure of profitability in the industry, from 97.3% to 92.8%.

For the year, ANAT earned \$8.30 per share excluding realized gains. This represents a respectable 7.3% return on equity, which is an improvement from prior years. The company remains debt free and pays a quarterly dividend of \$0.74, which yields investors around 2.75% a year. Finally, ANAT shares currently trade at a 14% discount to its book value of \$124.46 per share.

ABC Funds
March 4, 2005

On April 25th 2005 American National Insurance Company (ANAT) reported first quarter results. Net income was \$90.9 million (\$3.43 per share) compared to \$64.7 million (\$2.44 per share) for the same period in 2004. After tax net gain from operations, which excludes realized investment gains and losses, was \$80.3 million (\$3.03 per share) compared with \$62.6 million (\$2.36 per share) in the third quarter of 2004.

The property and casualty (P&C) business was the largest contributor to the increase in operating earnings. After tax gain from P&C for 2004 was \$43.4 million, which was a 49% increase over the results of 2004. In addition, the P&C division significantly improved its combined ratio, a common measure of profitability in the industry, from 89.7% to 82.6%.

For the last 4 quarters, ANAT's combined earnings per share (excluding realized gains) was \$8.98 which represents a 7.2% return on equity. This is impressive given that ANAT has no interest bearing debt and therefore, its earnings do not get a lift from the use of financial leverage. In addition, ANAT continues to pay a quarterly dividend of \$0.74, yielding investors around

UPDATES (cont'd)

2.8% a year. ANAT has paid this dividend for 94 consecutive years and last increased the dividend in 2001. At its present price, we believe that ANAT remains fundamentally undervalued given that its shares trade at a 16% discount to its book value of \$124.95 per share.

ABC Funds
April 29, 2005

On July 25th 2005 American National Insurance Company (ANAT) reported second quarter results. Net income was \$55.5 million (\$2.10 per share) compared to \$64.1 million (\$2.42 per share) for the same period in 2004. After tax net gain from operations, which excludes realized investment gains and losses, was \$53.9 million (\$2.04 per share) compared with \$49.8 million (\$1.88 per share) in the second quarter of 2004. The property and casualty (P&C) business was the largest contributor to the increase in operating earnings. After tax gain from P&C for 2004 was \$71.1 million, which was a 51% increase over the results of 2004.

ANAT's return on equity ratio (ROE) remains in the 7% to 8% range. While this scores below the industry average, it is important to keep in mind that ANAT employs a fairly risk-averse approach to running its business. First of all, the company scarcely uses financial leverage. For instance, at the end of the second quarter ANAT had a debt to equity ratio of less than 4%. Second, management maintains a low-risk investment portfolio consisting mostly of government and investment grade corporate bonds. This compares with insurers who will often invest the majority of their assets in higher yielding, riskier investments such as mortgage backed securities and common stocks to increase their ROE. Finally, ANAT is quite conservative in the actuarial assumptions it uses to set aside reserves for the future. In short, the company is overcapitalized and as a result, has much flexibility and considerable options. For example, management could use this excess capital to underwrite more policies, buy back its stock, make accretive acquisitions or increase their quarterly dividends. Incidentally, share repurchases would be anti-dilutive as ANAT shares currently trade at a 4% discount to its book value of \$127.71.

ABC Funds
August 12, 2005

On September 2, 2005 American National Insurance Corp. announced that its subsidiary, Property and Casualty Companies, estimated that the after-tax net impact from Hurricane Katrina would be in the \$17 million range. This amount is roughly \$0.65 a share, which is not extraordinary in the context of a \$12 billion company. ANAT is able to limit its potential disaster losses because it takes out reinsurance to protect itself. It is interesting to note that without this reinsurance, ANAT's exposure to Hurricane Katrina, probably would already amounted to over \$100 million.

ABC Funds
September 9, 2005

On October 24th, 2005, American National Insurance Company (ANAT) announced third quarter results. Net income for the quarter was \$54.0 million (\$2.04 per share) compared to \$47.0 million (\$1.77) for the same period of 2004. After tax net gain from operations for the third quarter was \$42.3 million (\$1.60 per share) compared with \$42.7 million (\$1.61 per share) in 2004. This amount excludes after tax net realized investment gains and losses. Incidentally, after-tax losses for the third quarter from hurricanes Katrina and Rita totaled approximately \$33.8 million (\$1.28 per share). In the context of its \$17.6 billion of assets, ANAT's exposure was less than 0.2% of its asset base.

Recently, investor concern relating to hurricane activity in the US Southeast has sent shares of ANAT below \$120 per share. However, with the fall storm season coming to an end, and the financial impact from the hurricanes largely calculated, we believe investors will once again be attracted to ANAT's relatively cheap valuation and strong balance sheet. The shares currently trade at a 7% discount to their book value of \$127.61 and pay an annual dividend of \$2.96 producing a yield of 2.5%. More importantly, ANAT remains debt free and has excess capital which could be used to increase the dividend, repurchase shares or make an accretive acquisition.

ABC Funds
November 4, 2005

This year will mark the 96th consecutive year a dividend will be paid to American National Insurance Company (ANAT) shareholders. Over the years, the dividend has been raised slowly but steadily. In fact, it was recently increased again in October from \$0.75 to \$0.76 per quarter. At \$113 per share, ANAT now yields around 2.7%, and given its payout history, we think this dividend is pretty secure.

UPDATES (cont'd)

After a fairly benign hurricane season this year, we don't expect any material underwriting losses to surface in the fourth quarter. Third quarter results also had few surprises. ANAT earned \$1.89 per share from operations, and had realized gains from investments of \$0.17. We expect ANAT's return on equity for 2006 to be in the range of 5 to 6%. While this number is low compared to other insurers, it is important to remember that this return is unlevered given that ANAT does not employ any long term debt.

ANAT is not widely followed on Wall Street. It also has a relatively small float given that the Moody family of Texas owns a significant proportion of the outstanding shares. In consequence trading in the stock is pretty thin and share price movements can be erratic. For the patient long term investor however, ANAT shares appear attractively priced. In addition to its good yield, shares of ANAT are trading at a 14% discount to its \$130.97 book value. More importantly, ANAT remains debt free and has excess capital which could be used to increase the dividend, repurchase shares or make an accretive acquisition.

ABC Funds

November 24, 2006

A fairly benign hurricane season helped to lift American National Insurance Company (ANAT) to its best fourth quarter on record. On Feb 16th, the Galveston based insurer posted earnings of \$110 million or \$4.17 per share compared to earnings of \$35 million or \$1.34 per share in the fourth quarter of 2005. For the year, ANAT earned \$273 million, or \$10.27 per share compared to \$236 million or \$8.87 per share a year earlier, a 16% increase. While impressive, it is important to keep in mind that 2005 was a very active hurricane season resulting in higher than normal underwriting losses. On the other hand, hurricane activity in 2006 was negligible producing significantly fewer claims.

Looking ahead, we believe ANAT can grow its earnings around 5% a year on average. This assumes a sustainable return on equity of 7%, and a 30% dividend payout ratio which is in line with previous years. As we have pointed out in the past, the controlling Moody family has deliberately chosen this slow but steady approach to managing the Company. ANAT uses virtually no financial leverage and employs a disciplined and conservative underwriting philosophy. This is evident by observing ANAT's A+ (superior) rating by A.M Best, and its AA (very strong) rating by Standard and Poor's. Given the recent stock market volatility, we take comfort in ANAT's rock solid balance sheet and high credit rating.

As a patient investor with a longer term view, we believe ANAT remains an attractive investment given its risk/reward characteristics. In addition to its 2.4% dividend yield, ANAT trades at a 6% discount to its book value of \$134 per share. More importantly, ANAT remains debt free and has excess capital which could be used to increase the dividend, repurchase shares or make an accretive acquisition. Finally should the Moody family ever decide to sell the company we believe that ANAT would fetch a significant premium to its current public market value.

ABC Funds

March 9, 2007

On April 23rd American National Insurance Co. (ANAT) reported earnings of \$49.2 million or \$1.85 per share compared to earnings of \$56.2 million or \$2.11 per share for the same period in 2006. Earnings before investment gains, a more meaningful comparison, increased 4.3% to \$50.7 million or \$1.91 per share compared to \$48.7 million or \$1.83 last year. ANAT's life insurance and annuity division performed exceptionally well. Policyholder deposits increased 37% year over year while earned premiums, which tend to lag deposits, increased 31%.

Although shares of ANAT have increased 27% this year, we believe they are still relatively inexpensive. In addition to its 2.1% dividend yield, ANAT trades at only 1.1 times its book value of \$135 per share. More importantly, the Company's balance sheet remains rock solid. Not only does ANAT remain debt free with one of the highest credit ratings in the industry, but it also has excess capital which could be used to increase its dividend, repurchase shares or make an accretive acquisition.

Finally, it is worth noting that ANAT remains an attractive acquisition target. It would actually be cheaper for a larger insurer to just buy ANAT, with its strong franchise and established distribution network, then to start the business from scratch. Should the controlling shareholders (i.e. the Moody family) ever decide to sell, we believe ANAT would command a significant premium to its current market value.

ABC Funds

June 1, 2007

UPDATES (cont'd)

With the recent stock and credit market turmoil, particularly in U.S. financial stocks, (i.e. Bear Stearns and Countrywide Financial), we felt an update on American National Insurance Company (ANAT) was appropriate. Given that ANAT has consistently paid a dividend for 96 years, it should come as no surprise that ANAT's managers have a fairly conservative investment philosophy. ANAT's portfolio is comprised mostly of government and corporate bonds, public utility debt and common and preferred shares. It is reassuring to know that ANAT has no sub-prime mortgage exposure, and its AA credit rating remains one of the highest in the insurance business.

On July 23rd ANAT announced terrific results for the second quarter. The company reported earnings of \$58.9 million (\$2.22 per share) compared to earnings of \$51.3 million (\$1.93 per share) for the same period in 2006. Earnings before investment gains, a more meaningful comparison, increased 53.1% to \$53.9 million (\$2.03 per share) compared to \$35.2 million (\$1.32 per share) last year. ANAT's life insurance and annuity division preformed exceptionally well. Policyholder deposits increased 34% while earned premiums from life insurance and annuities increased 67%. Over the last 12 months, earnings per share were \$10.35 and return on equity (ROE) was a respectable 8.1%.

Like most financial companies, ANAT earns profit from its spread, which is the difference between what it pays in claims and what it earns on its investments. In recent years ANAT's spread has narrowed due to a flattening yield curve and a shrinking credit spread between US treasuries and corporate bonds. Recently however, these trends have begun to reverse, and this should help boost ANAT's earnings in coming years. Interestingly, ANAT is debt free and has excess capital at its disposal. With its shares currently trading at a 10% discount to its \$137 per share book value, the company could use the cash towards an accretive share buyback. Finally, it is worth noting that ANAT remains an attractive acquisition target. It would actually be cheaper for a larger insurer to just buy ANAT, with its strong franchise and established distribution network, than to start the business from scratch. Should the controlling shareholders (i.e. the Moody family) ever decide to sell, we believe ANAT would command a significant premium to its current market value.

ABC Funds

August 31, 2007

On October 22nd American National Insurance Company (ANAT) announced third quarter results. Net income was \$79.2 million or \$2.98 per share compared to \$54.8 million or \$2.06 for the same period last year. After tax operating earnings, which excludes realized investment gains and losses, increased 13.3% to \$57.1 million or \$2.15 per share, compared with \$50.0 million or \$1.89 per share for the same period in 2006. Policyholder deposits on interest-sensitive products, both life insurance and annuities, totaled \$944 million at the end of the quarter, an increase of 15.9% from the same period in 2006. In addition, earned premiums from life insurance and annuities increased 33.6% to a total of \$423 million.

Shortly following its quarterly release, ANAT's board of directors approved an increase to its quarterly dividend from 76 to 77 cents per share. Based on current prices, ANAT shares now yield over 2.4%. It should be noted, that this is the 97th consecutive year that dividends have been paid to stockholders. It is also the 31st dividend increase in the last 34 years. However, given that earnings have increased over 20% year to date, the size of the increase – just 1.4% - seems conservative. On the other hand, ANAT could be conserving its cash. With its virtually debt-free balance sheet and its shares currently trading about \$10 below its \$140 book value per share, ANAT could decide to take advantage of the current stock market volatility and repurchase its fundamentally undervalued shares in the market.

ABC Funds

October 26, 2007