

AMERICAN NATIONAL INSURANCE CO /TX/

Form 10-Q

May 06, 2011

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended March 31, 2011**  
or

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
Commission File No. 001- 34280  
American National Insurance Company**  
(Exact name of registrant as specified in its charter)

Texas  
(State or other jurisdiction of  
incorporation or organization)

74-0484030  
(I.R.S. Employer Identification No.)

One Moody Plaza  
Galveston, Texas 77550-7999  
(Address of principal executive offices) (Zip Code)  
(409) 763-4661  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No  
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

As of April 29, 2011, there were 26,821,284 shares of the registrant's voting common stock, \$1.00 par value per share, outstanding.

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**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****AMERICAN NATIONAL INSURANCE COMPANY  
CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited and in thousands, except for per share data)

|   | <b>Three months ended March 31,</b> |                |
|---|-------------------------------------|----------------|
|   | <b>2011</b>                         | <b>2010</b>    |
| <b>PREMIUMS AND OTHER REVENUES</b>  |                                     |                |
| Premiums  |                                     |                |
| Life  | \$ 66,386                           | \$ 69,445      |
| Annuity   | 32,241                              | 40,352         |
| Accident and health   | 58,644                              | 68,424         |
| Property and casualty   | 291,314                             | 286,472        |
| Other policy revenues   | 49,131                              | 44,996         |
| Net investment income   | 239,072                             | 218,102        |
| Realized investments gains  | 22,031                              | 17,747         |
| Other-than-temporary impairments  |                                     | (1,245)        |
| Other income  | 6,286                               | 5,915          |
| <b>Total premiums and other revenues</b>  | <b>765,105</b>                      | <b>750,208</b> |
| <b>BENEFITS, LOSSES AND EXPENSES</b>  |                                     |                |
| Policyholder benefits   |                                     |                |
| Life  | 76,687                              | 72,538         |
| Annuity   | 42,977                              | 47,695         |
| Claims incurred   |                                     |                |
| Accident and health   | 41,607                              | 52,839         |
| Property and casualty   | 215,511                             | 235,203        |
| Interest credited to policyholders' account balances  | 106,016                             | 94,362         |
| Commissions for acquiring and servicing policies  | 110,226                             | 106,877        |
| Other operating expenses  | 122,399                             | 113,208        |
| Change in deferred policy acquisition costs   | (13,050)                            | (14,883)       |
| <b>Total benefits, losses and expenses</b>  | <b>702,373</b>                      | <b>707,839</b> |
| <b>Income from continuing operations before federal income tax, and equity in earnings of unconsolidated affiliates</b> | <b>62,732</b>                       | <b>42,369</b>  |
| Provision for federal income taxes  |                                     |                |
| Current   | 14,318                              | 9,500          |
| Deferred  | 2,580                               | 516            |
| Total provision for federal income taxes  | 16,898                              | 10,016         |
| Equity in earnings of unconsolidated affiliates, net of tax   | 1,861                               | 7              |

|   |                  |                  |
|---|------------------|------------------|
| Income from continuing operations   | 47,695           | 32,360           |
| Income from discontinued operations, net of tax (See Note 17)                           |                  | 223              |
| <b>Net income</b>   | <b>47,695</b>    | <b>32,583</b>    |
| Less: Net loss attributable to noncontrolling interest, net of tax                      | (787)            | (2,195)          |
| <b>Net income attributable to American National Insurance Company and Subsidiaries</b>  | <b>\$ 48,482</b> | <b>\$ 34,778</b> |
| <br><b>Amounts available to American National Insurance Company common stockholders</b> |                  |                  |
| Earnings per share:   |                  |                  |
| Basic   | \$ 1.83          | \$ 1.31          |
| Diluted   | 1.82             | 1.30             |
| Weighted average common shares outstanding  | 26,559,643       | 26,558,832       |
| Weighted average common shares outstanding and dilutive potential common shares         | 26,690,498       | 26,652,210       |
| <i>See accompanying notes to the unaudited consolidated financial statements.</i>       |                  |                  |

**Table of Contents****AMERICAN NATIONAL INSURANCE COMPANY  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(Unaudited and in thousands, except for share and per share data)

|  | <b>March 31,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|--|---------------------------|------------------------------|
| <b>ASSETS</b>  |                           |                              |
| Fixed maturity, bonds held-to-maturity, at amortized cost                          | \$ 8,955,317              | \$ 8,513,550                 |
| Fixed maturity, bonds available-for-sale, at fair value                            | 4,174,498                 | 4,123,613                    |
| Equity securities, at fair value   | 1,118,203                 | 1,082,755                    |
| Mortgage loans on real estate, net of allowance                                    | 2,816,832                 | 2,679,909                    |
| Policy loans   | 383,480                   | 380,505                      |
| Investment real estate, net of accumulated depreciation of \$204,743 and \$202,111 | 513,901                   | 521,768                      |
| Short-term investments   | 461,069                   | 486,206                      |
| Other invested assets  | 122,718                   | 119,251                      |
| <b>Total investments</b>   | <b>18,546,018</b>         | <b>17,907,557</b>            |
| Cash and cash equivalents  | 110,414                   | 101,449                      |
| Investments in unconsolidated affiliates   | 207,761                   | 195,472                      |
| Accrued investment income  | 203,324                   | 201,286                      |
| Reinsurance recoverables   | 370,147                   | 355,188                      |
| Prepaid reinsurance premiums   | 77,031                    | 75,542                       |
| Premiums due and other receivables   | 320,885                   | 287,184                      |
| Deferred policy acquisition costs  | 1,325,458                 | 1,318,426                    |
| Property and equipment, net  | 78,379                    | 77,974                       |
| Current tax receivable   |                           | 7,764                        |
| Other assets   | 148,653                   | 138,978                      |
| Separate account assets  | 791,950                   | 780,563                      |
| <b>Total assets</b>  | <b>\$ 22,180,020</b>      | <b>\$ 21,447,383</b>         |
| <b>LIABILITIES</b>   |                           |                              |
| Future policy benefits:  |                           |                              |
| Life   | \$ 2,550,010              | \$ 2,539,334                 |
| Annuity  | 878,600                   | 865,480                      |
| Accident and health  | 78,449                    | 81,266                       |
| Policyholders' account balances  | 10,900,350                | 10,475,159                   |
| Policy and contract claims   | 1,325,537                 | 1,298,457                    |
| Participating policyholder share   | 182,990                   | 177,794                      |
| Other policyholder funds   | 921,280                   | 923,790                      |
| Liability for retirement benefits  | 187,194                   | 187,453                      |
| Current portion of long-term notes payable   | 48,090                    | 47,632                       |
| Long-term notes payable  | 12,508                    | 12,508                       |
| Current tax payable  | 7,858                     |                              |
| Deferred tax liabilities, net  | 71,218                    | 53,737                       |
| Other liabilities  | 534,631                   | 368,332                      |
| Separate account liabilities   | 791,950                   | 780,563                      |

|   |                      |                      |
|---|----------------------|----------------------|
| <b>Total liabilities</b>  | 18,490,665           | 17,811,505           |
| <b>STOCKHOLDERS EQUITY</b>  |                      |                      |
| Common stock, \$1.00 par value, Authorized 50,000,000 Issued 30,832,449,<br>Outstanding 26,820,977 shares | 30,832               | 30,832               |
| Additional paid-in capital  | 16,143               | 15,190               |
| Accumulated other comprehensive income  | 251,101              | 225,212              |
| Retained earnings   | 3,487,741            | 3,459,911            |
| Treasury stock, at cost   | (98,494)             | (98,494)             |
| Total American National stockholders equity   | 3,687,323            | 3,632,651            |
| Noncontrolling interest   | 2,032                | 3,227                |
| <b>Total stockholders equity</b>  | <b>3,689,355</b>     | <b>3,635,878</b>     |
| <b>Total liabilities and stockholders equity</b>  | <b>\$ 22,180,020</b> | <b>\$ 21,447,383</b> |

*See accompanying notes to the unaudited consolidated financial statements.*



**Table of Contents****AMERICAN NATIONAL INSURANCE COMPANY  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

(Unaudited and in thousands, except for per share data)

|   | <b>Three months ended March 31,</b> |             |
|---|-------------------------------------|-------------|
|   | <b>2011</b>                         | <b>2010</b> |
| <b>Common Stock</b>   |                                     |             |
| Balance at beginning and end of the period                                      | \$ 30,832                           | \$ 30,832   |
| <b>Additional Paid-In Capital</b>   |                                     |             |
| Balance as of January 1,  | 15,190                              | 11,986      |
| Amortization of restricted stock  | 953                                 | 696         |
| Balance as of March 31,   | 16,143                              | 12,682      |
| <b>Accumulated Other Comprehensive Income</b>                                   |                                     |             |
| Balance as of January 1,  | 225,212                             | 117,649     |
| Change in unrealized gain on available-for-sale securities, net                 | 25,795                              | 57,273      |
| Foreign exchange adjustments  | 159                                 | 159         |
| Defined benefit plan adjustment   | (65)                                |             |
| Balance as of March 31,   | 251,101                             | 175,081     |
| <b>Retained Earnings</b>  |                                     |             |
| Balance as of January 1,  | 3,459,911                           | 3,398,492   |
| Net income attributable to American National Insurance Company and Subsidiaries | 48,482                              | 34,778      |
| Cash dividends to common stockholders (\$0.77 per share)                        | (20,652)                            | (20,651)    |
| Balance as of March 31,   | 3,487,741                           | 3,412,619   |
| <b>Treasury Stock</b>   |                                     |             |
| Balance at beginning and end of the period                                      | (98,494)                            | (98,505)    |
| <b>Noncontrolling Interest</b>  |                                     |             |
| Balance as of January 1,  | 3,227                               | 11,955      |
| Contributions   | 17                                  | 50          |
| Distributions   | (2)                                 | (882)       |
| Loss attributable to noncontrolling interest                                    | (1,210)                             | (3,377)     |
| Balance as of March 31,   | 2,032                               | 7,746       |
| <b>Total Equity</b>   |                                     |             |

|                         |              |              |
|-------------------------|--------------|--------------|
| Balance as of March 31, | \$ 3,689,355 | \$ 3,540,455 |
|-------------------------|--------------|--------------|

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Unaudited and in thousands)

|  | <b>Three months ended March 31,</b> |                  |
|--|-------------------------------------|------------------|
|  | <b>2011</b>                         | <b>2010</b>      |
| Net income attributable to American National Insurance Company and Subsidiaries                        | \$ 48,482                           | \$ 34,778        |
| Other comprehensive income, net of tax   |                                     |                  |
| Change in unrealized gain on available-for-sale securities, net  | 25,795                              | 57,273           |
| Foreign exchange adjustments   | 159                                 | 159              |
| Defined benefit plan adjustment  | (65)                                |                  |
| <b>Total other comprehensive income</b>  | <b>25,889</b>                       | <b>57,432</b>    |
| <b>Total comprehensive income attributable to American National Insurance Company and Subsidiaries</b> | <b>\$ 74,371</b>                    | <b>\$ 92,210</b> |

*See accompanying notes to the unaudited consolidated financial statements.*

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**AMERICAN NATIONAL INSURANCE COMPANY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited and in thousands)**

|   | <b>Three months ended March 31,</b> |                |
|---|-------------------------------------|----------------|
|   | <b>2011</b>                         | <b>2010</b>    |
| <b>OPERATING ACTIVITIES</b>   |                                     |                |
| Net income attributable to American National Insurance Company and Subsidiaries   | \$ 48,482                           | \$ 34,778      |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                     |                |
| Realized gains on investments   | (22,031)                            | (17,742)       |
| Other-than-temporary impairments  |                                     | 1,245          |
| Amortization of discounts and premiums on bonds                                   | 4,302                               | 4,359          |
| Net capitalized interest on policy loans and mortgage loans                       | (6,806)                             | (7,504)        |
| Depreciation  | 10,211                              | 11,176         |
| Interest credited to policy account balances                                      | 106,016                             | 94,381         |
| Charges to policy account balances  | (49,131)                            | (44,996)       |
| Deferred federal income tax expense   | 2,580                               | 530            |
| Deferral of policy acquisition costs  | (126,010)                           | (120,690)      |
| Amortization of deferred policy acquisition costs                                 | 112,960                             | 105,807        |
| Equity in earnings of unconsolidated affiliates                                   | (2,863)                             | (10)           |
| Changes in:   |                                     |                |
| Policyholder liabilities  | 48,889                              | 51,477         |
| Reinsurance recoverables  | (14,959)                            | (228)          |
| Premiums due and other receivables  | (33,701)                            | (1,211)        |
| Accrued investment income   | (2,038)                             | (1,911)        |
| Current tax receivable/payable  | 15,622                              | 9,287          |
| Liability for retirement benefits   | (259)                               | 701            |
| Prepaid reinsurance premiums  | (1,489)                             | 2,548          |
| Other, net  | 54,046                              | 11,633         |
| <b>Net cash provided by operating activities</b>                                  | <b>143,821</b>                      | <b>133,630</b> |
| <b>INVESTING ACTIVITIES</b>   |                                     |                |
| Proceeds from sale/maturity/prepayment of:  |                                     |                |
| Bonds held-to-maturity  | 263,749                             | 68,779         |
| Bonds available-for-sale  | 164,472                             | 156,041        |
| Equity securities   | 36,441                              | 38,767         |
| Real estate   | 5,412                               | 13,954         |
| Mortgage loans  | 27,138                              | 19,109         |
| Policy loans  | 11,935                              | 10,381         |
| Other invested assets   | 10,955                              | 2,173          |
| Disposals of property and equipment   | 260                                 | 484            |
| Distributions from unconsolidated affiliates                                      | 3,758                               | 472            |
| Payment for the purchase/origination of:  |                                     |                |
| Bonds held-to-maturity  | (614,848)                           | (181,671)      |
| Bonds available-for-sale  | (185,554)                           | (72,116)       |
| Equity securities   | (22,785)                            | (10,758)       |

|   |                   |                   |
|---|-------------------|-------------------|
| Real estate   | (3,350)           | (19,214)          |
| Mortgage loans  | (158,257)         | (118,424)         |
| Policy loans  | (9,308)           | (6,692)           |
| Other invested assets                                       | (9,605)           | (11,622)          |
| Additions to property and equipment                         | (4,707)           | (1,214)           |
| Contributions to unconsolidated affiliates                  | (14,881)          | (2,727)           |
| Change in short-term investments                            | 25,137            | (203,975)         |
| Other, net  | (8,930)           | 13,658            |
| <b>Net cash used in investing activities</b>                | <b>(482,968)</b>  | <b>(304,595)</b>  |
| <b>FINANCING ACTIVITIES</b>                                 |                   |                   |
| Policyholders' account deposits                             | 670,506           | 401,027           |
| Policyholders' account withdrawals                          | (302,200)         | (239,821)         |
| Change in notes payable                                     | 458               | (680)             |
| Dividends to stockholders                                   | (20,652)          | (20,651)          |
| <b>Net cash provided by financing activities</b>            | <b>348,112</b>    | <b>139,875</b>    |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b> | <b>8,965</b>      | <b>(31,090)</b>   |
| Beginning of the year                                       | 101,449           | 161,483           |
| <b>Balance as of March 31,</b>                              | <b>\$ 110,414</b> | <b>\$ 130,393</b> |

*See accompanying notes to the unaudited consolidated financial statements.*

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**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**1. NATURE OF OPERATIONS**

American National Insurance Company and its consolidated subsidiaries (collectively American National ) operate in the insurance industry. Operating on a multiple product line basis, American National offers a broad line of insurance coverage, including individual and group life insurance, health insurance, annuities, and property and casualty insurance. In addition, through non-insurance subsidiaries, American National invests in stocks and real estate. The majority of revenues are 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. Various distribution systems are utilized, including multiple-line exclusive agents, independent agents, third-party marketing organizations, career agents, and direct sales to the public.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES**

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ( GAAP ) and the rules and regulations of the U.S. Securities and Exchange Commission ( SEC ) for Form 10-Q. In addition to GAAP, specific SEC requirements applicable to insurance companies are applied to the financial statements.

The interim consolidated financial statements and notes herein are unaudited. These interim consolidated financial statements reflect all adjustments which are, in the opinion of management, considered necessary for the fair presentation of the consolidated financial position, consolidated statements of operations, cash flows and changes in equity and comprehensive income for the interim periods. These interim consolidated financial statements and notes should be read in conjunction with the annual consolidated financial statements and notes thereto included in American National s Annual Report on Form 10-K as of and for the year ended December 31, 2010. The consolidated results of operations for the interim periods should not be considered indicative of results to be expected for the full year.

American National consolidates all entities that are wholly-owned and those in which American National owns less than 100% but controls, as well as any variable interest entities in which American National is the primary beneficiary. Investments in unconsolidated affiliates are accounted for using the equity method of accounting. Certain amounts in prior years have been reclassified to conform to current year presentation.

The preparation of the consolidated financial statements in conformity with GAAP requires the use of estimates and assumptions that affect the reported consolidated financial statement balances. Actual results could differ from those estimates. The following estimates have been identified as critical in that they involve a high degree of judgment and are subject to a significant degree of variability:

- Other-than-temporary impairment ( OTTI );
- Deferred policy acquisition costs;
- Reserves;
- Reinsurance;
- Pension and postretirement benefit plans;
- Litigation contingencies; and
- Federal income taxes.

As of March 31, 2011, American National s significant accounting policies and practices remain materially unchanged from those disclosed in Note 2 of the Notes to Consolidated Financial Statements incorporated within American National s 2010 Annual Report on Form 10-K.

**Table of Contents****3. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS****Adoption of New Accounting Standards**

In January 2010, the FASB issued ASU No. 2010-06, Improving Disclosures about Fair Value Measurements. ASU 2010-06 was issued to improve and expand fair value disclosures. Newly required disclosures are as follows: 1) provide information about movements of assets among Levels 1 and 2 of the three-tier fair value hierarchy; 2) provide a reconciliation of purchases, sales, issuance, and settlements of anything valued with a Level 3 method; and 3) provide fair value disclosures for each class of assets and liabilities. This guidance is effective for interim and annual periods commencing after December 15, 2009, except for the disclosure of the reconciliation of the Level 3 activities, which is effective for annual periods commencing after December 15, 2010. American National adopted this guidance on January 1, 2010, except for the disclosure of the reconciliation of the Level 3 activities, which was adopted effective January 1, 2011. American National's adoption of this guidance did not have a material impact on American National's consolidated financial statements.

In April 2010, the FASB issued ASU No. 2010-15, How Investments Held through Separate Accounts Affect an Insurer's Consolidation Analysis of Those Investments. For accounting purposes, ASU 2010-15 clarifies that an insurance entity should not consider any separate account interests held for the benefit of policyholders in an investment to be the insurer's interests and should not combine those interests with its general account interest in the same investment when assessing the investment for consolidation, unless the separate account interests are held for the benefit of a related-party policyholder. This guidance also clarifies that for the purpose of evaluating whether the retention of specialized accounting for investments in consolidation is appropriate, a separate account arrangement should be considered a subsidiary. The amendments do not require an insurer to consolidate an investment in which a separate account holds a controlling financial interest if the investment is not or would not be consolidated in the stand-alone financial statements of the separate account. ASU 2010-15 is effective for interim and annual periods commencing after December 15, 2010. American National's adoption of this guidance effective January 1, 2011 did not have a material effect on American National's consolidated financial statements.

In July 2010, the FASB issued ASU No. 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. Additional disclosures are now required that enable readers of the financial statements to understand the nature of the credit risk inherent in the financing receivable portfolio, how the portfolio's credit risk is analyzed and assessed in order to arrive at the allowance for credit losses for each portfolio, and the changes and underlying reason for the changes in the allowance for credit losses for each portfolio. Disclosures previously required for financing receivables are now required to be disclosed on a disaggregated basis. In addition, new disclosures under ASU 2010-20 are required for each financing receivable class including credit quality indicators of financing receivables at the end of the reporting period, aging of past due financing receivables, the nature and extent of troubled debt restructurings that occurred during the reporting period, the nature and extent of financing receivables modified as troubled debt restructurings within the previous 12 months that defaulted during the reporting period, and significant purchases and sales of financing receivables during the reporting period. The ASU 2010-20 disclosures required as of the end of a reporting period are effective for interim and annual periods ending on or after December 15, 2010. Disclosures concerning the activity that occurs during a reporting period are effective for interim and annual periods beginning on or after December 15, 2010. American National adopted this guidance effective January 1, 2010, except for the disclosure requirements for activities that occur during a reporting period, which was adopted effective January 1, 2011. American National's adoption of this guidance did not have a material impact on American National's consolidated financial statements.

In January 2011, the FASB issued ASU No. 2011-01, Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20. This update temporarily delays the effective date of the disclosures about troubled debt restructuring required within ASU 2010-20. The delay was intended to allow the FASB time to complete its deliberations on what constitutes a troubled debt restructuring. FASB issued the revised guidance, ASU 2011-02, effective for interim and annual periods that end after June 15, 2011. ASU 2011-01 is effective upon issuance. Accordingly, this update was retrospectively adopted on December 31, 2010 and did not have a material effect on American National's consolidated financial statements.



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**Future Adoption of New Accounting Standards**

In October 2010, the FASB issued ASU No. 2010-26, Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts. The new guidance redefines the term acquisition cost and added the term incremental direct cost of contract acquisition to the master glossary. These changes limit the deferrable cost to those costs that are related directly to the successful acquisition of insurance contracts and those that result directly from and are essential to the contract acquisition and costs that would have not been incurred had the contract acquisition not occurred. The new guidance also specifies that advertising costs should be deferred only if the capitalization criteria for direct-response advertising are met. ASU 2010-26 is effective for interim and annual periods, commencing after December 15, 2011. This guidance is expected to be adopted by American National on January 1, 2012. American National is currently assessing the effect of ASU 2010-26 on its consolidated financial statements.

In April 2011, the FASB issued ASU No. 2011-02, A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring. The new guidance clarifies the creditor's evaluation of whether it has granted a concession and whether a borrower is experiencing financial difficulties. In addition, the new guidance precludes the creditor from using the effective interest rate test in the borrower's guidance on restructuring payables when evaluating whether a restructuring constitutes a trouble debt restructuring. ASU 2011-02 is effective for public companies for interim and annual periods beginning on or after June 15, 2011 and must be applied retrospectively to restructurings occurring on or after the beginning of the year. This new guidance is expected to be adopted by American National on July 1, 2011. American National is currently assessing the effect of ASU 2011-02 on its consolidated financial statements.



**Table of Contents****4. INVESTMENTS**

The cost or amortized cost and estimated fair value of investments in fixed maturity and equity securities are shown below (in thousands):

|   | <b>Three months ended March 31, 2011</b> |                                       |  |                                 |
|---|--|---------------------------------------|--|---------------------------------|
|   | <b>Cost or<br/>Amortized<br/>Cost</b>    | <b>Gross<br/>Unrealized<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Estimated Fair<br/>Value</b> |
| Fixed maturity securities   |  |                                       |  |                                 |
| Bonds held-to-maturity  |  |                                       |  |                                 |
| U.S. treasury and other U.S. government corporations and agencies | \$ 21,957                                | \$ 237                                | \$                                     | \$ 22,194                       |
| States of the U.S. and political subdivisions of the states       | 415,556                                  | 6,233                                 | (6,825)                                | 414,964                         |
| Foreign governments   | 29,026                                   | 4,659                                 |  | 33,685                          |
| Corporate debt securities   | 7,717,181                                | 455,862                               | (30,716)                               | 8,142,327                       |
| Residential mortgage-backed securities                            | 694,143                                  | 32,363                                | (2,765)                                | 723,741                         |
| Commercial mortgage-backed securities                             | 31,341                                   |                                       | (9,363)                                | 21,978                          |
| Collateralized debt securities                                    | 7,159                                    | 50                                    | (323)                                  | 6,886                           |
| Other debt securities   | 38,954                                   | 3,751                                 |  | 42,705                          |
| <b>Total bonds held-to-maturity</b>                               | <b>8,955,317</b>                         | <b>503,155</b>                        | <b>(49,992)</b>                        | <b>9,408,480</b>                |
| Bonds available-for-sale  |  |                                       |  |                                 |
| U.S. treasury and other U.S. government corporations and agencies | 13,378                                   | 603                                   |  | 13,981                          |
| States of the U.S. and political subdivisions of the states       | 583,854                                  | 13,444                                | (5,153)                                | 592,145                         |
| Foreign governments   | 5,000                                    | 1,701                                 |  | 6,701                           |
| Corporate debt securities   | 3,093,571                                | 204,491                               | (18,607)                               | 3,279,455                       |
| Residential mortgage-backed securities                            | 236,033                                  | 12,935                                | (1,190)                                | 247,778                         |
| Collateralized debt securities                                    | 18,247                                   | 1,370                                 | (227)                                  | 19,390                          |
| Other debt securities   | 14,171                                   | 877                                   |  | 15,048                          |
| <b>Total bonds available-for-sale</b>                             | <b>3,964,254</b>                         | <b>235,421</b>                        | <b>(25,177)</b>                        | <b>4,174,498</b>                |
| <b>Total fixed maturity securities</b>                            | <b>12,919,571</b>                        | <b>738,576</b>                        | <b>(75,169)</b>                        | <b>13,582,978</b>               |
| Equity securities   |  |                                       |  |                                 |
| Common stock  |  |                                       |  |                                 |
| Consumer goods  | 149,536                                  | 65,301                                | (1,983)                                | 212,854                         |
| Energy and utilities  | 119,035                                  | 81,137                                | (688)                                  | 199,484                         |
| Finance   | 119,976                                  | 61,237                                | (1,187)                                | 180,026                         |
| Healthcare  | 78,104                                   | 39,379                                | (1,440)                                | 116,043                         |
| Industrials   | 61,849                                   | 55,481                                |  | 117,330                         |

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|  |                      |                     |                    |                      |
|--|----------------------|---------------------|--------------------|----------------------|
| Information technology                 | 111,942              | 62,841              | (633)              | 174,150              |
| Materials                              | 16,469               | 16,816              |                    | 33,285               |
| Telecommunication services             | 31,675               | 13,894              | (38)               | 45,531               |
| <b>Total common stock</b>              | <b>688,586</b>       | <b>396,086</b>      | <b>(5,969)</b>     | <b>1,078,703</b>     |
| Preferred stock                        | 30,958               | 8,576               | (34)               | 39,500               |
| <b>Total equity securities</b>         | <b>719,544</b>       | <b>404,662</b>      | <b>(6,003)</b>     | <b>1,118,203</b>     |
| <br>                                   |                      |                     |                    |                      |
| <b>Total investments in securities</b> | <b>\$ 13,639,115</b> | <b>\$ 1,143,238</b> | <b>\$ (81,172)</b> | <b>\$ 14,701,181</b> |

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|   | <b>Year ended December 31, 2010</b>   |                                       |  |                                 |
|---|---------------------------------------|---------------------------------------|--|---------------------------------|
|   | <b>Cost or<br/>Amortized<br/>Cost</b> | <b>Gross<br/>Unrealized<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Estimated Fair<br/>Value</b> |
| Fixed maturity securities   |                                       |                                       |  |                                 |
| Bonds held-to-maturity  |                                       |                                       |  |                                 |
| U.S. treasury and other U.S. government corporations and agencies | \$ 23,117                             | \$ 288                                | \$                                     | \$ 23,405                       |
| States of the U.S. and political subdivisions of the states       | 422,249                               | 7,117                                 | (6,920)                                | 422,446                         |
| Foreign governments   | 29,020                                | 4,910                                 |  | 33,930                          |
| Corporate debt securities   | 7,293,501                             | 478,353                               | (33,077)                               | 7,738,777                       |
| Residential mortgage-backed securities                            | 661,516                               | 33,702                                | (3,398)                                | 691,820                         |
| Commercial mortgage-backed securities                             | 31,340                                |                                       | (17,758)                               | 13,582                          |
| Collateralized debt securities                                    | 8,562                                 | 80                                    | (327)                                  | 8,315                           |
| Other debt securities   | 44,245                                | 3,314                                 |  | 47,559                          |
| <b>Total bonds held-to-maturity</b>                               | <b>8,513,550</b>                      | <b>527,764</b>                        | <b>(61,480)</b>                        | <b>8,979,834</b>                |
| <br>  |                                       |                                       |  |                                 |
| Bonds available-for-sale  |                                       |                                       |  |                                 |
| U.S. treasury and other U.S. government corporations and agencies | 13,268                                | 643                                   | (4)                                    | 13,907                          |
| States of the U.S. and political subdivisions of the states       | 583,163                               | 15,142                                | (4,193)                                | 594,112                         |
| Foreign governments   | 5,000                                 | 1,967                                 |  | 6,967                           |
| Corporate debt securities   | 3,030,671                             | 197,485                               | (26,587)                               | 3,201,569                       |
| Residential mortgage-backed securities                            | 259,560                               | 13,250                                | (1,417)                                | 271,393                         |
| Collateralized debt securities                                    | 19,468                                | 1,459                                 | (218)                                  | 20,709                          |
| Other debt securities   | 14,187                                | 769                                   |  | 14,956                          |
| <b>Total bonds available-for-sale</b>                             | <b>3,925,317</b>                      | <b>230,715</b>                        | <b>(32,419)</b>                        | <b>4,123,613</b>                |
| <br>  |                                       |                                       |  |                                 |
| <b>Total fixed maturity securities</b>                            | <b>12,438,867</b>                     | <b>758,479</b>                        | <b>(93,899)</b>                        | <b>13,103,447</b>               |
| <br>  |                                       |                                       |  |                                 |
| Equity securities   |                                       |                                       |  |                                 |
| Common stock  |                                       |                                       |  |                                 |
| Consumer goods  | 154,106                               | 63,538                                | (1,052)                                | 216,592                         |
| Energy and utilities  | 121,727                               | 72,471                                | (933)                                  | 193,265                         |
| Finance   | 119,975                               | 55,175                                | (1,571)                                | 173,579                         |
| Healthcare  | 78,256                                | 31,907                                | (1,654)                                | 108,509                         |
| Industrials   | 59,856                                | 47,649                                |  | 107,505                         |
| Information technology  | 108,178                               | 62,284                                | (161)                                  | 170,301                         |
| Materials   | 16,469                                | 15,540                                |  | 32,009                          |
| Telecommunication services  | 31,678                                | 12,484                                | (34)                                   | 44,128                          |

|  |                      |                     |                    |                      |
|--|----------------------|---------------------|--------------------|----------------------|
| <b>Total common stock</b>              | <b>690,245</b>       | <b>361,048</b>      | <b>(5,405)</b>     | <b>1,045,888</b>     |
| Preferred stock                        | 30,420               | 6,714               | (267)              | 36,867               |
| <b>Total equity securities</b>         | <b>720,665</b>       | <b>367,762</b>      | <b>(5,672)</b>     | <b>1,082,755</b>     |
| <b>Total investments in securities</b> | <b>\$ 13,159,532</b> | <b>\$ 1,126,241</b> | <b>\$ (99,571)</b> | <b>\$ 14,186,202</b> |

**Table of Contents****Investment securities**

Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Residential and commercial mortgage-backed securities, which are not due at a single maturity, have been allocated to their respective categories based on the year of final contractual maturity. The amortized cost and estimated fair value, by contractual maturity of fixed maturity securities are shown below (in thousands):

|  | <b>March 31, 2011</b>         |                                     |                                 |                                     |
|--|-------------------------------|-------------------------------------|---------------------------------|-------------------------------------|
|  | <b>Bonds Held-to-Maturity</b> |                                     | <b>Bonds Available-for-Sale</b> |                                     |
|  | <b>Amortized<br/>Cost</b>     | <b>Estimated<br/>Fair<br/>Value</b> | <b>Amortized<br/>Cost</b>       | <b>Estimated<br/>Fair<br/>Value</b> |
| Due in one year or less                | \$ 636,977                    | \$ 658,835                          | \$ 157,312                      | \$ 161,881                          |
| Due after one year through five years  | 3,729,410                     | 3,992,460                           | 1,903,321                       | 2,029,287                           |
| Due after five years through ten years | 3,524,044                     | 3,676,278                           | 1,400,068                       | 1,461,926                           |
| Due after ten years                    | 1,059,036                     | 1,075,876                           | 498,553                         | 516,556                             |
|  | 8,949,467                     | 9,403,449                           | 3,959,254                       | 4,169,650                           |
| Without single maturity date           | 5,850                         | 5,031                               | 5,000                           | 4,848                               |
| <b>Total</b>                           | <b>\$ 8,955,317</b>           | <b>\$ 9,408,480</b>                 | <b>\$ 3,964,254</b>             | <b>\$ 4,174,498</b>                 |

Available-for-sale securities are sold throughout the year for various reasons. All gains and losses were determined using specific identification of the securities sold. Proceeds from the sales of these securities, with the realized gains and losses, are shown below (in thousands):

|  | <b>Three months ended March 31,</b> |             |
|--|-------------------------------------|-------------|
|  | <b>2011</b>                         | <b>2010</b> |
| Proceeds from sales of available-for-sale securities | \$ 53,612                           | \$ 116,913  |
| Gross realized gains                                 | 14,169                              | 14,483      |
| Gross realized losses                                | (809)                               | (266)       |

There were no securities transferred from held-to-maturity to available-for-sale during the three months ended March 31, 2011 and 2010.

**Table of Contents****Derivative Instruments**

American National purchases derivative contracts (equity-indexed options) that serve as economic hedges against fluctuations in the equity markets to which equity-indexed annuity products are exposed. Equity-indexed annuities include a fixed host annuity contract and an embedded equity derivative. These derivative instruments are not designated as hedges. The following tables detail the estimated fair value and the gain or loss on derivatives related to equity-indexed annuities (in thousands):

|  | Location of Asset (Liability)<br><br>Reported in the Consolidated<br>Statements of Financial Position | Estimated Fair Value                 |                         |
|--|---|--------------------------------------|-------------------------|
|  |   | March 31,<br>2011                    | December<br>31,<br>2010 |
| Derivatives Not Designated<br>as Hedging Instruments |   |                                      |                         |
| Equity-indexed options                               | Other invested assets   | \$ 72,969                            | \$ 66,716               |
| Equity-indexed annuity embedded derivative           | Future policy benefits - Annuity  | (66,180)                             | (59,644)                |
|  |   |                                      |                         |
|  |   | <b>Gains (Losses)<br/>Recognized</b> |                         |
|  |   | <b>in Income on Derivatives</b>      |                         |
|  |   | <b>Three months ended</b>            |                         |
|  |   | <b>March 31,</b>                     |                         |
|  |   | <b>2011</b>                          | <b>2010</b>             |
| Derivatives Not Designated<br>as Hedging Instruments | Recognized in the Consolidated<br>Statements of Operations  |                                      |                         |
| Equity-indexed options                               | Net investment income   | \$ 7,115                             | \$ (1,637)              |
| Equity-indexed annuity embedded derivative           | Interest credited to policy<br>account balances   | (6,305)                              | 283                     |

**Unrealized gains (losses) on securities**

Unrealized gains (losses) on available-for-sale securities, presented in the stockholders equity section of the consolidated statements of financial position, are net of deferred tax expense of \$179,041,000 and \$133,539,000 as of March 31, 2011 and 2010, respectively.

The change in the net unrealized gains (losses) on available-for-sale securities are shown below (in thousands):

|   | <b>Three months ended March 31,</b> |                  |
|---|-------------------------------------|------------------|
|   | <b>2011</b>                         | <b>2010</b>      |
| Bonds available-for-sale  | \$ 11,948                           | \$ 73,956        |
| Common stocks   | 34,474                              | 47,027           |
| Preferred stocks  | 2,095                               | 2,321            |
| Adjustment to deferred policy acquisition costs   | (6,018)                             | (31,677)         |
|   | 42,499                              | 91,627           |
| Less: Provision for federal income taxes  | 14,848                              | 32,000           |
|   | 27,651                              | 59,627           |
| Change in unrealized gains of investments attributable to participating<br>policyholders interest | (1,856)                             | (2,354)          |
| <b>Total</b>  | <b>\$ 25,795</b>                    | <b>\$ 57,273</b> |



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Gross unrealized losses on investment securities and the estimated fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are shown below (in thousands):

|   | Three months ended March 31, 2011 |                         |                      |                         |                      |                         |
|---|-----------------------------------|-------------------------|----------------------|-------------------------|----------------------|-------------------------|
|   | Less than 12 months               |                         | 12 Months or more    |                         | Total                |                         |
|   | Unrealized<br>Losses              | Estimated<br>Fair Value | Unrealized<br>Losses | Estimated<br>Fair Value | Unrealized<br>Losses | Estimated<br>Fair Value |
| Fixed maturity securities                                   |                                   |                         |                      |                         |                      |                         |
| Bonds held-to-maturity                                      |                                   |                         |                      |                         |                      |                         |
| States of the U.S. and political subdivisions of the states | \$ 6,812                          | \$ 203,010              | \$ 13                | \$ 220                  | \$ 6,825             | \$ 203,230              |
| Corporate debt securities                                   | 24,098                            | 1,184,646               | 6,618                | 94,600                  | 30,716               | 1,279,246               |
| Residential mortgage-backed securities                      | 424                               | 37,254                  | 2,341                | 49,179                  | 2,765                | 86,433                  |
| Commercial mortgage-backed securities                       |                                   |                         | 9,363                | 21,977                  | 9,363                | 21,977                  |
| Collateralized debt securities                              |                                   |                         | 323                  | 5,209                   | 323                  | 5,209                   |
| <b>Total bonds held-to-maturity</b>                         | <b>31,334</b>                     | <b>1,424,910</b>        | <b>18,658</b>        | <b>171,185</b>          | <b>49,992</b>        | <b>1,596,095</b>        |
| Bonds available-for-sale                                    |                                   |                         |                      |                         |                      |                         |
| States of the U.S. and political subdivisions of the states | 5,153                             | 175,916                 |                      |                         | 5,153                | 175,916                 |
| Corporate debt securities                                   | 6,168                             | 343,286                 | 12,439               | 131,618                 | 18,607               | 474,904                 |
| Residential mortgage-backed securities                      | 125                               | 16,835                  | 1,065                | 15,163                  | 1,190                | 31,998                  |
| Collateralized debt securities                              |                                   |                         | 227                  | 3,569                   | 227                  | 3,569                   |
| <b>Total bonds available-for-sale</b>                       | <b>11,446</b>                     | <b>536,037</b>          | <b>13,731</b>        | <b>150,350</b>          | <b>25,177</b>        | <b>686,387</b>          |
| <b>Total fixed maturity securities</b>                      | <b>42,780</b>                     | <b>1,960,947</b>        | <b>32,389</b>        | <b>321,535</b>          | <b>75,169</b>        | <b>2,282,482</b>        |
| Equity securities   |                                   |                         |                      |                         |                      |                         |
| Common stock  |                                   |                         |                      |                         |                      |                         |
| Consumer goods  | 870                               | 20,266                  | 1,113                | 12,687                  | 1,983                | 32,953                  |
| Energy and utilities  | 346                               | 5,487                   | 342                  | 1,240                   | 688                  | 6,727                   |
| Finance   | 345                               | 6,404                   | 842                  | 9,429                   | 1,187                | 15,833                  |
| Healthcare  | 509                               | 7,033                   | 931                  | 6,942                   | 1,440                | 13,975                  |
| Information technology                                      | 627                               | 9,862                   | 6                    | 42                      | 633                  | 9,904                   |
| Telecommunications services                                 | 38                                | 621                     |                      |                         | 38                   | 621                     |
| <b>Total common stock</b>                                   | <b>2,735</b>                      | <b>49,673</b>           | <b>3,234</b>         | <b>30,340</b>           | <b>5,969</b>         | <b>80,013</b>           |



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|  |                  |                     |                  |                   |                  |                     |
|--|------------------|---------------------|------------------|-------------------|------------------|---------------------|
| Preferred stock                        | 9                | 997                 | 25               | 4,475             | 34               | 5,472               |
| <b>Total equity securities</b>         | <b>2,744</b>     | <b>50,670</b>       | <b>3,259</b>     | <b>34,815</b>     | <b>6,003</b>     | <b>85,485</b>       |
| <b>Total investments in securities</b> | <b>\$ 45,524</b> | <b>\$ 2,011,617</b> | <b>\$ 35,648</b> | <b>\$ 356,350</b> | <b>\$ 81,172</b> | <b>\$ 2,367,967</b> |

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|   | Year ended December 31, 2010 |                  |                   |                |               |                  |
|---|------------------------------|------------------|-------------------|----------------|---------------|------------------|
|   | Less than 12 months          |                  | 12 Months or more |                | Total         |                  |
|   | Unrealized                   | Estimated        | Unrealized        | Estimated      | Unrealized    | Estimated        |
|   | Losses                       | Fair Value       | Losses            | Fair Value     | Losses        | Fair Value       |
| Fixed maturity securities   |                              |                  |                   |                |               |                  |
| Bonds held-to-maturity  |                              |                  |                   |                |               |                  |
| States of the U.S. and political subdivisions of the states       | \$ 6,898                     | \$ 195,634       | \$ 22             | \$ 878         | \$ 6,920      | \$ 196,512       |
| Corporate debt securities   | 22,493                       | 912,554          | 10,584            | 128,721        | 33,077        | 1,041,275        |
| Residential mortgage-backed securities                            | 579                          | 57,160           | 2,819             | 64,798         | 3,398         | 121,958          |
| Commercial mortgage-backed securities                             |                              |                  | 17,758            | 13,583         | 17,758        | 13,583           |
| Collateralized debt securities                                    |                              |                  | 327               | 5,465          | 327           | 5,465            |
| <b>Total bonds held-to-maturity</b>                               | <b>29,970</b>                | <b>1,165,348</b> | <b>31,510</b>     | <b>213,445</b> | <b>61,480</b> | <b>1,378,793</b> |
| Bonds available-for-sale  |                              |                  |                   |                |               |                  |
| U.S. treasury and other U.S. government corporations and agencies | 4                            | 7,040            |                   |                | 4             | 7,040            |
| States of the U.S. and political subdivisions of the states       | 4,193                        | 151,860          |                   |                | 4,193         | 151,860          |
| Corporate debt securities   | 8,378                        | 249,240          | 18,209            | 159,227        | 26,587        | 408,467          |
| Residential mortgage-backed securities                            | 81                           | 26,909           | 1,336             | 29,393         | 1,417         | 56,302           |
| Collateralized debt securities                                    |                              |                  | 218               | 4,664          | 218           | 4,664            |
| <b>Total bonds available-for-sale</b>                             | <b>12,656</b>                | <b>435,049</b>   | <b>19,763</b>     | <b>193,284</b> | <b>32,419</b> | <b>628,333</b>   |
| <b>Total fixed maturity securities</b>                            | <b>42,626</b>                | <b>1,600,397</b> | <b>51,273</b>     | <b>406,729</b> | <b>93,899</b> | <b>2,007,126</b> |
| Equity securities   |                              |                  |                   |                |               |                  |
| Common stock  |                              |                  |                   |                |               |                  |
| Consumer goods  | 440                          | 25,333           | 612               | 19,419         | 1,052         | 44,752           |
| Energy and utilities  | 642                          | 7,093            | 291               | 1,289          | 933           | 8,382            |
| Finance   | 1,217                        | 7,954            | 354               | 11,204         | 1,571         | 19,158           |
| Healthcare  | 813                          | 14,927           | 841               | 5,523          | 1,654         | 20,450           |
| Information technology  | 156                          | 2,013            | 5                 | 44             | 161           | 2,057            |
| Telecommunications services                                       | 34                           | 393              |                   |                | 34            | 393              |
| <b>Total common stock</b>   | <b>3,302</b>                 | <b>57,713</b>    | <b>2,103</b>      | <b>37,479</b>  | <b>5,405</b>  | <b>95,192</b>    |

|  |                  |                     |                  |                   |                  |                     |
|--|------------------|---------------------|------------------|-------------------|------------------|---------------------|
| Preferred stock                        | 231              | 6,133               | 36               | 4,464             | 267              | 10,597              |
| <b>Total equity securities</b>         | <b>3,533</b>     | <b>63,846</b>       | <b>2,139</b>     | <b>41,943</b>     | <b>5,672</b>     | <b>105,789</b>      |
| <b>Total investments in securities</b> | <b>\$ 46,159</b> | <b>\$ 1,664,243</b> | <b>\$ 53,412</b> | <b>\$ 448,672</b> | <b>\$ 99,571</b> | <b>\$ 2,112,915</b> |

For all investment securities with an unrealized loss, including those in an unrealized loss position for 12 months or more, American National performs a quarterly analysis to determine if an OTTI loss should be recorded. As of March 31, 2011, the securities with unrealized losses were not deemed to be other-than-temporarily impaired. Even though the duration of the unrealized losses on some of the securities exceeds one year, American National has no intent to sell, and it is not more-likely-than-not that American National will be required to sell these securities prior to recovery. Recovery is expected in the near term for equity securities.

**Table of Contents****Net investment income and realized investments gains (losses)**

Net investment income and realized investments gains (losses) before federal income taxes are shown below (in thousands):

|                                  | <b>Net Investment Income</b>        |                   | <b>Realized Investment Gains</b> |                  |
|----------------------------------|-------------------------------------|-------------------|----------------------------------|------------------|
|                                  | <b>Three months ended March 31,</b> |                   | <b>(Losses)</b>                  |                  |
|                                  | <b>2011</b>                         | <b>2010</b>       | <b>2011</b>                      | <b>2010</b>      |
| Bonds                            | \$ 170,020                          | \$ 162,088        | \$ 10,323                        | \$ 9,699         |
| Equity securities                | 5,916                               | 6,047             | 12,536                           | 6,152            |
| Mortgage loans                   | 47,731                              | 39,893            |                                  |                  |
| Real estate                      | 22,725                              | 27,881            | 622                              | 2,125            |
| Options                          | 7,117                               | 329               |                                  |                  |
| Other invested assets            | 10,272                              | 9,658             |                                  | (31)             |
|                                  | 263,781                             | 245,896           | 23,481                           | 17,945           |
| Investment expenses              | (24,709)                            | (27,794)          |                                  |                  |
| Increase in valuation allowances |                                     |                   | (1,450)                          | (198)            |
| <b>Total</b>                     | <b>\$ 239,072</b>                   | <b>\$ 218,102</b> | <b>\$ 22,031</b>                 | <b>\$ 17,747</b> |

**Other-than-temporary impairments**

The other-than-temporary impairments for the periods indicated are shown below (in thousands):

|                   | <b>Three months ended March 31,</b> |             |
|-------------------|-------------------------------------|-------------|
|                   | <b>2011</b>                         | <b>2010</b> |
| Equity securities | \$                                  | \$ (1,245)  |

**Table of Contents****5. VARIABLE INTEREST ENTITIES**

In the normal course of investment activities, American National and its wholly-owned subsidiaries, enter into various real estate partnership agreements. Generally, real estate partnership opportunities are presented to American National by a sponsor, with the significant activities being conducted on behalf of the sponsor. American National participates in the design of these entities, but in most cases American National's involvement is limited to financing. Through analysis performed by American National, some of these partnerships have been determined to be variable interest entities ( VIEs ). In certain instances, in addition to an economic interest in the entity, American National holds the power to direct the most significant activities of the entity and is deemed to be the primary beneficiary or consolidator of the entity. The assets of the consolidated VIEs are restricted and must be used first to settle the liabilities of the VIE. Creditors or beneficial interest holders of these VIEs have no recourse to the general credit of American National, as American National's obligation is limited to the amount of its committed investment. The total assets and liabilities relating to VIEs in which American National is the primary beneficiary and which are consolidated in American National's financial statements for the periods indicated are as follows (in thousands):

|   | <b>March 31,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|---|---------------------------|------------------------------|
| Investment real estate                        | \$ 155,776                | \$ 156,441                   |
| Short-term investments                        | 951                       | 1,991                        |
| Cash and cash equivalents                     | 1,245                     | 1,164                        |
| Accrued investment income                     | 1,773                     | 2,035                        |
| Other receivables                             | 17,028                    | 16,524                       |
| Other assets                                  | 3,723                     | 3,884                        |
| <b>Total assets of consolidated VIEs</b>      | <b>\$ 180,496</b>         | <b>\$ 182,039</b>            |
| Notes payable                                 | \$ 161,545                | \$ 161,126                   |
| Other liabilities                             | 2,617                     | 3,499                        |
| <b>Total liabilities of consolidated VIEs</b> | <b>\$ 164,162</b>         | <b>\$ 164,625</b>            |

For other real estate partnerships in which American National is involved, the major decisions that most significantly impact the economic activities of the partnership require unanimous consent of all partners. As a result, American National is not the primary beneficiary and these entities were not consolidated. The following table presents the carrying amount and maximum exposure to loss relating to VIEs for which American National holds significant variable interests but is not the primary beneficiary and which have not been consolidated (in thousands):

|   | <b>March 31, 2011</b>      |   | <b>December 31, 2010</b>   |   |
|---|----------------------------|---|----------------------------|---|
|   | <b>Carrying<br/>Amount</b> | <b>Maximum<br/>Exposure to<br/>Loss</b> | <b>Carrying<br/>Amount</b> | <b>Maximum<br/>Exposure to<br/>Loss</b> |
| Investment in unconsolidated affiliates | \$ 46,111                  | \$ 46,111                               | \$ 36,226                  | \$ 36,226                               |

Financial or other support was not provided to investees designated as VIEs in the form of liquidity arrangements, guarantees, and/or other commitments by third parties that may affect the fair value or risk of American National's variable interest in the investees designated as VIEs as of March 31, 2011.



**Table of Contents****6. CREDIT LOSSES**

A financing receivable is a contractual right to receive money on demand or on fixed or determinable dates that is recognized as an asset in a company's statement of financial position. Mortgage loans on real estate are the only financing receivables reported by American National.

**Nonaccrual and Past Due Mortgage Loans**

Interest ceases to be accrued for loans on which interest is more than 90 days past due, when the collection of interest is not considered probable, or when a loan is in foreclosure. Interest received on non-accrual status mortgage loans is included in net investment income in the period received. Once a loan becomes current, it is placed back into accrual status.

The amount of commercial mortgage loans placed on nonaccrual status is shown in the table below (in thousands):

|        | <b>March 31,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|--------|---------------------------|------------------------------|
| Retail | \$ 12,264                 | \$ 3,685                     |

The age analysis of past due commercial mortgage loans is shown in the table below (in thousands):

|            | <b>March 31, 2011</b>                  |  |                                     |                               |                | <b>Total<br/>Mortgage<br/>Loans</b> |
|------------|--|--|-------------------------------------|-------------------------------|----------------|-------------------------------------|
|            | <b>30-59<br/>Days<br/>Past<br/>Due</b> | <b>60-89<br/>Days<br/>Past<br/>Due</b> | <b>Greater<br/>Than<br/>90 Days</b> | <b>Total<br/>Past<br/>Due</b> | <b>Current</b> |                                     |
| Office     | \$                                     | \$                                     | \$                                  | \$                            | \$ 824,092     | \$ 824,092                          |
| Industrial |  |  |                                     |                               | 886,228        | 886,228                             |
| Retail     |  |  | 12,264                              | 12,264                        | 511,598        | 523,862                             |
| Other      |  |  |                                     |                               | 631,014        | 631,014                             |
| Total      | \$                                     | \$                                     | \$ 12,264                           | \$ 12,264                     | \$ 2,852,932   | \$ 2,865,196                        |

|            | <b>December 31, 2010</b>               |  |                                     |                               |                | <b>Total<br/>Mortgage<br/>Loans</b> |
|------------|--|--|-------------------------------------|-------------------------------|----------------|-------------------------------------|
|            | <b>30-59<br/>Days<br/>Past<br/>Due</b> | <b>60-89<br/>Days<br/>Past<br/>Due</b> | <b>Greater<br/>Than<br/>90 Days</b> | <b>Total<br/>Past<br/>Due</b> | <b>Current</b> |                                     |
| Office     | \$                                     | \$                                     | \$                                  | \$                            | \$ 798,651     | \$ 798,651                          |
| Industrial |  |  |                                     |                               | 858,241        | 858,241                             |
| Retail     | 8,579                                  |  | 3,685                               | 12,264                        | 456,983        | 469,247                             |
| Other      |  |  |                                     |                               | 596,763        | 596,763                             |
| Total      | \$ 8,579                               | \$                                     | \$ 3,685                            | \$ 12,264                     | \$ 2,710,638   | \$ 2,722,902                        |

**Allowance for Credit Losses**

Each loan is evaluated quarterly and placed in a watchlist if events occurred or circumstances exist that could indicate that American National will be unable to collect all amounts due according to the contractual terms of the loan. If, in evaluating loans for inclusion in the watchlist, sufficient analysis is performed to conclude that a loan is fully

collectible, no allowance is required. All loans in the watchlist are then analyzed individually for impairment. Fair value is determined by estimating the present value of future cash flows or the fair value of the underlying collateral. Estimation techniques vary depending on the quality of available data, the type of collateral, and other factors. When the fair value analysis shows that all of the amounts due are not collectable, the difference between the estimated fair value and the loan balance is recorded as an allowance (a loss), reducing the carrying value of the loan. The allowance is reviewed quarterly to determine whether further allowance is required, or whether recovery of the asset is assured and the allowance can be reduced.

Loans that are not evaluated individually for collectability are segregated by collateral property-type and location and allowance factors are applied. These factors are developed annually, and reviewed quarterly based on our historical loss experience adjusted for the expected trend in the rate of foreclosure losses. Allowance factors are higher for loans of certain types and in certain regions based on loss experience or a blended historical loss factor. Receivables are charged off as uncollectable only when the receivable is forgiven by a legal agreement. Prior to charging off the receivable, an allowance is recorded based on the estimated recoverable amount. Upon forgiveness, the allowance is reduced, and the loan balance is reduced which results in no further gain or loss.



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The allowance for credit losses and recorded investment in commercial mortgage loans are shown in the table below (in thousands):

|                                     | <b>Collectively<br/>Evaluated<br/>for<br/>Impairment</b> | <b>Individually<br/>Evaluated<br/>for<br/>Impairment</b> | <b>Total</b> |
|-------------------------------------|--|--|--------------|
| <b>Allowance for credit losses:</b> |  |  |              |
| December 31, 2010                   | \$ 11,395  | \$ 2,393   | \$ 13,788    |
| Charge-offs                         |  | (1,900)  | (1,900)      |
| March 31, 2011                      | \$ 11,395  | \$ 493   | \$ 11,888    |
| <b>Mortgage Loans:</b>              |  |  |              |
| March 31, 2011                      | \$ 2,310,093   | \$ 555,103   | \$ 2,865,196 |
| December 31, 2010                   | \$ 2,381,878   | \$ 341,024   | \$ 2,722,902 |

**Impaired loans**

Mortgage loans on real estate are considered impaired when, 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. American National closely monitors its commercial mortgage loan portfolio on a loan-by-loan basis. Loans with an estimated collateral value less than the loan balance, as well as loans with other characteristics indicative of higher than normal credit risks are reviewed quarterly for purposes of establishing valuation allowances and placing loans on non-accrual status as necessary. The valuation allowance account for mortgage loans on real estate is maintained at a level believed adequate by management and reflects management's best estimate of probable credit losses, including losses incurred at the reporting date but not yet identified by specific loan. Management's periodic evaluation of the adequacy of the allowance for losses is based on past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of the underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. The detail of impaired loans with an allowance recorded by collateral type is shown in the table below (in thousands):

|        | <b>Three months ended March 31, 2011</b> |   |                              |  |   |
|--------|--|---|------------------------------|--|---|
|        | <b>Recorded<br/>Investment</b>           | <b>Unpaid<br/>Principal<br/>Balance</b> | <b>Related<br/>Allowance</b> | <b>Average<br/>Recorded<br/>Investment</b> | <b>Interest<br/>Income<br/>Recognized</b> |
| Retail | \$ 6,679                                 | \$ 9,072                                | \$ 493                       | \$ 6,679                                   | \$  |
|        | <b>Year ended December 31, 2010</b>      |   |                              |  |   |
|        | <b>Recorded<br/>Investment</b>           | <b>Unpaid<br/>Principal<br/>Balance</b> | <b>Related<br/>Allowance</b> | <b>Average<br/>Recorded<br/>Investment</b> | <b>Interest<br/>Income<br/>Recognized</b> |
| Retail | \$ 6,679                                 | \$ 9,072                                | \$ 2,393                     | \$ 7,573                                   | \$ 406                                    |

During the three months ended March 31, 2011, American National did not record interest income on impaired loans using a cash-basis method of accounting.

**Table of Contents****Credit Quality Indicators**

The credit quality of the mortgage loan portfolio is assessed to determine the credit risk of each borrower. A loan is classified as performing or non-performing based on whether all of the contractual terms of the loan have been met. As of March 31, 2011 and December 31, 2010, there were two commercial mortgages collateralized by retail properties that were classified as non-performing, totaling \$12,264,000. All other loans were classified as performing.

**7. CREDIT RISK MANAGEMENT**

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 credit quality rating, using both S&P and Moody's ratings, is shown below:

|              | <b>March 31,<br/>2011</b> | <b>December<br/>31,<br/>2010</b> |
|--------------|---------------------------|----------------------------------|
| AAA          | 9.8%                      | 10.0%                            |
| AA           | 10.2                      | 10.2                             |
| A            | 36.6                      | 37.0                             |
| BBB          | 38.2                      | 37.2                             |
| BB and below | 5.2                       | 5.6                              |
| <b>Total</b> | <b>100.0%</b>             | <b>100.0%</b>                    |

**Equity Securities**

American National's equity securities by market sector distribution is shown below:

|                        | <b>March 31,<br/>2011</b> | <b>December<br/>31,<br/>2010</b> |
|------------------------|---------------------------|----------------------------------|
| Consumer goods         | 19.0%                     | 20.7%                            |
| Energy and utilities   | 18.0                      | 18.5                             |
| Financials             | 19.3                      | 16.6                             |
| Information technology | 15.6                      | 16.3                             |
| Healthcare             | 10.4                      | 10.4                             |
| Industrials            | 10.5                      | 10.3                             |
| Communications         | 4.1                       | 4.2                              |
| Materials              | 3.1                       | 3.0                              |
| <b>Total</b>           | <b>100.0%</b>             | <b>100.0%</b>                    |

**Table of Contents****Mortgage loans and investment real estate**

American National makes mortgage loans and invests in real estate 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. American National attempts to maintain a diversified portfolio of mortgage loans and real estate properties by considering the property-type as well as the geographic distribution of the property which is the underlying mortgage collateral or investment property.

Mortgage loans and investment real estate by property-type distribution are as follows:

|                   | Mortgage Loans    |                         | Investment Real Estate |                         |
|-------------------|-------------------|-------------------------|------------------------|-------------------------|
|                   | March 31,<br>2011 | December<br>31,<br>2010 | March 31,<br>2011      | December<br>31,<br>2010 |
| Industrial        | 30.7%             | 31.5%                   | 23.5%                  | 24.1%                   |
| Office buildings  | 28.7              | 29.3                    | 21.2                   | 20.8                    |
| Shopping centers  | 18.4              | 17.3                    | 35.7                   | 35.6                    |
| Hotels and motels | 11.8              | 12.5                    | 2.0                    | 2.0                     |
| Other             | 10.4              | 9.4                     | 17.6                   | 17.5                    |
| <b>Total</b>      | <b>100.0%</b>     | <b>100.0%</b>           | <b>100.0%</b>          | <b>100.0%</b>           |

Mortgage loans and investment real estate by geographic distribution are as follows:

|                    | Mortgage Loans    |                         | Investment Real Estate |                         |
|--------------------|-------------------|-------------------------|------------------------|-------------------------|
|                    | March 31,<br>2011 | December<br>31,<br>2010 | March 31,<br>2011      | December<br>31,<br>2010 |
| West South Central | 23.2%             | 23.0%                   | 61.8%                  | 61.2%                   |
| East North Central | 21.5              | 20.4                    | 4.9                    | 5.6                     |
| South Atlantic     | 19.3              | 19.3                    | 18.5                   | 18.4                    |
| Pacific            | 9.1               | 9.4                     | 2.2                    | 2.2                     |
| Mountain           | 7.1               | 7.4                     | 1.3                    | 1.3                     |
| East South Central | 6.4               | 6.5                     | 10.2                   | 10.1                    |
| Middle Atlantic    | 5.8               | 6.2                     |                        |                         |
| West North Central | 3.9               | 4.1                     | 1.1                    | 1.2                     |
| New England        | 2.9               | 3.1                     |                        |                         |
| Other              | 0.8               | 0.6                     |                        |                         |
| <b>Total</b>       | <b>100.0%</b>     | <b>100.0%</b>           | <b>100.0%</b>          | <b>100.0%</b>           |

**Table of Contents****8. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The carrying amount and estimated fair value of financial instruments are shown below (in thousands):

|   | March 31, 2011    |                      | December 31, 2010 |                      |
|---|-------------------|----------------------|-------------------|----------------------|
|   | Carrying Amount   | Estimated Fair Value | Carrying Amount   | Estimated Fair Value |
| Financial assets:   |                   |                      |                   |                      |
| Fixed maturity securities   |                   |                      |                   |                      |
| Bonds held-to-maturity  |                   |                      |                   |                      |
| U.S. treasury and other U.S. government corporations and agencies | \$ 21,957         | \$ 22,194            | \$ 23,117         | \$ 23,405            |
| States of the U.S. and political subdivisions of the states       | 415,556           | 414,964              | 422,249           | 422,446              |
| Foreign governments   | 29,026            | 33,685               | 29,020            | 33,930               |
| Corporate debt securities   | 7,717,181         | 8,142,327            | 7,293,501         | 7,738,777            |
| Residential mortgage-backed securities                            | 694,143           | 723,741              | 661,516           | 691,820              |
| Commercial mortgage-backed securities                             | 31,341            | 21,978               | 31,340            | 13,582               |
| Collateralized debt securities                                    | 7,159             | 6,886                | 8,562             | 8,315                |
| Other debt securities   | 38,954            | 42,705               | 44,245            | 47,559               |
| <b>Total bonds held-to-maturity</b>                               | <b>8,955,317</b>  | <b>9,408,480</b>     | <b>8,513,550</b>  | <b>8,979,834</b>     |
| Bonds available-for-sale  |                   |                      |                   |                      |
| U.S. treasury and other U.S. government corporations and agencies | 13,981            | 13,981               | 13,907            | 13,907               |
| States of the U.S. and political subdivisions of the states       | 592,145           | 592,145              | 594,112           | 594,112              |
| Foreign governments   | 6,701             | 6,701                | 6,967             | 6,967                |
| Corporate debt securities   | 3,279,455         | 3,279,455            | 3,201,569         | 3,201,569            |
| Residential mortgage-backed securities                            | 247,778           | 247,778              | 271,393           | 271,393              |
| Collateralized debt securities                                    | 19,390            | 19,390               | 20,709            | 20,709               |
| Other debt securities   | 15,048            | 15,048               | 14,956            | 14,956               |
| <b>Total bonds available-for-sale</b>                             | <b>4,174,498</b>  | <b>4,174,498</b>     | <b>4,123,613</b>  | <b>4,123,613</b>     |
| <b>Total fixed maturity securities</b>                            | <b>13,129,815</b> | <b>13,582,978</b>    | <b>12,637,163</b> | <b>13,103,447</b>    |
| Equity securities   |                   |                      |                   |                      |
| Common stock  |                   |                      |                   |                      |
| Consumer goods  | 212,854           | 212,854              | 216,592           | 216,592              |
| Energy and utilities  | 199,484           | 199,484              | 193,265           | 193,265              |
| Finance   | 180,026           | 180,026              | 173,579           | 173,579              |
| Healthcare  | 116,043           | 116,043              | 108,509           | 108,509              |
| Industrials   | 117,330           | 117,330              | 107,505           | 107,505              |
| Information technology  | 174,150           | 174,150              | 170,301           | 170,301              |
| Materials   | 33,285            | 33,285               | 32,009            | 32,009               |
| Telecommunication services  | 45,531            | 45,531               | 44,128            | 44,128               |
| Preferred stock   | 39,500            | 39,500               | 36,867            | 36,867               |

|  |                      |                      |                      |                      |
|--|----------------------|----------------------|----------------------|----------------------|
| <b>Total equity securities</b>                                 | <b>1,118,203</b>     | <b>1,118,203</b>     | <b>1,082,755</b>     | <b>1,082,755</b>     |
| Options  | 72,969               | 72,969               | 66,716               | 66,716               |
| Mortgage loans on real estate, net of allowance                | 2,816,832            | 2,975,667            | 2,679,909            | 2,865,187            |
| Policy loans   | 383,480              | 383,480              | 380,505              | 380,505              |
| Short-term investments   | 461,069              | 461,069              | 486,206              | 486,206              |
| <b>Total financial assets</b>                                  | <b>\$ 17,982,368</b> | <b>\$ 18,594,366</b> | <b>\$ 17,333,254</b> | <b>\$ 17,984,816</b> |
| Financial liabilities:   |                      |                      |                      |                      |
| Investment contracts   | \$ 8,974,617         | 8,974,617            | \$ 8,586,041         | \$ 8,586,041         |
| Liability for embedded derivatives of equity-indexed annuities | 66,180               | 66,180               | 59,644               | 59,644               |
| Notes payable  | 60,598               | 60,598               | 60,140               | 60,140               |
| <b>Total financial liabilities</b>                             | <b>\$ 9,101,395</b>  | <b>\$ 9,101,395</b>  | <b>\$ 8,705,825</b>  | <b>\$ 8,705,825</b>  |

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Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability. A fair value hierarchy is used to determine fair value based on a hypothetical transaction at the measurement date from the perspective of a market participant. An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The input levels are defined as follows:

- Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities. American National defines active markets based on average trading volume for equity securities. The size of the bid/ask spread is used as an indicator of market activity for fixed maturity securities.
- Level 2 Quoted prices in markets that are not active or inputs that are observable directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities other than quoted prices in Level 1; quoted prices in markets that are not active; or other inputs that are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Unobservable inputs reflect American National's own assumptions about the assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose values are determined using pricing models and third-party evaluation, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

American National has evaluated the various types of securities in its investment portfolio to determine an appropriate fair value hierarchy level based upon trading activity and the observability of market inputs. Based on the results of this evaluation and investment class analysis, each price was classified into Level 1, 2, or 3.

American National utilizes a pricing service to estimate fair value measurements for approximately 99.0% of fixed maturity securities. The pricing service utilizes market quotations for fixed maturity securities that have quoted prices in active markets. Since fixed maturity securities generally do not trade on a daily basis, the pricing service prepares estimates of fair value measurements for these securities using its proprietary pricing applications, which include available relevant market information, benchmark curves, benchmarking of like securities, sector groupings and matrix pricing. Additionally, the pricing service uses an Option Adjusted Spread model to develop prepayment and interest rate scenarios.

The pricing service evaluates each asset class based on relevant market information, relevant credit information, perceived market movements and sector news. The market inputs utilized in the pricing evaluation, listed in the approximate order of priority, include: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, and economic events. The extent of the use of each market input depends on the asset class and the market conditions. Depending on the security, the priority of the use of inputs may change or some market inputs may not be relevant. For some securities, additional inputs may be necessary.

American National has reviewed the inputs and methodology used by the pricing service and the techniques applied by the pricing service to produce quotes that represent the fair value of a specific security. The review of the pricing services methodology confirms the service is utilizing information from organized transactions or a technique that represents a market participant's assumptions. American National does not adjust quotes received by the pricing service.

The pricing service utilized by American National has indicated that they will only produce an estimate of fair value if there is objectively verifiable information available. If the pricing service discontinues pricing an investment, American National would be required to produce an estimate of fair value using some of the same methodologies as the pricing service, but would have to make assumptions for market-based inputs that are unavailable due to market conditions.

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The fair value estimates of most fixed maturity securities including municipal bonds are based on observable market information rather than market quotes. Accordingly, the estimates of fair value for such fixed maturity securities provided by the pricing service are included in the amount disclosed in Level 2 of the hierarchy.

Additionally, American National holds a small amount of fixed maturity securities that have characteristics that make them unsuitable for matrix pricing. For these fixed maturity securities, a quote from a broker (typically a market maker) is obtained. Due to the disclaimers on the quotes that indicate that the price is indicative only, American National includes these fair value estimates in Level 3. The pricing of certain private placement debt also includes significant non-observable inputs, the internally determined credit rating of the security and an externally provided credit spread, and are classified in Level 3.

For public common and preferred stocks, American National receives prices from a nationally recognized pricing service that are based on observable market transactions and these securities are disclosed in Level 1. For certain preferred stock held, current market quotes in active markets are unavailable. In these instances, American National receives an estimate of fair value from the pricing service that provides fair value estimates for the fixed maturity securities. The service utilizes some of the same methodologies to price the preferred stocks as it does for the fixed maturity securities. These estimates for equity securities are disclosed in Level 2.

Some assets and liabilities do not fit the hierarchical model for determining fair value. For policy loans, the carrying amount approximates their fair value, because the policy loans cannot be separated from the policy contract. The fair value of investment contract liabilities is determined in accordance with GAAP rules on insurance products and is estimated using a discounted cash flow model, assuming American National's current interest rates on new products. The carrying value for these contracts approximates their fair value. The carrying amount for notes payable approximates their fair value.



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The quantitative disclosures regarding fair value hierarchy measurements of the financial instruments are shown below (in thousands):

|   | Fair Value Measurement as of March 31, 2011 Using: |  |   |  |
|---|--|--|---|--|
|   | Total<br>Estimated<br>Fair Value                   | Quoted Prices in<br>Active Markets<br>for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Financial assets:   |  |  |   |  |
| Fixed maturity securities   |  |  |   |  |
| Bonds held-to-maturity  |  |  |   |  |
| U.S. treasury and other U.S. government corporations and agencies | \$ 22,194  | \$   | \$ 22,194   | \$   |
| States of the U.S. and political subdivisions of the states       | 414,964  |  | 414,826   | 138  |
| Foreign governments   | 33,685   |  | 33,685  |  |
| Corporate debt securities   | 8,142,327  |  | 8,084,895   | 57,432   |
| Residential mortgage-backed securities                            | 723,741  |  | 721,665   | 2,076  |
| Commercial mortgage-backed securities                             | 21,978   |  | 21,978  |  |
| Collateralized debt securities                                    | 6,886  |  |   | 6,886  |
| Other debt securities   | 42,705   |  | 42,705  |  |
| <b>Total bonds held-to-maturity</b>                               | <b>9,408,480</b>                                   |  | <b>9,341,948</b>  | <b>66,532</b>                                      |
| Bonds available-for-sale  |  |  |   |  |
| U.S. treasury and other U.S. government corporations and agencies | 13,981   |  | 13,981  |  |
| States of the U.S. and political subdivisions of the states       | 592,145  |  | 589,620   | 2,525  |
| Foreign governments   | 6,701  |  | 6,701   |  |
| Corporate debt securities   | 3,279,455  |  | 3,271,080   | 8,375  |
| Residential mortgage-backed securities                            | 247,778  |  | 247,762   | 16   |
| Collateralized debt securities                                    | 19,390   |  | 19,129  | 261  |
| Other debt securities   | 15,048   |  | 15,048  |  |
| <b>Total bonds available-for-sale</b>                             | <b>4,174,498</b>                                   |  | <b>4,163,321</b>  | <b>11,177</b>                                      |
| <b>Total fixed maturity securities</b>                            | <b>13,582,978</b>                                  |  | <b>13,505,269</b>   | <b>77,709</b>                                      |
| Equity securities   |  |  |   |  |
| Common stock  |  |  |   |  |
| Consumer goods  | 212,854  | 212,854  |   |  |
| Energy and utilities  | 199,484  | 199,484  |   |  |
| Finance   | 180,026  | 180,026  |   |  |
| Healthcare  | 116,043  | 116,043  |   |  |
| Industrials   | 117,330  | 117,330  |   |  |
| Information technology  | 174,150  | 174,150  |   |  |

|  |                      |           |                  |           |                   |
|--|----------------------|-----------|------------------|-----------|-------------------|
| Materials  | 33,285               |           | 33,285           |           |                   |
| Telecommunication services                                     | 45,531               |           | 45,531           |           |                   |
| Preferred stock  | 39,500               |           | 39,500           |           |                   |
| <b>Total equity securities</b>                                 | <b>1,118,203</b>     |           | <b>1,118,203</b> |           |                   |
| Options  | 72,969               |           |                  |           | 72,969            |
| Mortgage loans on real estate                                  | 2,975,667            |           | 2,975,667        |           |                   |
| Short-term investments   | 461,069              |           | 461,069          |           |                   |
| <b>Total financial assets</b>                                  | <b>\$ 18,210,886</b> | <b>\$</b> | <b>1,118,203</b> | <b>\$</b> | <b>16,942,005</b> |
|  |                      |           |                  | <b>\$</b> | <b>150,678</b>    |
| Financial liabilities:   |                      |           |                  |           |                   |
| Liability for embedded derivatives of equity-indexed annuities | \$ 66,180            | \$        |                  | \$        | 66,180            |
| <b>Total financial liabilities</b>                             | <b>\$ 66,180</b>     | <b>\$</b> |                  | <b>\$</b> | <b>66,180</b>     |

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|   | <b>Fair Value Measurement as of December 31, 2010 Using:</b> |   |  |  |
|---|--|---|--|--|
|   | <b>Tota<br/>Estimated<br/>Fair Value</b>                     | <b>Quoted Prices in<br/>Active Markets<br/>for<br/>Identical Assets<br/>(Level 1)</b> | <b>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> |
| Financial assets:   |  |   |  |  |
| Fixed maturity securities   |  |   |  |  |
| Bonds held-to-maturity  |  |   |  |  |
| U.S. treasury and other U.S. government corporations and agencies | \$ 23,405  | \$  | \$ 23,405  | \$   |
| States of the U.S. and political subdivisions of the states       | 422,446  |   | 422,308  | 138  |
| Foreign governments   | 33,930   |   | 33,930   |  |
| Corporate debt securities   | 7,738,777  |   | 7,680,834  | 57,943   |
| Residential mortgage-backed securities                            | 691,820  |   | 689,487  | 2,333  |
| Commercial mortgage-backed securities                             | 13,582   |   | 13,582   |  |
| Collateralized debt securities                                    | 8,315  |   |  | 8,315  |
| Other debt securities   | 47,559   |   | 47,559   |  |
| <b>Total bonds held-to-maturity</b>                               | <b>8,979,834</b>   |   | <b>8,911,105</b>   | <b>68,729</b>  |
| Bonds available-for-sale  |  |   |  |  |
| U.S. treasury and other U.S. government corporations and agencies | 13,907   |   | 13,907   |  |
| States of the U.S. and political subdivisions of the states       | 594,112  |   | 591,587  | 2,525  |
| Foreign governments   | 6,967  |   | 6,967  |  |
| Corporate debt securities   | 3,201,569  |   | 3,182,625  | 18,944   |
| Residential mortgage-backed securities                            | 271,393  |   | 271,376  | 17   |
| Collateralized debt securities                                    | 20,709   |   | 20,447   | 262  |
| Other debt securities   | 14,956   |   | 14,956   |  |
| <b>Total bonds available-for-sale</b>                             | <b>4,123,613</b>   |   | <b>4,101,865</b>   | <b>21,748</b>  |
| <b>Total fixed maturity securities</b>                            | <b>13,103,447</b>  |   | <b>13,012,970</b>  | <b>90,477</b>  |
| Equity securities   |  |   |  |  |
| Common stock  |  |   |  |  |
| Consumer goods  | 216,592  | 216,592   |  |  |
| Energy and utilities  | 193,265  | 193,265   |  |  |
| Finance   | 173,579  | 173,579   |  |  |
| Healthcare  | 108,509  | 108,509   |  |  |
| Industrials   | 107,505  | 107,505   |  |  |
| Information technology  | 170,301  | 170,301   |  |  |
| Materials   | 32,009   | 32,009  |  |  |
| Telecommunication services  | 44,128   | 44,128  |  |  |

|  |                      |           |                  |           |                   |
|--|----------------------|-----------|------------------|-----------|-------------------|
| Preferred stock  | 36,867               |           | 36,867           |           |                   |
| <b>Total equity securities</b>                                 | <b>1,082,755</b>     |           | <b>1,082,755</b> |           |                   |
| Options  | 66,716               |           |                  |           | 66,716            |
| Mortgage loans on real estate                                  | 2,865,187            |           | 2,865,187        |           |                   |
| Short-term investments   | 486,206              |           | 486,206          |           |                   |
| <b>Total financial assets</b>                                  | <b>\$ 17,604,311</b> | <b>\$</b> | <b>1,082,755</b> | <b>\$</b> | <b>16,364,363</b> |
| <b>\$</b>  |                      |           |                  |           | <b>\$ 157,193</b> |
| Financial liabilities:   |                      |           |                  |           |                   |
| Liability for embedded derivatives of equity-indexed annuities | \$ 59,644            | \$        |                  | \$        | \$ 59,644         |
| <b>Total financial liabilities</b>                             | <b>\$ 59,644</b>     | <b>\$</b> |                  | <b>\$</b> | <b>\$ 59,644</b>  |

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For financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the period, a reconciliation of the beginning and ending balances is shown below at estimated fair value (in thousands):

|   | <b>Investment<br/>Securities</b> | <b>Options</b>   | <b>Embedded<br/>Derivatives</b> | <b>Total</b>      |
|---|----------------------------------|------------------|---------------------------------|-------------------|
| <b>Balance at December 31, 2009</b>                           | <b>\$ 36,966</b>                 | <b>\$ 32,801</b> | <b>\$ (22,487)</b>              | <b>\$ 47,280</b>  |
| Total realized and unrealized investment gains/<br>losses     |                                  |                  |                                 |                   |
| Included in other comprehensive income                        | (491)                            |                  |                                 | (491)             |
| Net fair value change included in realized gains/<br>losses   | (24)                             |                  |                                 | (24)              |
| Net loss for derivatives included in net investment<br>income |                                  | (1,637)          |                                 | (1,637)           |
| Net fair value change included in interest credited           |                                  |                  | (9,658)                         | (9,658)           |
| Purchases and settlements/maturities                          |                                  |                  |                                 |                   |
| Purchases   | 50,099                           | 11,600           |                                 | 61,699            |
| Sales   | (633)                            |                  |                                 | (633)             |
| Settlements/maturities  | (291)                            | (1,762)          |                                 | (2,053)           |
| Gross transfers into Level 3                                  | 13,319                           |                  |                                 | 13,319            |
| Gross transfers out of Level 3                                | (6,246)                          |                  |                                 | (6,246)           |
| <b>Balance at March 31, 2010</b>                              | <b>\$ 92,699</b>                 | <b>\$ 41,002</b> | <b>\$ (32,145)</b>              | <b>\$ 101,556</b> |
| <b>Balance at December 31, 2010</b>                           | <b>\$ 90,477</b>                 | <b>\$ 66,716</b> | <b>\$ (59,644)</b>              | <b>\$ 97,549</b>  |
| Total realized and unrealized investment gains/<br>losses     |                                  |                  |                                 |                   |
| Included in other comprehensive income                        | (686)                            |                  |                                 | (686)             |
| Net fair value change included in realized gains/<br>losses   | 151                              |                  |                                 | 151               |
| Net gain for derivatives included in net investment<br>income |                                  | 7,115            |                                 | 7,115             |
| Net fair value change included in interest credited           |                                  |                  | (6,536)                         | (6,536)           |
| Purchases and settlements/maturities                          |                                  |                  |                                 |                   |
| Purchases   | 13                               | 3,660            |                                 | 3,673             |
| Sales   | (10,181)                         |                  |                                 | (10,181)          |
| Settlements/maturities  | (2,070)                          | (4,522)          |                                 | (6,592)           |
| Gross transfers into Level 3                                  | 5                                |                  |                                 | 5                 |
| <b>Balance at March 31, 2011</b>                              | <b>\$ 77,709</b>                 | <b>\$ 72,969</b> | <b>\$ (66,180)</b>              | <b>\$ 84,498</b>  |

The transfers into Level 3 were the result of existing securities no longer being priced by the third-party pricing service at the end of the period. In accordance with American National's pricing methodology, these securities are being valued using similar techniques as the pricing service; however, the service-developed data is used in the process, which results in unobservable inputs and a corresponding transfer into Level 3.

The transfers out of Level 3 were securities being priced by a third-party service at the end of the period, using inputs that are observable or derived from market data, which resulted in classification of these assets as Level 2.

There were no significant transfers between Level 1 and Level 2 fair value hierarchies.

**Table of Contents****9. DEFERRED POLICY ACQUISITION COSTS**

Deferred policy acquisition costs and premiums are shown below (in thousands):

|   | <b>Life</b> | <b>Annuity</b> | <b>Accident<br/>&amp; Health</b> | <b>Property &amp;<br/>Casualty</b> | <b>Total</b> |
|---|-------------|----------------|----------------------------------|------------------------------------|--------------|
| Balance at December 31, 2010  | \$ 661,377  | \$ 446,996     | \$ 64,967                        | \$ 145,086                         | \$ 1,318,426 |
| Additions   | 20,389      | 35,537         | 3,019                            | 67,065                             | 126,010      |
| Amortization  | (17,840)    | (22,935)       | (5,352)                          | (66,833)                           | (112,960)    |
| Effect of change in unrealized gains on available-for-sale securities | (1,024)     | (4,994)        |                                  |                                    | (6,018)      |
| Net change  | 1,525       | 7,608          | (2,333)                          | 232                                | 7,032        |
| Balance at March 31, 2011   | \$ 662,902  | \$ 454,604     | \$ 62,634                        | \$ 145,318                         | \$ 1,325,458 |

**Premiums for the three months ended:**

|                |           |           |           |            |            |
|----------------|-----------|-----------|-----------|------------|------------|
| March 31, 2011 | \$ 66,386 | \$ 32,241 | \$ 58,644 | \$ 291,314 | \$ 448,585 |
| March 31, 2010 | \$ 69,445 | \$ 40,352 | \$ 68,424 | \$ 286,472 | \$ 464,693 |

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

All amounts for the present value of future profits resulting from the acquisition of life insurance portfolios have been accounted for in accordance with the relevant accounting literature and are immaterial in all periods presented.

**10. LIABILITY FOR UNPAID CLAIMS AND CLAIM ADJUSTMENT EXPENSES**

Liability for unpaid claims and claim adjustment expenses for accident and health, and property and casualty insurance are included in the liability for policy and contract claims in the consolidated statements of financial position and represent the amount estimated for claims that have been reported but not settled and claims incurred but not reported. Liability for unpaid claims are estimated based upon American National's historical experience and other actuarial assumptions that consider the effects of current developments, anticipated trends and risk management programs, reduced for anticipated salvage and subrogation. The effects of changes in such estimated liability are included in the results of operations in the period in which the changes occur.

Activities in the liability for unpaid claims and claim adjustment expenses ( claims ) are shown below (in thousands):

|                                    | <b>2011</b>    | <b>2010</b>    |
|------------------------------------|----------------|----------------|
| Unpaid claims balance at January 1 | \$ 1,210,126   | \$ 1,214,996   |
| Less reinsurance recoverables      | 222,635        | 252,502        |
| <b>Net beginning balance</b>       | <b>987,491</b> | <b>962,494</b> |
| Incurred claims related to:        |                |                |
| Current                            | 295,872        | 325,884        |
| Prior years                        | (35,899)       | (37,821)       |
| <b>Total incurred claims</b>       | <b>259,973</b> | <b>288,063</b> |

|  |                     |                     |
|--|---------------------|---------------------|
| Paid claims related to:                  |                     |                     |
| Current                                  | 119,736             | 133,309             |
| Prior years                              | 145,158             | 135,855             |
| <b>Total paid claims</b>                 | <b>264,894</b>      | <b>269,164</b>      |
| Net balance                              | 982,570             | 981,393             |
| Plus reinsurance recoverables            | 230,243             | 249,591             |
| <b>Unpaid claims balance at March 31</b> | <b>\$ 1,212,813</b> | <b>\$ 1,230,984</b> |



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The potential uncertainty caused by volatility in loss development profiles is adjusted for through the selection of loss development factor patterns for each line of insurance. The net and gross reserve calculations have shown favorable development for the last several years as a result of loss emergence compared to what was implied by the loss development patterns used in the original estimation of losses in prior years. Estimates for ultimate incurred claims and claims adjustment expenses attributable to insured events of prior years decreased by approximately \$35,899,000 during the first three months of 2011 and \$37,821,000 during the same period in 2010.

**11. NOTES PAYABLE**

American National's real estate holding subsidiaries are partners in certain ventures determined to be VIEs, and these are consolidated in American National's consolidated financial statements. The current portion and long-term portion of the notes payable to third-party lenders associated with these consolidated VIEs were \$48,090,000 and \$12,508,000, respectively at March 31, 2011. The current portion and long-term portion of the notes payable to third-party lenders associated with these consolidated VIEs were \$47,632,000 and \$12,508,000, respectively at December 31, 2010. The interest rate on the current portion of the notes payable is equivalent to the Wall Street Journal prime rate minus half of one percent. The average interest rate on the current portion of the notes payable during the first three months of 2011 and during 2010 was 2.75%. The long-term portion of the notes payable have interest rates equivalent to adjusted LIBOR plus 1.00% and 2.50% margins. The average interest rate on the long-term portion of the notes payable during the first quarter of 2011 and 2010 was 4.63%, and will mature in 2016 and 2049. Each of these notes is secured by the real estate owned through the respective venture entity, and American National's liability for these notes is limited to the amount of its investment in the respective venture, which totaled \$21,159,000 at March 31, 2011 and \$21,224,000 at December 31, 2010.

**12. 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 to the statutory federal income tax rate is shown below (in thousands, except percentages):

|                                      | <b>Three Months Ended March 31,</b> |              |                  |              |
|--------------------------------------|-------------------------------------|--------------|------------------|--------------|
|                                      | <b>2011</b>                         |              | <b>2010</b>      |              |
|                                      | <b>Amount</b>                       | <b>Rate</b>  | <b>Amount</b>    | <b>Rate</b>  |
| Income tax expense on pre-tax income | \$ 21,956                           | 35.0%        | \$ 14,829        | 35.0%        |
| Tax-exempt investment income         | (2,043)                             | (3.3)        | (2,284)          | (5.4)        |
| Dividend exclusion                   | (1,264)                             | (2.0)        | (1,491)          | (3.5)        |
| Miscellaneous tax credits, net       | (2,000)                             | (3.2)        | (1,734)          | (4.1)        |
| Other items, net                     | 249                                 | 0.4          | 696              | 1.6          |
| <b>Total</b>                         | <b>\$ 16,898</b>                    | <b>26.9%</b> | <b>\$ 10,016</b> | <b>23.6%</b> |

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The tax effects of temporary differences that gave rise to the deferred tax assets and liabilities are shown below (in thousands):

|  | <b>March 31,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|--|---------------------------|------------------------------|
| <b>DEFERRED TAX ASSETS:</b>  |                           |                              |
| Investments, principally due to impairment losses  | \$ 104,723                | \$ 106,445                   |
| Investment in real estate and other invested assets principally due to investment valuation allowances | 9,645                     | 9,237                        |
| Policyholder funds, principally due to policy reserve discount   | 236,090                   | 230,496                      |
| Policyholder funds, principally due to unearned premium reserve  | 32,728                    | 31,840                       |
| Non-qualified pension  | 28,716                    | 29,345                       |
| Participating policyholders' surplus   | 32,350                    | 31,180                       |
| Pension  | 38,470                    | 37,759                       |
| Commissions and other expenses   | 15,486                    | 13,870                       |
| Tax carryforwards  | 20,941                    | 26,599                       |
| <b>Gross deferred tax assets</b>   | <b>519,149</b>            | <b>516,771</b>               |
| <b>DEFERRED TAX LIABILITIES:</b>   |                           |                              |
| Available-for-sale securities, principally due to net unrealized gains                                 | (212,797)                 | (195,840)                    |
| Investment in bonds, principally due to accrual of discount on bonds                                   | (16,178)                  | (16,639)                     |
| Deferred policy acquisition costs, due to difference between GAAP and tax amortization methods         | (352,341)                 | (350,981)                    |
| Property, plant and equipment, principally due to difference between GAAP and tax depreciation methods | (4,920)                   | (5,668)                      |
| Other liabilities  | (4,131)                   | (1,380)                      |
| <b>Gross deferred tax liabilities</b>  | <b>(590,367)</b>          | <b>(570,508)</b>             |
| <b>Total net deferred tax liability</b>  | <b>\$ (71,218)</b>        | <b>\$ (53,737)</b>           |

Management believes that a sufficient level of taxable income will be achieved to utilize the net deferred tax assets of the companies in the consolidated federal tax return, therefore, no valuation allowance was recorded as of March 31, 2011 and December 31, 2010. However, if not utilized beforehand, approximately \$20,941,000 in ordinary loss tax carryforwards will expire at the end of tax year 2030.

American National recognizes interest expense and penalties related to uncertain tax positions. Interest expense and penalties are included in the "Other operating expenses" line in the consolidated statements of operations. No interest expense was incurred for the three months ended March 31, 2011 and for the year ended December 31, 2010. Also, no provision for penalties was established for uncertain tax positions.

Management does not believe that there are any uncertain tax benefits that could be recognized within the next twelve months that would decrease American National's effective tax rate.

The statute of limitations for the examination of federal income tax returns by the Internal Revenue Service (IRS) for years 2006 to 2009 has either been extended or has not expired. In the opinion of management, all prior year deficiencies have been paid or adequate provisions have been made for any tax deficiencies that may be upheld.

No federal income taxes were paid to or refunded by the IRS during the three months ended March 31, 2011. Federal income taxes netting to approximately \$512,000 were paid to the IRS during the same period in 2010.



**Table of Contents****13. COMPONENTS OF COMPREHENSIVE INCOME**

The details on the unrealized gains and losses included in comprehensive income, and the related tax effects thereon, are shown below (in thousands):

|   | <b>Before<br/>Federal<br/>Income Tax</b> | <b>Federal<br/>Income<br/>Tax Expense</b> | <b>Net of<br/>Federal<br/>Income Tax</b> |
|---|--|---|--|
| <b>March 31, 2011</b>   |  |   |  |
| Total holding gain during the period  | \$ 62,021                                | \$ 21,707                                 | \$ 40,314                                |
| Reclassification adjustment for net gain realized in net income                     | (13,504)                                 | (4,750)                                   | (8,754)                                  |
| Unrealized gains on available-for-sale securities                                   | 48,517                                   | 16,957                                    | 31,560                                   |
| Adjustment to deferred policy acquisition costs                                     | (6,018)                                  | (2,109)                                   | (3,909)                                  |
| Unrealized gain on investments attributable to participating policyholders interest | (2,855)                                  | (999)                                     | (1,856)                                  |
| <b>Net unrealized gain component of comprehensive income</b>                        | <b>\$ 39,644</b>                         | <b>\$ 13,849</b>                          | <b>\$ 25,795</b>                         |
| <b>March 31, 2010</b>   |  |   |  |
| Total holding gain during the period  | \$ 137,659                               | \$ 48,181                                 | \$ 89,478                                |
| Reclassification adjustment for net gain realized in net income                     | (14,355)                                 | (5,057)                                   | (9,298)                                  |
| Unrealized gains on available-for-sale securities                                   | 123,304                                  | 43,124                                    | 80,180                                   |
| Adjustment to deferred policy acquisition costs                                     | (31,677)                                 | (11,124)                                  | (20,553)                                 |
| Unrealized gain on investments attributable to participating policyholders interest | (3,622)                                  | (1,268)                                   | (2,354)                                  |
| <b>Net unrealized gain component of comprehensive income</b>                        | <b>\$ 88,005</b>                         | <b>\$ 30,732</b>                          | <b>\$ 57,273</b>                         |

**14. STOCKHOLDERS EQUITY AND NONCONTROLLING 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 the dates indicated are shown below:

|  | <b>March 31,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|--|---------------------------|------------------------------|
| <b>Common stock</b>                    |                           |                              |
| Shares issued                          | 30,832,449                | 30,832,449                   |
| Treasury shares                        | 4,011,472                 | 4,011,472                    |
| Restricted shares                      | 261,334                   | 261,334                      |
| <b>Unrestricted outstanding shares</b> | <b>26,559,643</b>         | <b>26,559,643</b>            |

**Stock-based compensation**

American National has one stock-based compensation plan which allows for grants of Non-Qualified Stock Options, Stock Appreciation Rights ( SAR ), Restricted Stock ( RS ) Awards, Restricted Stock Units ( RSU ), Performance Awards, Incentive Awards or any combination of these. The number of shares available for grants under the plan cannot exceed 2,900,000 shares, and no more than 200,000 shares may be granted to any one individual in any calendar year.

RS 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. Restricted stock has been granted, with a total of 340,334 shares granted at an exercise price of zero, of which 261,334 shares are unvested. The compensation expense recorded for the three months ended March 31, 2011 and 2010 was \$663,000 and \$673,000, respectively.

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The SARs give the holder the right to cash compensation based on the difference between the price of a share of stock on the grant date and the price on the exercise date. The SARs vest at a rate of 20% per year for 5 years and expire 5 years after the vesting period. American National uses the Black-Scholes option pricing model to calculate the fair value and compensation expense for SARs. The fair value of the SARs was \$13,000 and \$17,000 at March 31, 2011 and December 31, 2010, respectively. Compensation income was recorded totaling \$4,000 and \$445,000 for the three months ended March 31, 2011 and 2010, respectively.

RSUs are awarded after achieving the objectives of a performance based incentive compensation plan. In 2011, RSUs were also awarded as part of the Board of Directors compensation. The RSUs vest after two or three years when they will be converted to American National's common stock on a one for one basis. These awards result in compensation expense to American National over the vesting period. Compensation expense was \$290,000 and \$23,000 for the three months ended March 31, 2011 and 2010, respectively.

SAR, RS and RSU information for the period indicated is shown below:

|   | SAR<br>Shares  | SAR<br>Weighted-<br>Average<br>Grant<br>Date Fair<br>Value | RS<br>Shares   | RS<br>Weighted-<br>Average<br>Grant<br>Date Fair<br>Value | RS<br>Units   | RSU<br>Weighted-<br>Average<br>Grant<br>Date Fair<br>Value |
|---|----------------|--|----------------|---|---------------|--|
| <b>Outstanding at<br/>December 31, 2010</b> | <b>144,727</b> | <b>\$ 109.40</b>   | <b>261,334</b> | <b>\$ 102.98</b>  | <b>9,419</b>  | <b>\$ 109.29</b>   |
| Granted                                     |                |  |                |   | 61,481        | 79.63  |
| Forfeited                                   | (1,967)        | 115.93   |                |   | (197)         | 109.29   |
| Expired                                     | (3,400)        | 105.12   |                |   |               |  |
| <b>Outstanding at<br/>March 31, 2011</b>    | <b>139,360</b> | <b>109.32</b>  | <b>261,334</b> | <b>102.98</b>   | <b>70,703</b> | <b>83.53</b>   |

The weighted-average contractual remaining life for the outstanding SAR shares as of March 31, 2011, is 4.0 years. The weighted-average exercise price, which is the same with the weighted-average grant date fair value above, for these shares is \$109.32 per share. Of the shares outstanding, 86,153 are exercisable at a weighted-average exercise price of \$106.67 per share.

The weighted-average contractual remaining life for the outstanding RS shares as of March 31, 2011, is 5.7 years. The weighted-average price at the date of grant for these shares is \$102.98 per share. None of the shares outstanding were exercisable.

The weighted-average contractual remaining life for the outstanding RSUs as of March 31, 2011, is 2.74 years. The weighted-average price at the date of grant for these units is \$83.53 per share. None of the outstanding units were exercisable.

**Table of Contents****Earnings per share**

Basic earnings per share was calculated using a weighted-average number of shares outstanding of 26,559,643 and 26,558,832 at March 31, 2011 and 2010, respectively. The Restricted Stock resulted in diluted earnings per share as follows:

|   | <b>Three months ended March 31,</b> |                      |
|---|-------------------------------------|----------------------|
|   | <b>2011</b>                         | <b>2010</b>          |
| Weighted average shares outstanding   | 26,559,643                          | 26,558,832           |
| Incremental shares from restricted stock  | 130,855                             | 93,378               |
| <b>Total shares for diluted calculations</b>  | <b>26,690,498</b>                   | <b>26,652,210</b>    |
| <b>Net income from continuing operations attributable to American National Insurance Company and Subsidiaries</b> | <b>\$ 48,482,000</b>                | <b>\$ 34,555,000</b> |
| <b>Net income from discontinued operations</b>  |                                     | <b>223,000</b>       |
| <b>Net income attributable to American National Insurance Company and Subsidiaries</b>                            | <b>\$ 48,482,000</b>                | <b>\$ 34,778,000</b> |
| <b>Basic earnings per share from continued operations</b>   | <b>\$ 1.83</b>                      | <b>\$ 1.30</b>       |
| <b>Basic earnings per share from discontinued operations</b>  |                                     | <b>\$ 0.01</b>       |
| <b>Basic earnings per share</b>   | <b>\$ 1.83</b>                      | <b>\$ 1.31</b>       |
| <b>Diluted earnings per share from continued operations</b>   | <b>\$ 1.82</b>                      | <b>\$ 1.30</b>       |
| <b>Diluted earnings per share from discontinued operations</b>  |                                     |                      |
| <b>Diluted earnings per share</b>   | <b>\$ 1.82</b>                      | <b>\$ 1.30</b>       |

**Dividends**

American National's payment of dividends to stockholders is restricted by statutory regulations. 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 the greater of statutory net gain from operations on an annual, non-cumulative basis, or 10% of statutory surplus. Additionally, insurance companies are not permitted to distribute the excess of stockholders' equity, as determined on a GAAP basis over that determined on a statutory basis. At March 31, 2011 and December 31, 2010 American National's statutory capital and surplus was \$1,997,898,000 and \$1,954,149,000, respectively.

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. Dividends received by the parent company from its non-insurance subsidiaries was zero for the three months ended March 31, 2011 and 2010.

At March 31, 2011 approximately \$1,403,852,000 of American National's consolidated stockholders' equity represents net assets of its insurance subsidiaries, compared to approximately \$1,396,736,000 at December 31, 2010. Any transfer of these net assets to American National would be subject to statutory restrictions or approval.

**Noncontrolling interests**

American National County Mutual Insurance Company ( County Mutual ) is a mutual insurance company that is owned by its policyholders. County Mutual 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 of American National. The interests that the policyholders of County Mutual have in the financial position of County Mutual is reflected as noncontrolling interest totaling \$6,750,000 at March 31, 2011 and December 31, 2010.

American National's wholly-owned 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 noncontrolling interests. Noncontrolling interests were a net asset of \$4,718,000 and \$3,523,000 at March 31, 2011 and December 31, 2010, respectively.



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**15. SEGMENT INFORMATION**

American National and its subsidiaries are engaged principally in the insurance business. Management organizes the business into five operating segments:

The Life segment markets whole, term, universal and variable life insurance on a national basis primarily through employee and multiple-line agents, direct marketing channels and independent third-party marketing organizations.

The Annuity segment develops, sells and supports fixed, equity-indexed, and variable annuity products. These products are primarily sold through independent agents and brokers, but are also sold through financial institutions, multiple-line agents and employee agents.

The Health segment's primary lines of business are Medicare Supplement, stop loss, other supplemental health products and credit disability insurance. Health products are typically distributed through independent agents and managing general underwriters.

The Property and Casualty segment writes personal, commercial and credit-related property insurance. These products are primarily sold through multiple-line agents and independent agents.

The Corporate and Other business segment consists of net investment income on the investments not allocated to the insurance segments and the operations of non-insurance lines of business.

The accounting policies of the segments are the same as those referred to in Note 2. Many of the principal factors that drive the profitability of each operating segment are separate and distinct. All income and expense amounts specifically attributable to policy transactions are recorded directly to the appropriate operating segment. Income and expenses not specifically attributable to policy transactions are allocated to each segment as follows:

Recurring income from bonds and mortgage loans is allocated based on the funds accumulated by each line of business at the average yield available from these assets.

Net investment income from all other assets is allocated to the insurance segments in accordance with the amount of equity allocated to each segment, with the remainder going to Corporate and Other.

Expenses are allocated to the lines based upon various factors, including premium and commission ratios within the respective operating segments.

Realized gains or losses on investments and equity in earnings of unconsolidated affiliates are allocated to the Corporate and Other business segment.

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 the Corporate and Other business segment.

Beginning in 2011, in order to improve the comparability for measuring business results between segments and between periods, American National discontinued the allocation of a default charge to its segments. This default charge represented compensation to the Corporate and Other segment for the risk it assumed for realized investment losses through a charge to the insurance segments, which reduced the amount of net investment income allocated to those segments.

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The following tables summarize results of operations by operating segments (in thousands):

|   | <b>Three months ended March 31, 2011</b> |                 |                 |  |                                      |                  |
|---|--|-----------------|-----------------|--|--------------------------------------|------------------|
|   | <b>Life</b>                              | <b>Annuity</b>  | <b>Health</b>   | <b>Property<br/>&amp;<br/>Casualty</b> | <b>Corporate<br/>&amp;<br/>Other</b> | <b>TOTAL</b>     |
| <b>Premiums and other revenues:</b>   |  |                 |                 |  |                                      |                  |
| Premiums  | \$ 66,386                                | \$ 32,241       | \$ 58,644       | \$ 291,314                             | \$                                   | \$ 448,585       |
| Other policy revenues   | 44,843                                   | 4,288           |                 |  |                                      | 49,131           |
| Net investment income   | 59,082                                   | 147,885         | 3,416           | 18,066                                 | 10,623                               | 239,072          |
| Other income  | 800                                      | 57              | 2,917           | 1,944                                  | 568                                  | 6,286            |
| <b>Total operating revenues</b>   | <b>171,111</b>                           | <b>184,471</b>  | <b>64,977</b>   | <b>311,324</b>                         | <b>11,191</b>                        | <b>743,074</b>   |
| Realized gains on investments   |  |                 |                 |  | 22,031                               | 22,031           |
| <b>Total premium and other revenues</b>   | <b>171,111</b>                           | <b>184,471</b>  | <b>64,977</b>   | <b>311,324</b>                         | <b>33,222</b>                        | <b>765,105</b>   |
| <b>Benefits, losses and expenses:</b>   |  |                 |                 |  |                                      |                  |
| Policyholder benefits   | 76,687                                   | 42,977          |                 |  |                                      | 119,664          |
| Claims incurred   |  |                 | 41,607          | 215,511                                |                                      | 257,118          |
| Interest credited to policy account balances  | 15,056                                   | 90,960          |                 |  |                                      | 106,016          |
| Commissions for acquiring and servicing policies  | 20,862                                   | 29,973          | 6,466           | 52,922                                 | 3                                    | 110,226          |
| Other operating expenses  | 40,543                                   | 27,561          | 11,577          | 30,738                                 | 11,980                               | 122,399          |
| Change in deferred policy acquisition costs   | (2,549)                                  | (12,602)        | 2,333           | (232)                                  |                                      | (13,050)         |
| <b>Total benefits, losses and expenses</b>  | <b>150,599</b>                           | <b>178,869</b>  | <b>61,983</b>   | <b>298,939</b>                         | <b>11,983</b>                        | <b>702,373</b>   |
| <b>Income from continuing operations before federal income taxes, and equity in earnings of unconsolidated affiliates</b> | <b>\$ 20,512</b>                         | <b>\$ 5,602</b> | <b>\$ 2,994</b> | <b>\$ 12,385</b>                       | <b>\$ 21,239</b>                     | <b>\$ 62,732</b> |

**Three months ended March 31, 2010**

|  | <b>Life</b> | <b>Annuity</b> | <b>Health</b> | <b>Property<br/>&amp;<br/>Casualty</b> | <b>Corporate<br/>&amp;<br/>Other</b> | <b>TOTAL</b> |
|--|-------------|----------------|---------------|--|--------------------------------------|--------------|
|--|-------------|----------------|---------------|--|--------------------------------------|--------------|

**Premiums and other revenues:**

|                       |           |           |           |            |        |            |
|-----------------------|-----------|-----------|-----------|------------|--------|------------|
| Premiums              | \$ 69,445 | \$ 40,352 | \$ 68,424 | \$ 286,472 | \$     | \$ 464,693 |
| Other policy revenues | 41,086    | 3,910     |           |            |        | 44,996     |
| Net investment income | 58,885    | 125,108   | 4,054     | 18,851     | 11,204 | 218,102    |
| Other income          | 837       | 76        | 2,336     | 2,038      | 628    | 5,915      |

|                                 |                |                |               |                |               |                |
|---------------------------------|----------------|----------------|---------------|----------------|---------------|----------------|
| <b>Total operating revenues</b> | <b>170,253</b> | <b>169,446</b> | <b>74,814</b> | <b>307,361</b> | <b>11,832</b> | <b>733,706</b> |
|---------------------------------|----------------|----------------|---------------|----------------|---------------|----------------|

|                               |  |  |  |  |        |        |
|-------------------------------|--|--|--|--|--------|--------|
| Realized gains on investments |  |  |  |  | 16,502 | 16,502 |
|-------------------------------|--|--|--|--|--------|--------|

|  |                |                |               |                |               |                |
|--|----------------|----------------|---------------|----------------|---------------|----------------|
| <b>Total premiums and other revenues</b> | <b>170,253</b> | <b>169,446</b> | <b>74,814</b> | <b>307,361</b> | <b>28,334</b> | <b>750,208</b> |
|--|----------------|----------------|---------------|----------------|---------------|----------------|

**Benefits, losses and expenses:**

|  |         |          |        |         |        |          |
|--|---------|----------|--------|---------|--------|----------|
| Policyholder benefits                            | 72,538  | 47,695   |        |         |        | 120,233  |
| Claims incurred                                  |         |          | 52,839 | 235,203 |        | 288,042  |
| Interest credited to policy account balances     | 14,692  | 79,670   |        |         |        | 94,362   |
| Commissions for acquiring and servicing policies | 19,708  | 24,693   | 9,753  | 52,722  | 1      | 106,877  |
| Other operating expenses                         | 43,392  | 16,080   | 12,139 | 30,666  | 10,931 | 113,208  |
| Change in deferred policy acquisition costs      | (2,610) | (14,257) | 1,912  | 72      |        | (14,883) |

|  |                |                |               |                |               |                |
|--|----------------|----------------|---------------|----------------|---------------|----------------|
| <b>Total benefits, losses and expenses</b> | <b>147,720</b> | <b>153,881</b> | <b>76,643</b> | <b>318,663</b> | <b>10,932</b> | <b>707,839</b> |
|--|----------------|----------------|---------------|----------------|---------------|----------------|

**Income from continuing operations before federal income taxes, and equity in earnings of unconsolidated affiliates**

|  |           |           |            |             |           |           |
|--|-----------|-----------|------------|-------------|-----------|-----------|
|  | \$ 22,533 | \$ 15,565 | \$ (1,829) | \$ (11,302) | \$ 17,402 | \$ 42,369 |
|--|-----------|-----------|------------|-------------|-----------|-----------|

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**16. COMMITMENTS AND CONTINGENCIES**

**Commitments**

In the ordinary course of operations, American National and its subsidiaries had commitments outstanding at March 31, 2011, to purchase, expand or improve real estate, to fund mortgage loans, and to purchase other invested assets aggregating \$233,149,000, of which \$224,579,000 is expected to be funded in 2011. The remaining balance of \$8,570,000 will be funded in 2012 and beyond. As of March 31, 2011, all of the mortgage loan commitments have fixed interest rates.

In September 2010, American National renewed a 365-day \$100,000,000 short-term variable rate borrowing facility containing a \$55,000,000 subfeature for the issuance of letters of credit. Borrowings under the facility are at the discretion of the lender and would be used only for funding American National's working capital requirements. The combination of borrowings and outstanding letters of credit cannot exceed \$100,000,000 at any time. As of March 31, 2011 and December 31, 2010 the outstanding letters of credit were \$36,585,000 and \$37,452,000, respectively, and there were no borrowings on this facility to meet working capital requirements.

**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 loans. As the cash values of the life insurance policies always equals or exceeds the balance of the loans, management does not foresee any loss on these guarantees. The total amount of the guarantees outstanding as of March 31, 2011, was approximately \$206,513,000 while the total cash values of the related life insurance policies was approximately \$212,253,000.

**Litigation**

American National is a defendant in a putative class action lawsuit wherein the Plaintiff proposes to certify a class of persons who purchased certain American National proprietary deferred annuity products in the State of California (Rand v. American National Insurance Company, U.S. District Court for the Northern District of California, filed February 12, 2009). Plaintiff alleges that American National violated the California Insurance, Business and Professions, Welfare and Institutions, and Civil Codes through its fixed and equity-indexed deferred annuity sales and marketing practices by not sufficiently providing proper disclosure notices on the nature of surrender fees, commissions and bonus features and not considering the suitability of the product. Certain claims raised by Plaintiff relate to sales of annuities to the elderly. Plaintiff seeks statutory penalties, restitution, interest, penalties, attorneys fees, punitive damages and rescissionary and/or injunctive relief in an unspecified amount. In September 2010, the Court granted partial summary judgment for American National due to the nonexistence of certain California Insurance Code violations, and granted partial summary judgment against American National as to whether the Plaintiff received a disclosure notice required by the California Insurance Code. Plaintiff contends that the alleged disclosure violation will support a California Unfair Competition Law claim.

The parties negotiated a tentative agreement on financial settlement terms between American National and potential class members and are working on finalizing other specific terms to resolve this case. During the quarter ended March 31, 2011, American National reserved \$12,000,000 for this tentative agreement. Any such class settlement must be reviewed and approved by the Court and will go through other procedural steps before being finalized. The parties anticipate documenting the terms before the end of spring 2011 and presenting the terms to the Court shortly thereafter.

If the settlement is not finalized or accepted, American National maintains that it has meritorious defenses which will be vigorously pursued. In such event, no prediction can be made as to the probability or remoteness of Plaintiff's recovery, if any, against American National.

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American National and certain subsidiaries 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 American National's 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.

In addition, 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 statements.

**17. DISCONTINUED OPERATIONS**

On December 31, 2010, American National sold its wholly-owned broker-dealer subsidiary, Securities Management & Research, Inc. ( SM&R ). Pursuant to a stock purchase agreement American National agreed to sell all of the outstanding capital stock of SM&R to a third-party financial services corporation. The sale qualifies for discontinued operations accounting and accordingly, the results of operations for this subsidiary are presented as discontinued operations in American National's consolidated statements of operations for the three months ended March 31, 2010. SM&R had previously been a component of the Corporate and Other business segment.

The following table summarizes income from discontinued operations:

|  | <b>Three months<br/>ended March<br/>31,<br/>2010</b> |
|--|--|
| <b>Revenues:</b>   |  |
| Net investment income  | \$ 109   |
| Realized investment losses   | (5)  |
| Other Income   | 3,449  |
| <br>Total revenues   | <br>3,553  |
| <b>Expenses</b>  |  |
| Other operating costs  | 3,253  |
| <br>Total expenses   | <br>3,253  |
| <br>Income from discontinued operations before<br>income tax expense | <br>300  |
| Income tax expense   | 77   |
| <br>Income from discontinued operations, net of tax                  | <br>\$ 223   |

Cash flows related to discontinued operations have been combined with cash flows from continuing operations within each category of the statements of cash flows, the effect of which is immaterial to all periods presented.

**Table of Contents****18. RELATED PARTY TRANSACTIONS**

American National has entered into recurring transactions and agreements with certain related parties as a part of its ongoing operations. These include mortgage loans, management contracts, agency commission contracts, marketing agreements, accident and health insurance contracts and legal services. The impact on the consolidated financial statements of the significant related party transactions for the periods indicated, is shown below (in thousands):

| Related Party                               | Financial Statement Line Impacted                | Dollar Amount of Transactions     |                | Amount due to  |                   |
|---|--|-----------------------------------|----------------|----------------|-------------------|
|   |  | Three months ended March 31, 2011 | March 31, 2010 | March 31, 2011 | December 31, 2010 |
| Gal-Tex Hotel Corporation                   | Mortgage loans on real estate                    | \$ 242                            | \$ 11,653      | \$ 10,709      | \$ 10,951         |
| Gal-Tex Hotel Corporation                   | Net investment income                            | 197                               | 213            | 65             | 66                |
| Gal-Tex Hotel Corporation                   | Other operating expenses                         | 57                                | 52             | 21             | 21                |
| Gal-Tex Hotel Corporation                   | Accident and health premiums                     | 15                                | 20             | 15             | 56                |
| Moody Insurance Group, Inc.                 | Commissions for acquiring and servicing policies | 1,002                             | 915            | 419            | 717               |
| Moody Insurance Group, Inc.                 | Other operating expenses                         | 32                                | 29             |                |                   |
| National Western Life Ins. Co.              | Accident and health premiums                     | 60                                | 42             | 35             | 14                |
| National Western Life Ins. Co.              | Other operating expenses                         | 275                               | 240            | 106            | 71                |
| Moody Foundation Greer, Herz and Adams, LLP | Accident and health premiums                     | 69                                | 85             | 11             | 7                 |
|   | Other operating expenses                         | 1,862                             | 2,733          | 288            | 251               |

**Information Regarding Related Parties and Transactions**

*Mortgage Loans to Gal-Tex Hotel Corporation ( Gal-Tex ):* The Moody Foundation and the Libbie Shearn Moody Trust own 34.0% and 50.2%, respectively, of Gal-Tex Hotel Corporation ( Gal-Tex ). The Moody Foundation and the Libbie Shearn Moody Trust also own approximately 22.9% and 37.1%, respectively, of American National. American National held a first mortgage loan issued to Gal-Tex secured by hotel property in San Antonio, Texas. This loan was originated in 1999, had a balance of \$10,709,000 as of March 31, 2011, has a current interest rate of 7.30%, and has a final maturity date of April 1, 2019. This loan is current as to principal and interest payments.

*Management Contracts with Gal-Tex:* American National entered into management contracts with Gal-Tex for the management of a hotel and adjacent fitness center owned by American National. Such contracts can be terminated upon thirty days prior written notice.

*Transactions with Moody Insurance Group, Inc.:* Robert L. Moody, Jr. ( RLM Jr. ) is the son of American National's Chairman and Chief Executive Officer, brother of two of American National's directors, and he is one of American National's advisory directors. RLM Jr., mainly through his wholly-owned insurance agency, Moody Insurance Group, Inc. ( MIG ), has entered into a number of agency agreements with American National and some of its subsidiaries in connection with the marketing of insurance products.

MIG and American National are also parties to a Consulting and Special Marketing Agreement concerning development and marketing of new products. In addition to consulting fees paid under such agreement, compensation also includes dividends on shares of American National's Restricted Stock granted to MIG as a consultant.

*Health Insurance Contracts with Certain Affiliates:* American National's Merit Plan is insured by National Western Life Insurance Company (National Western). Robert L. Moody, Sr., American National's Chairman of the Board and Chief Executive Officer, is also the Chairman of the Board, Chief Executive Officer, and controlling stockholder of National Western. The Merit Plan is an insured medical plan that supplements American National's core medical insurance plan for certain officers by providing coverage for co-pays, deductibles, and other out-of-pocket expenses that are not covered by the core medical insurance plan, limited to medical expenses that could be deducted by the recipient for federal income tax purposes.

In addition, American National insures substantially similar plans offered by National Western, Gal-Tex, and The Moody Foundation to certain of their officers. American National also insures The Moody Foundation's basic health insurance plan.

*Transactions with Greer, Herz & Adams, L.L.P.:* Irwin M. Herz, Jr. is one of American National's advisory directors and a Partner with Greer, Herz & Adams, L.L.P. which serves as American National's General Counsel.



**Table of Contents****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Set forth on the following pages is management's discussion and analysis (MD&A) of financial condition and results of operations for the three months ended March 31, 2011 and 2010 of American National Insurance Company and its subsidiaries (referred to in this document as we, our, us, or the Company). Such information should be read in conjunction with our consolidated financial statements included in Item 1, Financial Statements (unaudited), of this Form 10-Q.

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### **Forward-Looking Statements**

Certain statements contained herein are forward-looking statements. The forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, and include estimates and assumptions related to economic, competitive and legislative developments. Forward looking statements may be identified by words such as expects, intends, anticipates, plans, believes, estimates, will or words of similar and include, but are not limited to, statements regarding the outlook of our business and financial performance. These forward-looking statements are subject to change and uncertainty, which are, in many instances, beyond our control and have been made based upon our expectations and beliefs concerning future developments and their potential effect upon us. There can be no assurance that future developments will be in accordance with our expectations, or that the effect of future developments on us will be as anticipated. These forward-looking statements are not a guarantee of future performance and involve risks and uncertainties. There are certain important factors that could cause actual results to differ, possibly materially, from expectations or estimates reflected in such forward-looking statements. These factors include among others:

- international economic and financial factors, including the performance and fluctuations of fixed income, equity, real estate, credit capital and other financial markets;
- interest rate fluctuations;
- estimates of our reserves for future policy benefits and claims;
- differences between actual experience regarding mortality, morbidity, persistency, surrender experience, interest rates or market returns, and the assumptions we use in pricing our products, establishing liabilities and reserves or for other purposes;
- changes in our experiences related to deferred policy acquisition costs;
- changes in our claims-paying or credit ratings;
- investment losses and defaults;
- competition in our product lines and for personnel;
- changes in tax law;
- regulatory or legislative changes;
- adverse determinations in litigation or regulatory matters and our exposure to contingent liabilities, including and in connection with our divestiture or winding down of businesses;
- domestic or international military actions, natural or man-made disasters, including terrorist activities or pandemic disease, or other events resulting in catastrophic loss of life;
- ineffectiveness of risk management policies and procedures in identifying, monitoring and managing risks;
- effects of acquisitions, divestitures and restructurings, including possible difficulties in integrating and realizing the projected results of acquisitions;
- changes in statutory or U.S. generally accepted accounting principles ( GAAP ) practices or policies; and
- changes in assumptions for retirement expense.

We describe these risks and uncertainties in greater detail in Item IA, Risk Factors, in our 2010 Annual Report on Form 10-K filed with the SEC on March 2, 2011. It has never been a matter of corporate policy for us to make specific projections relating to future earnings, and we do not endorse any projections regarding future performance made by others. Additionally, we do not publicly update or revise forward-looking statements based on the outcome of various foreseeable or unforeseeable events.

### **Overview**

We are a diversified insurance and financial services company, offering a broad spectrum of life, annuity, health, and property and casualty insurance products. Chartered in 1905, we are headquartered in Galveston, Texas. We operate in all 50 states, the District of Columbia, Guam, American Samoa and Puerto Rico.

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**General Trends**

There were no material changes to the general trends we are experiencing, as discussed in the MD&A included in our 2010 Annual Report on Form 10-K filed with the SEC on March 2, 2011.

**Critical Accounting Estimates**

The unaudited interim consolidated financial statements have been prepared in conformity with GAAP. In addition to GAAP, insurance companies have to apply specific SEC regulations when preparing the consolidated financial statements. The preparation of the consolidated financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and notes. Actual results could differ from results reported using those estimates.

Our accounting policies inherently require the use of judgments relating to a variety of assumptions and estimates, particularly expectations of current and future mortality, morbidity, persistency, expenses, interest rates, and property and casualty frequency, severity, claim reporting and settlement patterns. Due to the inherent uncertainty when using the assumptions and estimates, the effect of certain accounting policies under different conditions or assumptions could be different from those reported in the consolidated financial statements.

For a discussion of our critical accounting estimates, see the MD&A in our 2010 Annual Report on Form 10-K filed with the SEC on March 2, 2011. There were no material changes in accounting policies from December 31, 2010.

**Recently Issued Accounting Pronouncements**

Refer to Note 3, Recently Issued Accounting Pronouncements, of the Notes to the Consolidated Financial Statements.

**Table of Contents****Consolidated Results of Operations**

The following is a discussion of our consolidated results of operations. For discussions of our segment results, see the *Results of Operations and Related Information by Segment* section. The following table sets forth the consolidated results of operations (in thousands):

|  | <b>Three months ended March 31,</b> |                  |                  |
|--|-------------------------------------|------------------|------------------|
|  | <b>2011</b>                         | <b>2010</b>      | <b>Change</b>    |
| <b>Premiums and other revenues:</b>                        |                                     |                  |                  |
| Premiums   | \$ 448,585                          | \$ 464,693       | \$ (16,108)      |
| Other policy revenues                                      | 49,131                              | 44,996           | 4,135            |
| Net investment income                                      | 239,072                             | 218,102          | 20,970           |
| Realized investments gains, net                            | 22,031                              | 16,502           | 5,529            |
| Other income   | 6,286                               | 5,915            | 371              |
| <b>Total premiums and other revenues</b>                   | <b>765,105</b>                      | <b>750,208</b>   | <b>14,897</b>    |
| <b>Benefits, losses and expenses:</b>                      |                                     |                  |                  |
| Policyholder benefits                                      | 119,664                             | 120,233          | (569)            |
| Claims incurred  | 257,118                             | 288,042          | (30,924)         |
| Interest credited to policy account balances               | 106,016                             | 94,362           | 11,654           |
| Commissions for acquiring and servicing policies           | 110,226                             | 106,877          | 3,349            |
| Other operating expenses                                   | 122,399                             | 113,208          | 9,191            |
| Change in deferred policy acquisition costs <sup>(1)</sup> | (13,050)                            | (14,883)         | 1,833            |
| <b>Total benefits and expenses</b>                         | <b>702,373</b>                      | <b>707,839</b>   | <b>(5,466)</b>   |
| <b>Income before other items and federal income taxes</b>  | <b>\$ 62,732</b>                    | <b>\$ 42,369</b> | <b>\$ 20,363</b> |

(1) A negative amount of net change indicates more expense was deferred than amortized and represents a decrease to expenses in the periods indicated.

Consolidated earnings increased during the first three months of 2011 compared to 2010. The increase was primarily driven by the following:

a decrease in Property and Casualty claims incurred,

an increase in net investment income greater than the increase to interest credited to policy account balances.

The increases were partially offset by a decrease in Accident and Health premiums and an increase in other operating expenses in our Annuity line.

In the Consolidated Results of Operations above and in the segment discussions that follow, certain amounts in prior year have been reclassified to conform to current year presentation. See Note 15, Segment Information, of the Notes to the Consolidated Financial Statements.

**Table of Contents****Results of Operations and Related Information by Segment****Life**

The Life segment markets traditional life insurance products such as whole life and term life, and interest-sensitive life insurance products such as universal life and variable universal life as well as indexed universal life. These products are marketed on a nationwide basis through employee agents, multiple-line agents, independent agents, brokers and direct marketing channels. Life segment financial results for the periods indicated were as follows (in thousands):

|   | <b>Three months ended March 31,</b> |                  |                   |
|---|-------------------------------------|------------------|-------------------|
|   | <b>2011</b>                         | <b>2010</b>      | <b>Change</b>     |
| <b>Premiums and other revenues:</b>                       |                                     |                  |                   |
| Premiums  | \$ 66,386                           | \$ 69,445        | \$ (3,059)        |
| Other policy revenues                                     | 44,843                              | 41,086           | 3,757             |
| Net investment income                                     | 59,082                              | 58,885           | 197               |
| Other income  | 800                                 | 837              | (37)              |
| <b>Total premiums and other revenues</b>                  | <b>171,111</b>                      | <b>170,253</b>   | <b>858</b>        |
| <b>Benefits, losses and expenses:</b>                     |                                     |                  |                   |
| Policyholder benefits                                     | 76,687                              | 72,538           | 4,149             |
| Interest credited to policy account balances              | 15,056                              | 14,692           | 364               |
| Commissions for acquiring and servicing policies          | 20,862                              | 19,708           | 1,154             |
| Other operating expenses                                  | 40,543                              | 43,392           | (2,849)           |
| Change in deferred policy acquisition costs               | (2,549)                             | (2,610)          | 61                |
| <b>Total benefits, losses and expenses</b>                | <b>150,599</b>                      | <b>147,720</b>   | <b>2,879</b>      |
| <b>Income before other items and federal income taxes</b> | <b>\$ 20,512</b>                    | <b>\$ 22,533</b> | <b>\$ (2,021)</b> |

For the three months ended March 31, 2011, earnings decreased compared to the same period in 2010. The overall decrease in earnings was primarily attributable to an increase in policyholder benefits, partially offset by a decrease in other operating expenses.

**Premiums**

Revenues from traditional life insurance products include scheduled premium payments from policyholders on whole life and term life products. These premiums are in exchange for financial protection from a specific insurable event, such as death or disability. The change in these premiums is impacted by new sales during the period and the persistency of in-force policies.

Premiums decreased for the three months ended March 31, 2011 compared to the same period in 2010. The decrease was a result of higher reinsurance premiums due to increasing policy face values, and a decrease in the credit-related life products as a result of lower sales.

**Other Policy Revenues**

Other policy revenues include mortality charges, earned policy service fees, and surrender charges on interest-sensitive life insurance policies. These revenues increased for the three months ended March 31, 2011 compared to 2010 primarily due to terminations of jumbo size policies, those larger than \$1.0 million, and the resulting surrender charges and related fees.



**Table of Contents****Policyholder Benefits**

Benefits increased for the three months ended March 31, 2011 compared to 2010. The increase was primarily the result of mortality experience fluctuations on our life insurance policies as well as an increase in net reinsurance costs.

**Other Operating Expenses**

Other operating expenses decreased for the three months ended March 31, 2011 compared to 2010. The decrease was primarily the result of the release of a litigation liability.

**Change in Deferred Policy Acquisition Costs**

The following table presents the components of the change in DAC (in thousands):

|   | <b>Three months ended March 31,</b> |                 |                |
|---|-------------------------------------|-----------------|----------------|
|   | <b>2011</b>                         | <b>2010</b>     | <b>Change</b>  |
| Acquisition cost capitalized                                      | \$ 20,389                           | \$ 18,098       | \$ 2,291       |
| Amortization of DAC   | (17,840)                            | (15,488)        | (2,352)        |
| <b>Change in deferred policy acquisition costs <sup>(1)</sup></b> | <b>\$ 2,549</b>                     | <b>\$ 2,610</b> | <b>\$ (61)</b> |

(1) A positive amount of net change indicates more expense was deferred than amortized and represents a decrease to expenses in the periods indicated.

The net change in deferred policy acquisition costs capitalized remained relatively flat for the three months ended March 31, 2011 compared to 2010.

**Policy In-Force Information**

The following tables summarize changes in the Life segment's in-force amounts and number of policies in-force (in thousands):

|                                      | <b>Three months ended March 31,</b> |                      |                   |
|--------------------------------------|-------------------------------------|----------------------|-------------------|
|                                      | <b>2011</b>                         | <b>2010</b>          | <b>Change</b>     |
| <b>Life insurance in-force:</b>      |                                     |                      |                   |
| Traditional life                     | \$ 46,068,891                       | \$ 45,166,506        | \$ 902,385        |
| Interest-sensitive life              | 23,750,154                          | 24,217,790           | (467,636)         |
| <b>Total life insurance in-force</b> | <b>\$ 69,819,045</b>                | <b>\$ 69,384,296</b> | <b>\$ 434,749</b> |

|                                    | <b>Three months ended March</b> |              |               |
|------------------------------------|---------------------------------|--------------|---------------|
|                                    | <b>2011</b>                     | <b>2010</b>  | <b>Change</b> |
| <b>Number of policies in-force</b> |                                 |              |               |
| Traditional life                   | 2,248                           | 2,322        | (74)          |
| Interest-sensitive life            | 176                             | 175          | 1             |
| <b>Total number of policies</b>    | <b>2,424</b>                    | <b>2,497</b> | <b>(73)</b>   |

There was a slight increase in total life insurance in-force for the three months ended March 31, 2011 when compared to 2010. The increase to our traditional life products was the result of consumers seeking these products' contract guarantees due to the economic environment in recent years. This increase was partially offset by the decrease in our

interest-sensitive life policies.

The decrease in our policy count is attributable to new business activity being comprised of fewer, but larger face-value policies.



**Table of Contents****Annuity**

We develop, sell and support a variety of immediate and deferred annuities, including fixed, equity-indexed and variable products. We sell these products through independent agents, brokers, financial institutions, multiple-line and employee agents. Annuity segment financial results for the periods indicated were as follows (in thousands):

|   | <b>Three months ended March 31,</b> |                  |                   |
|---|-------------------------------------|------------------|-------------------|
|   | <b>2011</b>                         | <b>2010</b>      | <b>Change</b>     |
| <b>Premiums and other revenues:</b>                       |                                     |                  |                   |
| Premiums  | \$ 32,241                           | \$ 40,352        | \$ (8,111)        |
| Other policy revenues                                     | 4,288                               | 3,910            | 378               |
| Net investment income                                     | 147,885                             | 125,108          | 22,777            |
| Other income  | 57                                  | 76               | (19)              |
| <b>Total premiums and other revenues</b>                  | <b>184,471</b>                      | <b>169,446</b>   | <b>15,025</b>     |
| <b>Benefits, losses and expenses:</b>                     |                                     |                  |                   |
| Policyholder benefits                                     | 42,977                              | 47,695           | (4,718)           |
| Interest credited to policy account balances              | 90,960                              | 79,670           | 11,290            |
| Commissions for acquiring and servicing policies          | 29,973                              | 24,693           | 5,280             |
| Other operating expenses                                  | 27,561                              | 16,080           | 11,481            |
| Change in deferred policy acquisition costs               | (12,602)                            | (14,257)         | 1,655             |
| <b>Total benefits, losses and expenses</b>                | <b>178,869</b>                      | <b>153,881</b>   | <b>24,988</b>     |
| <b>Income before other items and federal income taxes</b> | <b>\$ 5,602</b>                     | <b>\$ 15,565</b> | <b>\$ (9,963)</b> |

Earnings decreased for the three months ended March 31, 2011 compared to 2010 primarily due to an increase in other operating expenses. This increase was primarily a result of a litigation accrual for an outstanding legal matter. For additional information, see Note 16, Commitments and Contingencies, of the Notes to the Consolidated Financial Statements. Without this accrual, earnings would have increased \$2.0 million compared to the first quarter of 2010.

**Premiums**

Annuity premium and deposit amounts received are shown in the table below (in thousands):

|                                  | <b>Three months ended March</b> |                  |                   |
|----------------------------------|---------------------------------|------------------|-------------------|
|                                  | <b>31,</b>                      |                  |                   |
|                                  | <b>2011</b>                     | <b>2010</b>      | <b>Change</b>     |
| Fixed deferred annuity           | \$ 548,346                      | \$ 190,275       | \$ 358,071        |
| Equity-indexed deferred annuity  | 33,694                          | 124,164          | (90,470)          |
| Single premium immediate annuity | 33,810                          | 40,974           | (7,164)           |
| Variable deferred annuity        | 26,279                          | 25,627           | 652               |
| <b>Total</b>                     | <b>642,129</b>                  | <b>381,040</b>   | <b>261,089</b>    |
| Less: policy deposits            | 609,888                         | 340,688          | 269,200           |
| <b>Total earned premiums</b>     | <b>\$ 32,241</b>                | <b>\$ 40,352</b> | <b>\$ (8,111)</b> |

Fixed deferred annuity deposits increased significantly for the three months ended March 31, 2011 compared to 2010. The increase was primarily a result of our marketing efforts to expand bank distribution through the development of new accounts. In addition, continued depressed interest rates help make our fixed deferred annuity rates more attractive than certificates of deposit and other competing financial products.

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Equity-indexed annuities allow policyholders to participate in equity returns while also having certain downside protection resulting from the guaranteed minimum returns defined in the product. Deposits for this product decreased during the three months ended March 31, 2011 as compared to the same period in 2010. This decrease was primarily due to lower fixed investment yields providing a smaller option budget, resulting in declared indexed crediting terms that are less favorable to the policyholder.

Single premium immediate annuities ( SPIA ) decreased for the three months ended March 31, 2011 compared to 2010. Premiums for this product decreased during the three months ended March 31, 2011 as compared to the same period in 2010 as a result of lower investment yields, restraining demand for this product in anticipation of increased income payments in the future.

**Net Investment Income**

Net investment income, a key component of the profitability of the Annuity segment, increased for the three months ended March 31, 2011 compared to 2010. The increase was mainly attributed to a 12.9% increase in the assets backing the in-force fixed deferred annuity account balances.

For a number of years, earnings in the Annuity segment have been pressured by lower average yield rates on the bonds and mortgage loans supporting the reserves. Offsetting the effect of lower yield rates, crediting rates on interest-sensitive products have been decreased accordingly where permitted by policy terms. Since approximately 90% of the Annuity segment is interest-sensitive, offsetting credited rate adjustments are usually possible subject to minimum interest rate guarantees that may apply. We have reconfigured the product portfolio to lower those guarantees in response to the current low interest rate environment.

We utilize equity options as a means to hedge equity-indexed deferred annuity benefits. The realized and unrealized gains or losses on the equity options cause fluctuations in net investment income. Accordingly, we analyze net investment income with and without equity option returns. Shown below is the analysis of net investment income with and without equity options (in thousands):

|                       | With Options             |            | Without Options          |            | Attributable to Options |            |
|-----------------------|--------------------------|------------|--------------------------|------------|-------------------------|------------|
|                       | Three months ended March |            | Three months ended March |            | Three months ended      |            |
|                       | 31,                      |            | 31,                      |            | March 31,               |            |
|                       | 2011                     | 2010       | 2011                     | 2010       | 2011                    | 2010       |
| Net investment income | \$ 147,885               | \$ 125,108 | \$ 140,770               | \$ 126,745 | \$ 7,115                | \$ (1,637) |

The fluctuations in net investment income due to equity option returns were primarily offset in part by changes in equity-indexed deferred annuity interest credited (which has an implied embedded derivative gain/(loss) component). See the discussion in the Interest Credited to Policy Account Balances section for presentation of interest credited with and without the effect of equity-indexed deferred annuity.

**Table of Contents****Account Values**

We monitor account values and changes in those values as a key indicator of the performance of our Annuity segment. Changes in account values are mainly the result of net inflows, surrenders, policy fees, interest credited and market value changes. Shown below are the changes in account values (in thousands):

|  | <b>Three months ended March 31,</b> |                     |
|--|-------------------------------------|---------------------|
|  | <b>2011</b>                         | <b>2010</b>         |
| <b>Fixed deferred annuity:</b>           |                                     |                     |
| Account value, beginning of period       | \$ 9,006,692                        | \$ 8,151,366        |
| Net inflows                              | 324,670                             | 115,095             |
| Fees                                     | (3,049)                             | (2,671)             |
| Interest credited                        | 92,033                              | 81,139              |
| <b>Account value, end of period</b>      | <b>\$ 9,420,346</b>                 | <b>\$ 8,344,929</b> |
| <b>Variable deferred annuity:</b>        |                                     |                     |
| Account value, beginning of period       | \$ 415,757                          | \$ 400,624          |
| Net inflows/(outflows)                   | (15,410)                            | 4,198               |
| Fees                                     | (1,233)                             | (1,187)             |
| Change in market value and other         | 16,010                              | 16,251              |
| <b>Account value, end of period</b>      | <b>\$ 415,124</b>                   | <b>\$ 419,886</b>   |
| <b>Single premium immediate annuity:</b> |                                     |                     |
| Reserve, beginning of period             | \$ 903,126                          | \$ 820,295          |
| Net inflows                              | 3,725                               | 9,109               |
| Interest and mortality                   | 9,724                               | 9,362               |
| <b>Reserve, end of period</b>            | <b>\$ 916,575</b>                   | <b>\$ 838,766</b>   |

Account values of fixed deferred annuities and SPIA increased during the first quarter of 2011 compared to the same period in 2010 primarily as a result of new deposits and interest credited.

Variable deferred annuity account values decreased during the first quarter of 2011 compared to the first quarter of 2010 primarily as a result of outflows of deposits and fees offsetting new deposits and market value increases.

**Policyholder Benefits**

Benefits consist of annuity payments and reserve increases on SPIA contracts. Benefits decreased for the three months ended March 31, 2011 compared to 2010 as a result of lower SPIA premium receipts.

**Interest Credited to Policy Account Balances**

Interest credited to policy account balances is generally comprised of interest accruals to fixed deferred annuity account balances. Equity-indexed deferred annuities include a fixed host annuity contract and an embedded equity derivative. In addition to the accrual of interest on the host contract, the gain or loss on the embedded equity derivative is also recognized as interest credited to policy account balances. Embedded derivative gain/loss can introduce material fluctuations in interest credited from one period to the next. For this reason, we analyze interest credited to policy account balances with and without equity-indexed deferred annuities. A comparison of interest credited to policy account balances with and without equity-indexed deferred annuities are shown in the table below (in thousands):

|   | With Equity-Indexed<br>Deferred Annuities<br>Three months ended<br>March 31, |           | Without Equity-Indexed<br>Deferred Annuities<br>Three months ended<br>March 31, |           | Attributable to the<br>Equity-Indexed<br>Deferred Annuities<br>Three months ended March<br>31, |          |
|---|--|-----------|---|-----------|--|----------|
|   | 2011   | 2010      | 2011  | 2010      | 2011   | 2010     |
| Interest credited to<br>policy account balances | \$ 90,960  | \$ 79,670 | \$ 80,374   | \$ 75,955 | \$ 10,586  | \$ 3,715 |

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The fluctuations in interest credited due to the embedded equity derivative returns were primarily offset by changes in equity option investment income (loss), since the equity options are held to hedge the equity-indexed deferred annuity benefits. See the discussion in the Net Investment Income section for presentation of investment income with and without investment income (loss) from equity options.

The increase in the interest credited without equity-indexed deferred annuities during 2011 was primarily attributable to the growth of in-force account balances.

Interest credited attributable to equity-indexed deferred annuities increased during the three months ended March 31, 2011 as compared to the same period in 2010 primarily due to improved performance of the equity-indexed annuity product.

The profits on fixed deferred annuity contracts are driven by interest spreads and, to a lesser extent, other policy fees. When determining crediting rates for fixed deferred annuities, management considers current investment yields in setting new money crediting rates and looks at average portfolio yields when setting renewal rates. In setting rates, management takes into account target spreads established by pricing models while also factoring in price levels needed to maintain a competitive position. Target interest spreads vary by product depending on specific attributes.

**Commissions**

Commissions increased for the three months ended March 31, 2011 compared to 2010 primarily due to the \$261.1 million increase in annuity deposits during the period.

**Other Operating Expenses**

Other operating expenses increased during the three months ended March 31, 2011 compared to 2010 primarily as a result of the previously mentioned legal matter. Without this accrual, other operating expenses would have decreased \$0.5 million.

**Change in Deferred Policy Acquisition Costs**

The change in DAC represents acquisition costs capitalized, net of amortization of existing DAC. The amortization of DAC is calculated in proportion to gross profits. The following table presents the components of change in DAC (in thousands):

|   | <b>Three months ended March 31,</b> |                  |                   |
|---|-------------------------------------|------------------|-------------------|
|   | <b>2011</b>                         | <b>2010</b>      | <b>Change</b>     |
| Acquisition cost capitalized                                      | \$ 35,537                           | \$ 31,154        | \$ 4,383          |
| Amortization of DAC   | (22,935)                            | (16,897)         | (6,038)           |
| <b>Change in deferred policy acquisition costs <sup>(1)</sup></b> | <b>\$ 12,602</b>                    | <b>\$ 14,257</b> | <b>\$ (1,655)</b> |

(1) A positive amount of net change indicates more expense was deferred than amortized and is a decrease to expense in the periods indicated.

An important measure of the Annuity segment is amortization of DAC as a percentage of gross profits. The amortization of DAC as a percentage of gross profits for the three months ended March 31, 2011, and 2010 was 52.2%, and 46.7%, respectively. The increase in the ratio was primarily driven by an increase in surrenders during the first quarter of 2011 compared to 2010.

**Table of Contents****Health**

The Health segment primarily focuses on supplemental and limited benefit coverage products including Medicare Supplement insurance for the aged population as well as hospital surgical and cancer policies for the general population. In 2011, premium volume was concentrated in our Medicare Supplement (44.5%) and medical expense (22.7%) lines. Our other health products include credit accident and health policies, stop loss, and dental coverage. Health products are distributed through our network of independent agents and Managing General Underwriters ( MGU ). Health segment results for the periods indicated were as follows (in thousands):

|  | <b>Three months ended March<br/>31,</b> |  |                   |                 |
|--|---|--|-------------------|-----------------|
|  | <b>2011</b>                             |  | <b>2010</b>       | <b>Change</b>   |
| <b>Premiums and other revenues:</b>                              |   |  |                   |                 |
| Premiums   | \$ 58,644                               |  | \$ 68,424         | \$ (9,780)      |
| Net investment income  | 3,416                                   |  | 4,054             | (638)           |
| Other income   | 2,917                                   |  | 2,336             | 581             |
| <b>Total premiums and other revenues</b>                         | <b>64,977</b>                           |  | <b>74,814</b>     | <b>(9,837)</b>  |
| <b>Benefits and expenses:</b>                                    |   |  |                   |                 |
| Claims incurred  | 41,607                                  |  | 52,839            | (11,232)        |
| Commissions for acquiring and servicing policies                 | 6,466                                   |  | 9,753             | (3,287)         |
| Other operating expenses   | 11,577                                  |  | 12,139            | (562)           |
| Change in deferred policy acquisition costs                      | 2,333                                   |  | 1,912             | 421             |
| <b>Total benefits and expenses</b>                               | <b>61,983</b>                           |  | <b>76,643</b>     | <b>(14,660)</b> |
| <b>Income (loss) before other items and federal income taxes</b> | <b>\$ 2,994</b>                         |  | <b>\$ (1,829)</b> | <b>\$ 4,823</b> |

Earnings improved for the three months ended March 31, 2011 compared to 2010, primarily as a result of reductions in claims incurred and a decrease in commissions. A decrease in premiums resulting from a reduction of in-force policies partially offsets the decreases in claims incurred and commissions.

**Premiums**

Health premiums for the periods indicated are as follows (in thousands, except percentages):

|                            | <b>Three months ended March 31,</b> |            |                 |            |
|----------------------------|-------------------------------------|------------|-----------------|------------|
|                            | <b>2011</b>                         |            | <b>2010</b>     |            |
|                            | <b>Premiums</b>                     |            | <b>Premiums</b> |            |
|                            | dollars                             | percentage | dollars         | percentage |
| Medicare Supplement        | \$ 26,100                           | 44.5%      | \$ 30,391       | 44.4%      |
| Medical expense            | 13,284                              | 22.6       | 18,874          | 27.6       |
| Group                      | 7,096                               | 12.1       | 7,099           | 10.4       |
| Credit accident and health | 5,142                               | 8.8        | 5,422           | 7.9        |
| MGU                        | 2,988                               | 5.1        | 2,174           | 3.2        |
| All other                  | 4,034                               | 6.9        | 4,464           | 6.5        |

|              |                  |               |                  |               |
|--------------|------------------|---------------|------------------|---------------|
| <b>Total</b> | <b>\$ 58,644</b> | <b>100.0%</b> | <b>\$ 68,424</b> | <b>100.0%</b> |
|--------------|------------------|---------------|------------------|---------------|

Earned premiums decreased during the three months ended March 31, 2011 compared to 2010, primarily due to the discontinuation of sales of our medical expense insurance plans effective June 30, 2010 and decreased sales of our Medicare Supplement product.



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Our in-force certificates or policies as of the dates indicated are as follows:

|                            | <b>Three months ended March 31,</b> |               |                |               |
|----------------------------|-------------------------------------|---------------|----------------|---------------|
|                            | <b>2011</b>                         |               | <b>2010</b>    |               |
|                            | number                              | percentage    | number         | percentage    |
| Medicare Supplement        | 45,071                              | 7.4%          | 56,891         | 9.2%          |
| Medical expense            | 9,828                               | 1.6           | 16,501         | 2.7           |
| Group                      | 16,584                              | 2.7           | 13,553         | 2.2           |
| Credit accident and health | 284,944                             | 46.6          | 300,481        | 48.4          |
| MGU                        | 106,009                             | 17.3          | 70,870         | 11.4          |
| All other                  | 149,624                             | 24.4          | 162,049        | 26.1          |
| <b>Total</b>               | <b>612,060</b>                      | <b>100.0%</b> | <b>620,345</b> | <b>100.0%</b> |

Our total in-force policies had a net decrease during the three months ended March 31, 2011 compared to 2010 primarily due to a decrease in the credit accident and health line as a result of a reduction in short-term furniture and finance company credit products sales. Management expects a decreasing trend on this product to continue into the near future. Also contributing to the decrease in the in-force policies were the reduction in Medicare Supplement sales resulting from current market conditions and a decrease in the medical expense line as a result of discontinuance of sales. These decreases were partially offset by an increase in the MGU line.

**Claims Incurred**

Claims incurred decreased during the three months ended March 31, 2011 compared to the same period in 2010. The decrease was primarily due to the discontinuance of sales of our medical expense insurance plan as well as the decrease in sales of our Medicare Supplement product.

**Commissions**

Commissions decreased for the three months ended March 31, 2011 as compared to the same period in 2010. The decrease was consistent with lower sales and lower commission products.

**Change in Deferred Policy Acquisition Costs**

The following table presents the components of the change in DAC (in thousands):

|   | <b>Three months ended March</b> |                   |                 |
|---|---------------------------------|-------------------|-----------------|
|   | <b>31,</b>                      |                   |                 |
|   | <b>2011</b>                     | <b>2010</b>       | <b>Change</b>   |
| Acquisition cost capitalized                                      | \$ 3,019                        | \$ 4,342          | \$ (1,323)      |
| Amortization of DAC   | (5,352)                         | (6,254)           | 902             |
| <b>Change in deferred policy acquisition costs <sup>(1)</sup></b> | <b>\$ (2,333)</b>               | <b>\$ (1,912)</b> | <b>\$ (421)</b> |

(1) A negative amount of net change indicates less expense was deferred than amortized and represents an increase to expenses in the periods indicated.

Acquisition cost capitalized decreased for the three months ended March 31, 2011 as compared to the same period in 2010. The decrease was due to the discontinuance of our medical expense line and the decline in sales of our Medicare Supplement product.



**Table of Contents****Property and Casualty**

Property and Casualty business is written through our Multiple-Line and Credit Insurance Division agents. Property and Casualty segment results for the periods indicated were as follows (in thousands, except percentages):

|  | <b>Three months ended March<br/>31,</b> |                    |                  |
|--|---|--------------------|------------------|
|  | <b>2011</b>                             | <b>2010</b>        | <b>Change</b>    |
| <b>Premiums and other revenues:</b>                              |   |                    |                  |
| Net premiums written   | \$ 290,261                              | \$ 292,748         | \$ (2,487)       |
| Net premiums earned  | \$ 291,314                              | \$ 286,472         | \$ 4,842         |
| Net investment income  | 18,066                                  | 18,851             | (785)            |
| Other income   | 1,944                                   | 2,038              | (94)             |
| <b>Total premiums and other revenues</b>                         | <b>311,324</b>                          | <b>307,361</b>     | <b>3,963</b>     |
| <b>Benefits and expenses:</b>                                    |   |                    |                  |
| Claims incurred  | 215,511                                 | 235,203            | (19,692)         |
| Commissions for acquiring and servicing policies                 | 52,922                                  | 52,722             | 200              |
| Other operating expenses   | 30,738                                  | 30,666             | 72               |
| Change in deferred policy acquisition costs                      | (232)                                   | 72                 | (304)            |
| <b>Total benefits and expenses</b>                               | <b>298,939</b>                          | <b>318,663</b>     | <b>(19,724)</b>  |
| <b>Income (loss) before other items and federal income taxes</b> | <b>\$ 12,385</b>                        | <b>\$ (11,302)</b> | <b>\$ 23,687</b> |
| Loss ratio   | 74.0%                                   | 82.1%              | (8.1)            |
| Underwriting expense ratio                                       | 28.6                                    | 29.1               | (0.5)            |
| Combined ratio   | <b>102.6%</b>                           | <b>111.2%</b>      | <b>(8.6)</b>     |
| Effect of net catastrophe losses on combined ratio               | 9.6%                                    | 13.4%              | (3.8)            |

The Property and Casualty segment results improved to a net gain during the three months ended March 31, 2011 compared to 2010 primarily due to improved underwriting results.

**Net Premiums Written and Earned**

Net premiums written remained relatively flat for the three months ended March 31, 2011 compared to 2010, primarily due to a slight decrease in our personal lines partially offset by an increase in our commercial and credit-related property product lines.

Net premiums earned increased during 2011 compared to 2010 primarily as a result of a \$6.7 million increase in our personal and commercial lines offset by a \$1.9 million decrease in our credit-related property product lines.

**Claims Incurred**

Claims incurred include losses and loss adjustment expenses ( LAE ) on property and casualty policies. Claims incurred decreased during the three months ended March 31, 2011 compared to 2010 across personal automobile, other

commercial, and agribusiness lines of business offset by an increase in the homeowner's line. The loss ratios have improved as a result of this favorable experience during the three months ended March 31, 2011 compared to the same period in 2010.

For the three months ended March 31, 2011, gross catastrophe losses decreased to \$37.0 million compared to \$41.3 million in 2010. Net catastrophe losses decreased to \$28.0 million from \$38.5 million, which included additional catastrophe reinsurance recovery in 2011 compared to 2010. The number of catastrophes for the three months ended March 31, 2011 increased to 8 compared to 7 during the same period in 2010. The catastrophe losses for the first quarter of 2011 were less severe compared to 2010.

Net catastrophe losses contributed to a 9.6% and 13.4% increase in the combined ratio during 2011, and 2010, respectively. We continue to evaluate and manage our aggregate catastrophe risk exposures. We manage our risk with targeted rate activity and reinsurance coverage where we believe it is cost efficient to do so.

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For the three months ended March 31, 2011, net favorable prior year loss and LAE development was \$25.4 million compared to \$26.6 million for the same period in 2010. This favorable development is being driven primarily by our personal auto and commercial liability lines which show better than expected loss emergence compared to what was implied by the loss development patterns used in the previous estimation of losses.

**Products**

Our Property and Casualty segment consists of three product lines: (i) Personal Lines, which we market primarily to individuals, represent 60.2% of net premiums written, (ii) Commercial Lines, which focus primarily on businesses engaged in agricultural and other targeted markets, represent 29.7% of net premiums written, and (iii) Credit-related property insurance products which are marketed to financial institutions and retailers and represent 10.1% of net premiums written.

**Personal Products**

Property and Casualty segment results for Personal Products for the periods indicated were as follows (in thousands, except percentages):

|                                     | <b>Three months ended March 31,</b> |                   |                 |
|-------------------------------------|-------------------------------------|-------------------|-----------------|
|                                     | <b>2011</b>                         | <b>2010</b>       | <b>Change</b>   |
| <b>Net premiums written</b>         |                                     |                   |                 |
| Auto                                | \$ 117,448                          | \$ 119,226        | \$ (1,778)      |
| Homeowner                           | 47,924                              | 48,987            | (1,063)         |
| Other Personal                      | 9,293                               | 10,268            | (975)           |
| <b>Total net premiums written</b>   | <b>174,665</b>                      | <b>178,481</b>    | <b>(3,816)</b>  |
| <b>Net premiums earned</b>          |                                     |                   |                 |
| Auto                                | 117,543                             | 113,568           | 3,975           |
| Homeowner                           | 55,474                              | 53,843            | 1,631           |
| Other Personal                      | 9,305                               | 9,447             | (142)           |
| <b>Total net premiums earned</b>    | <b>\$ 182,322</b>                   | <b>\$ 176,858</b> | <b>\$ 5,464</b> |
| <b>Loss ratio</b>                   |                                     |                   |                 |
| Auto                                | 67.5%                               | 76.7%             | (9.2)           |
| Homeowner                           | 95.6                                | 83.5              | 12.1            |
| Other Personal                      | 78.7                                | 60.8              | 17.9            |
| <b>Personal line loss ratio</b>     | <b>76.6%</b>                        | <b>77.9%</b>      | <b>(1.3)</b>    |
| <b>Combined Ratio</b>               |                                     |                   |                 |
| Auto                                | 88.5%                               | 98.5%             | (10.0)          |
| Homeowner                           | 120.4                               | 108.4             | 12.0            |
| Other Personal                      | 83.8                                | 68.7              | 15.1            |
| <b>Personal line combined ratio</b> | <b>98.0%</b>                        | <b>99.9%</b>      | <b>(1.9)</b>    |

*Personal Automobile:* Net premiums earned increased in our personal automobile line during the first three months of 2011 compared to the same period in 2010 due to rate increases implemented in prior years now being fully realized. On the other hand, net premiums written have declined as a result of a reduction in retention rates due to rate increases, competition and general economic conditions.

The loss and combined ratios have improved for the three months ended March 31, 2011 compared to the same period in 2010 primarily due rate increases.

*Homeowners:* Net premiums written and earned remained relatively flat during the three months ended March 31, 2011 compared to the same period in 2010.

The loss and combined ratios increased during the three months ended March 31, 2011 compared to the same period in 2010 due to an increase in catastrophe claims.

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*Other Personal:* This product line is comprised primarily of watercraft, rental-owner and umbrella coverages for individuals seeking to protect their personal property not covered within their homeowner and auto policies. Net premiums written and earned remained relatively level during the three months ended March 31, 2011 as compared to the same period in 2010. Premiums are trending commensurate with the production in the homeowners and personal automobile lines as policies are typically sold in conjunction with one another.

The loss and combined ratios increased during the three months ended March 31, 2011 compared to the same period in 2010 due to increased umbrella claims. As this is currently our smallest line of business in our Personal Products line, minor fluctuations in results can more easily cause volatility in these ratios.

**Commercial Products**

Property and Casualty segment results for Commercial Products for the periods indicated were as follows (in thousands, except percentages):

|                                       | <b>Three months ended March</b> |                  |                 |
|---------------------------------------|---------------------------------|------------------|-----------------|
|                                       | <b>31,</b>                      |                  |                 |
|                                       | <b>2011</b>                     | <b>2010</b>      | <b>Change</b>   |
| <b>Net premiums written</b>           |                                 |                  |                 |
| Other Commercial                      | \$ 35,858                       | \$ 34,431        | \$ 1,427        |
| Agribusiness                          | 24,301                          | 25,448           | (1,147)         |
| Auto                                  | 25,938                          | 25,613           | 325             |
| <b>Total net premiums written</b>     | <b>86,097</b>                   | <b>85,492</b>    | <b>605</b>      |
| <b>Net premiums earned</b>            |                                 |                  |                 |
| Other Commercial                      | 29,974                          | 29,493           | 481             |
| Agribusiness                          | 26,136                          | 26,268           | (132)           |
| Auto                                  | 22,134                          | 21,273           | 861             |
| <b>Total net premiums earned</b>      | <b>\$ 78,244</b>                | <b>\$ 77,034</b> | <b>\$ 1,210</b> |
| <b>Loss ratio</b>                     |                                 |                  |                 |
| Other Commercial                      | 62.9%                           | 97.1%            | (34.2)          |
| Agribusiness                          | 150.3                           | 182.7            | (32.4)          |
| Auto                                  | 54.8                            | 48.8             | 6.0             |
| <b>Commercial line loss ratio</b>     | <b>89.8%</b>                    | <b>112.9%</b>    | <b>(23.1)</b>   |
| <b>Combined ratio</b>                 |                                 |                  |                 |
| Other Commercial                      | 91.3%                           | 125.0%           | (33.7)          |
| Agribusiness                          | 184.4                           | 215.8            | (31.4)          |
| Auto                                  | 77.9                            | 73.8             | 4.1             |
| <b>Commercial line combined ratio</b> | <b>118.6%</b>                   | <b>141.8%</b>    | <b>(23.2)</b>   |

*Other Commercial:* Net premiums written and earned increased during the first three months of 2011 compared to the same period in 2010, primarily as a result of workers compensation rate increases in the New York and New Jersey markets implemented in the latter part of 2010 and the first quarter of 2011.

The loss and combined ratios improved during the first three months of 2011 compared to 2010, primarily as a result of a decrease in claims in our business-owner lines and less severe losses in the workers compensation product.

*Agribusiness Product:* Our agribusiness product allows policyholders to customize and combine their coverage for residential and household contents, buildings and building contents, farm personal property and liability. Net

premiums written decreased while net premiums earned remained relatively flat during the first three months of 2011 compared to 2010. This is primarily the result of rate increases offset by a decrease in policies in-force.

The loss and combined ratios decreased during the first three months of 2011 compared to 2010 primarily as a result of a decrease in catastrophe losses. We expect variability in this line, which is sensitive to the frequency and severity of storm and weather related losses.

*Commercial Automobile:* Net premiums written and earned remained stable during the first three months of 2011 compared to 2010 primarily as a result of reduced policies in-force offset by rate increases. The loss and combined ratios increased as a result of an increased frequency and severity of claims.



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***Credit Products***

Credit-related property insurance products are offered on automobiles, furniture, and appliances in connection with the financing of those items. These policies pay an amount if the insured property is lost or damaged and is not directly related to an event affecting the consumer's ability to pay the debt. The primary distribution channel for credit-related property insurance is general agents who market to auto dealers, furniture stores and financial institutions.

Net premiums written increased to \$29.5 million for the first three months of 2011 compared to \$28.8 million for the same period in 2010. Net premiums earned decreased to \$30.7 million, from \$32.6 million for the three months ended March 31, 2011 and 2010, respectively. The primary driver for the increase in net premiums written, while net premiums earned decreased, was the continued shift in our product mix from shorter duration Collateral Protection products, which fell 6.0%, to our longer duration Guaranteed Asset Protection ( GAP ) products, which increased 32.1%. Shorter duration products generally earn out premiums within 12 months from the effective date, while our longer duration products may take up to 84 months before they are fully earned.

The loss ratios decreased to 18.2% from 31.8% during the three months ended March 31, 2011 compared to 2010.

This decrease is attributable to an overall decline in claims incurred as a result of lower frequency and severity of claims. Specifically, the GAP line of business experienced a positive trend in claims incurred as a result of automobile fair values rebounding from the recent financial crisis. The combined ratios decreased to 90.0% from 100.4% during the first three months of 2011 compared to 2010.

**Table of Contents****Corporate and Other**

Our Corporate and Other segment primarily includes the capital not allocated to support our insurance business segments. Our capital and surplus is invested and managed by internal investment staff. Investments include publicly traded equities, real estate, mortgage loans, high-yield bonds, venture capital partnerships, mineral interests and tax-advantaged instruments. See the *Investments* section of the MD&A for a more detailed discussion of our investments.

Segment financial results for the periods indicated were as follows (in thousands):

|   | <b>Three months ended March</b> |                  |                 |
|---|---------------------------------|------------------|-----------------|
|   | <b>31,</b>                      |                  |                 |
|   | <b>2011</b>                     | <b>2010</b>      | <b>Change</b>   |
| <b>Premiums and other revenues:</b>                       |                                 |                  |                 |
| Net investment income                                     | \$ 10,623                       | \$ 11,204        | \$ (581)        |
| Realized gains on investments                             | 22,031                          | 16,502           | 5,529           |
| Other income  | 568                             | 628              | (60)            |
| <b>Total premiums and other revenues</b>                  | <b>33,222</b>                   | <b>28,334</b>    | <b>4,888</b>    |
| <b>Expenses:</b>  |                                 |                  |                 |
| Other operating expenses                                  | 11,983                          | 10,932           | 1,051           |
| <b>Total expenses</b>                                     | <b>11,983</b>                   | <b>10,932</b>    | <b>1,051</b>    |
| <b>Income before other items and federal income taxes</b> | <b>\$ 21,239</b>                | <b>\$ 17,402</b> | <b>\$ 3,837</b> |

Earnings for the three months ended March 31, 2011 improved compared to the same period in 2010. This was primarily due to the increase in realized gains on investments as a result of improved financial markets.

**Investments****General**

We manage our investment portfolio to optimize the rate of return that is commensurate with sound and prudent underwriting practices and to maintain a well-diversified portfolio. Our investment operations are governed by various regulatory authorities, including but not limited to, the state insurance departments where we or our insurance subsidiaries are domiciled. Investment activities, including the setting of investment policies and defining acceptable risk levels, are subject to review and approval by our Finance Committee, made up of two members of the Board of Directors, senior executives and investment professionals.

Our insurance and annuity products are primarily supported by investment-grade bonds, collateralized mortgage obligations, and commercial mortgage loans. We purchase fixed maturity securities and designate them as either held-to-maturity or available-for-sale as necessary to match our estimated future cash flow needs. We use statistical measures, such as duration and the modeling of future cash flows using stochastic interest rate scenarios, to balance our investment portfolio to match the pricing objectives of our underlying insurance products. As part of our asset-liability management program, we monitor the composition of our fixed maturity securities between held-to-maturity and available-for-sale securities and adjust the concentrations within the portfolio as investments mature or with the purchase of new investments.

We invest directly in quality commercial mortgage loans when the yield and quality compare favorably with other fixed maturity securities. Investments in individual residential mortgage loans have not been part of our investment portfolio, and we do not anticipate investing in them in the future.

Our strong historic capitalization has enabled us to invest in equity securities and investment real estate where there are opportunities for enhanced returns. We invest in real estate and equity securities based on a risk and reward analysis.

**Table of Contents****Composition of Invested Assets**

The following summarizes the carrying values of our invested assets by asset class (other than investments in unconsolidated affiliates), (in thousands, except percentages):

|   | <b>March 31, 2011</b> |               | <b>December 31, 2010</b> |               |
|---|-----------------------|---------------|--------------------------|---------------|
|   | Amount                | Percent       | Amount                   | Percent       |
| Bonds held-to-maturity, at amortized cost   | \$ 8,955,317          | 48.3%         | \$ 8,513,550             | 47.5%         |
| Bonds available-for-sale, at fair value     | 4,174,498             | 22.5          | 4,123,613                | 23.0          |
| Equity Securities                           | 1,118,203             | 6.0           | 1,082,755                | 6.0           |
| Mortgage loans at amortized cost            | 2,816,832             | 15.2          | 2,679,909                | 15.0          |
| Policy loans, at outstanding balance        | 383,480               | 2.1           | 380,505                  | 2.1           |
| Investment real estate, net of depreciation | 513,901               | 2.8           | 521,768                  | 2.9           |
| Short-term investments                      | 461,069               | 2.5           | 486,206                  | 2.7           |
| Other invested assets                       | 122,718               | 0.6           | 119,251                  | 0.8           |
| <b>Total Invested Assets</b>                | <b>\$ 18,546,018</b>  | <b>100.0%</b> | <b>\$ 17,907,557</b>     | <b>100.0%</b> |

The increase in our total invested assets was primarily a result of net purchases.

Each of the components of our invested assets is described further in Note 4, Investments; Note 7, Credit Risk Management; and Note 8, Fair Value of Financial Instruments, of the Notes to the Consolidated Financial Statements. In addition, net investment income and realized investments gains (losses), before federal income taxes, are summarized within Note 4, Investments, of the Notes to the Consolidated Financial Statements.

Additionally, Note 2, Summary of Significant Accounting Policies and Practices, of the Notes to the Consolidated Financial Statements within our Annual Report on Form 10-K for the year ended December 31, 2010 filed with the SEC on March 2, 2011 contains a detailed description of the Company's methodology for evaluating other-than-temporary impairment losses on its investments.

**Investments to Support Our Insurance Business**

**Bonds-** We allocate most of our fixed maturity securities to support our insurance business.

At March 31, 2011, our fixed maturity securities had an estimated fair market value of \$13.6 billion, which was \$663.4 million (5.1%) above amortized cost. At December 31, 2010, our fixed maturity securities had an estimated fair market value of \$13.1 billion, which was \$664.6 million (5.3%) above amortized cost. The increase in total fair market value was the result of new purchases to support annuity sales as well as market value increases.

Fixed maturity securities' estimated fair value, due in one year or less, increased to \$820.7 million as of March 31, 2011 from \$685.3 million as of December 31, 2010, primarily as a result of approaching maturity dates of long-term bonds.

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The following table identifies the total bonds by credit quality rating, using both S&P and Moody's ratings (in thousands, except percentages):

|              | March 31, 2011       |                      |                 | December 31, 2010    |                      |                 |
|--------------|----------------------|----------------------|-----------------|----------------------|----------------------|-----------------|
|              | Amortized Cost       | Estimated Fair Value | % of Fair Value | Amortized Cost       | Estimated Fair Value | % of Fair Value |
| AAA          | \$ 1,272,777         | \$ 1,323,943         | 9.8%            | \$ 1,258,952         | \$ 1,311,152         | 10.0%           |
| AA           | 1,341,352            | 1,387,303            | 10.2            | 1,289,870            | 1,343,653            | 10.2            |
| A            | 4,685,820            | 4,968,545            | 36.6            | 4,551,294            | 4,848,986            | 37.0            |
| BBB          | 4,929,071            | 5,192,670            | 38.2            | 4,613,315            | 4,871,583            | 37.2            |
| BB and below | 690,551              | 710,517              | 5.2             | 725,436              | 728,073              | 5.6             |
| <b>Total</b> | <b>\$ 12,919,571</b> | <b>\$ 13,582,978</b> | <b>100.0%</b>   | <b>\$ 12,438,867</b> | <b>\$ 13,103,447</b> | <b>100.0%</b>   |

The slight shifts in our credit quality diversification, including exposure to below investment grade securities, at March 31, 2011 compared to December 31, 2010, was primarily the result of purchase transactions and maturities. At 5.2% of our total bond portfolio, the exposure to below investment grade securities is acceptable to management, and we expect this portion of our bond portfolio to decrease as these bonds approach maturity.

**Mortgage Loans-** We invest in commercial mortgage loans that are diversified by property-type and geography. We do not make individual residential mortgage loans. Therefore, we have no direct exposure to sub-prime or Alt A mortgage loans in the mortgage loan portfolio. Generally, mortgage loans are secured by first liens on income-producing real estate with a loan-to-value ratio of up to 75%. Mortgage loans are used to support our insurance liabilities. Mortgage loans held-for-investment are carried at outstanding principal balances, adjusted for any unamortized premium or discount, deferred fees or expenses, and net of allowances.

The weighted average coupon yield on the principal funded for mortgage loans was 6.3% and 6.8% for the three months ended March 31, 2011 and year ended December 31, 2010, respectively.

**Equity Securities-** As of March 31, 2011, 96.5% of our equity securities were invested in publicly traded (on a national U.S. stock exchange) common stock. The remaining 3.5% of the equity portfolio was invested in publicly traded preferred stock. As of December 31, 2010, 96.6% of our equity securities were invested in publicly traded common stock, and the remaining 3.4% were invested in publicly traded preferred stock. The increase in the fair value of our equity securities during the first three months of 2011 reflects purchases and market value increases within the portfolio.

We carry our equity portfolio at fair value based on quoted estimated fair value prices obtained from external pricing services. The cost and estimated market value of the equity portfolio are as follows (in thousands):

|                 | Three months ended March 31, 2011 |                   |                   |                      |
|-----------------|-----------------------------------|-------------------|-------------------|----------------------|
|                 | Cost                              | Unrealized Gains  | Unrealized Losses | Estimated Fair Value |
| Common stock    | \$ 688,586                        | \$ 396,086        | \$ (5,969)        | \$ 1,078,703         |
| Preferred stock | 30,958                            | 8,576             | (34)              | 39,500               |
| <b>Total</b>    | <b>\$ 719,544</b>                 | <b>\$ 404,662</b> | <b>\$ (6,003)</b> | <b>\$ 1,118,203</b>  |

| Year ended December 31, 2010 |            |            |           |
|------------------------------|------------|------------|-----------|
|                              | Unrealized | Unrealized | Estimated |

|                 | <b>Cost</b>       | <b>Gains</b>      | <b>Losses</b>     | <b>Fair Value</b>   |
|-----------------|-------------------|-------------------|-------------------|---------------------|
| Common stock    | \$ 690,245        | \$ 361,048        | \$ (5,405)        | \$ 1,045,888        |
| Preferred stock | 30,420            | 6,714             | (267)             | 36,867              |
| <b>Total</b>    | <b>\$ 720,665</b> | <b>\$ 367,762</b> | <b>\$ (5,672)</b> | <b>\$ 1,082,755</b> |

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**Investment Real Estate-** We invest in commercial real estate with positive cash flows or where appreciation in value is expected. Real estate may be owned directly by our insurance companies, through non-insurance affiliates or joint ventures. The carrying value of real estate is stated at cost, less accumulated depreciation, and valuation allowance. Depreciation is provided over the estimated useful lives of the properties.

**Short-Term Investments-** Short-term investments are composed primarily of commercial paper rated A2/P2 or better by Standard & Poor's and Moody's, respectively. The amount fluctuates depending on the available long-term investment opportunities and our liquidity needs, including investment-funding commitments.

**Policy Loans-** Certain life insurance products we offer permit policyholders to borrow funds from us using their policy as collateral. The maximum amount of the policy loan depends upon the policy's surrender value and the number of years since policy origination. As of March 31, 2011 we had \$383.5 million in policy loans with a loan to surrender value of 59.0%, and at December 31, 2010, we had \$380.5 million in policy loans with a loan to surrender value of 61.2%. Interest rates on policy loans primarily range from 4.5% to 8.0% per annum.

Policy loans may be repaid at any time by the policyholder and have priority to any claims on the policy. If the policyholder fails to repay the policy loan, funds are withdrawn from the policy's death benefits.

**Net Investment Income and Realized Gains (Losses)**

Net investment income from bonds and mortgage loans used to support our insurance products increased consistently over the period as assets increased with net annuity sales and policyholder benefits each year. Net investment income in other asset classes (equities and real estate) fluctuated in response to investment decisions based on valuations and financial markets movement.

Mortgage loan interest income is accrued on the principal amount of the loan based on the loan's contractual interest rate. Amortization of premiums and discounts is recorded using the effective yield method. Interest income, amortization of premiums and discounts, and prepayment fees are reported in net investment income. Interest income earned on impaired loans is accrued on the principal amount of the loan based on the loan's contractual interest rate. However, interest ceases to be accrued for loans on which interest is generally more than 90 days past due or when the collection of interest is not considered probable. Loans in foreclosure are placed on non-accrual status. Interest received on non-accrual status mortgage loans is included in net investment income in the period received.

**Unrealized Gains and Losses:**

The net change in unrealized gains (losses) on marketable securities, as presented in the stockholders' equity section of the consolidated statements of financial position, was an unrealized gain of \$25.8 million at March 31, 2011 and \$109.0 million at December 31, 2010.

**Discontinued Operations**

On December 31, 2010, the Company sold its wholly-owned broker-dealer subsidiary, Securities Management & Research, Inc. (SM&R). Pursuant to a stock purchase agreement we agreed to sell all of the outstanding capital stock of SM&R to a third-party financial services corporation. The sale qualified for discontinued operations accounting and accordingly, the results of operations for this subsidiary are presented as discontinued operations in our consolidated statements of operations for all periods presented. The sale resulted in a \$1,000,000 loss before taxes for year end 2010. SM&R had previously been a component of the Corporate and Other business segment.

**Table of Contents****Liquidity**

Our liquidity requirements have been and are expected to continue to be met by funds from operations. Current and expected patterns of claim frequency and severity may change from period to period but continue to be within historical norms. Management considers our current liquidity position to be sufficient to meet anticipated demands over the next twelve months.

To ensure that we will be able to continue to pay future commitments, the funds received as premium payments and deposits are invested in high quality investments, primarily fixed maturity securities and individual commercial mortgages. Funds are invested with the intent that income from the investments and proceeds from the maturities will meet our ongoing cash flow needs. We historically have not had to liquidate invested assets in order to cover cash flow needs; however, our portfolio of highly liquid marketable debt and equity securities are available to meet our liquidity needs.

In September 2010, we renewed a 365-day \$100 million short-term variable rate borrowing facility containing a \$55 million subfeature for the issuance of letters of credit. Borrowings under the facility are at the discretion of the lender and would be used only for funding our working capital requirements. The combination of borrowings and outstanding letters of credit cannot exceed \$100 million at any time. As of March 31, 2011 and December 31, 2010, the outstanding letters of credit were \$36.6 million and \$37.5 million, respectively, and there were no borrowings on this facility to meet liquidity requirements.

**Capital Resources**

Our capital resources consisted of American National stockholders' equity, summarized as follows (in thousands):

|  | <b>March 31,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|--|---------------------------|------------------------------|
| American National stockholders' equity, excluding accumulated other comprehensive income (loss), net of tax ( AOCI ) | \$ 3,436,222              | \$ 3,407,439                 |
| AOCI   | 251,101                   | 225,212                      |
| <b>Total American National stockholders' equity</b>  | <b>\$ 3,687,323</b>       | <b>\$ 3,632,651</b>          |

We have notes payable in our consolidated statements of financial position that are not part of our capital resources. These notes payable represent amounts borrowed by real estate joint ventures that we consolidate into our financial statements. The lenders for the notes payable have no recourse against us in the event of default by the joint ventures. Therefore, the only amount of liability we have for these notes payable is limited to our investment in the respective venture, which totaled \$21.2 million at March 31, 2011 and December 31, 2010.

Total stockholders' equity in the first three months of 2011 increased primarily due to the \$48.5 million net income earned during the period and \$25.8 million unrealized gains on available-for-sale securities, offset by \$20.7 million in dividends paid to stockholders.

**Statutory Surplus and Risk-based Capital**

Statutory surplus represents the capital of our insurance companies reported in accordance with accounting practices prescribed or permitted by the applicable state insurance departments. State laws specify regulatory actions if an insurer's risk-based capital ( RBC ), a measure of an insurer's solvency, falls below certain levels. The National Association of Insurance Commissioners ( NAIC ) has standard formulas for annually assessing RBC, which seek to identify companies that are undercapitalized.

The RBC formula for life companies establishes capital requirements relating to insurance, business, asset and interest rate risks, as well as the equity, interest rate and expense recovery risks associated with variable and group annuities that contain death benefits or certain living benefits.





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RBC is calculated for property and casualty companies after adjusting capital for certain underwriting, asset, credit and off-balance sheet risks. The achievement of long-term growth will require growth in the statutory capital of our insurance subsidiaries. Our subsidiaries may obtain additional statutory capital through various sources, such as retained statutory earnings or equity contributions from us. As of December 31, 2010, the levels of our and our insurance subsidiaries' surplus and RBC exceeded the NAIC's minimum RBC requirements.

**Contractual Obligations**

Our future cash payments associated with claims and claims adjustment expenses, life, annuity and disability obligations, contractual obligations pursuant to operating leases for office space and equipment, and notes payable have not materially changed since December 31, 2010. We expect to have the capacity to repay and/or refinance these obligations as they come due.

**Off-Balance Sheet Arrangements**

We have off-balance sheet arrangements relating to third-party marketing operation bank loans discussed within Note 16, Commitments and Contingencies, of the Notes to the Consolidated Financial Statements. We could be exposed to a liability for these loans which support the cash value of the underlying insurance contracts. However, since the cash value of the life insurance policies is designed to always equal or exceed the balance of the loans, management does not foresee any loss related to these arrangements.

**Related-Party Transactions**

We have various agency, consulting and investment arrangements with individuals and corporations that are considered to be related parties. Each of these arrangements has been reviewed and approved by our Audit Committee. The total amount involved in these arrangements, both individually and in the aggregate, is not material to any segment or to our overall operations. For additional details see Note 18, Related Party Transactions, of the Notes to the Consolidated Financial Statements.

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**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our market risks have not changed materially from those disclosed in our 2010 Annual Report on Form 10-K filed with the SEC on March 2, 2011.

**ITEM 4. CONTROLS AND PROCEDURES**

The Company maintains disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act)) that are designed to ensure that information required to be disclosed in the Company's reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Corporate Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. The Company's management, with the participation of the Company's Chief Executive Officer and Corporate Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of March 31, 2011. Based upon that evaluation and subject to the foregoing, the Company's Chief Executive Officer and Corporate Chief Financial Officer concluded that, as of March 31, 2011, the design and operation of the Company's disclosure controls and procedures were effective to accomplish their objectives at the reasonable assurance level.

Management has monitored the internal controls over financial reporting, including any material changes to the internal control over financial reporting. There were no changes in the Company's internal control over financial reporting (as that term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

Information required for Item 1 is incorporated by reference to the discussion under the heading "Litigation" in Note 16, Commitments and Contingencies, of the Notes to the Consolidated Financial Statements.

**ITEM 1A. RISK FACTORS**

There have been no material changes with respect to the risk factors as previously disclosed in our 2010 Annual Report on Form 10-K filed with the SEC on March 2, 2011.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. REMOVED AND RESERVED**

**ITEM 5. OTHER INFORMATION**

None.

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**ITEM 6. EXHIBITS**

(a) Exhibits

| Exhibit Number: | Basic Documents:   |
|-----------------|--|
| 3.1             | Articles of Incorporation (incorporated by reference to Exhibit No. 3.1 to the registrant's Registration Statement on Form 10-12B filed April 10, 2009)                                |
| 3.2             | Bylaws (incorporated by reference to Exhibit No. 3.2 to the registrant's Current Report on Form 8-K filed May 4, 2011)   |
| 10.1            | Form of Restricted Stock Unit Agreement for Officers under the American National Insurance Company Amended and Restated 1999 Stock and Incentive Plan (the "Stock and Incentive Plan") |
| 10.2            | Form of Restricted Stock Unit Agreement for Directors under the Stock and Incentive Plan.  |
| 31.1            | Certification of the principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 31.2            | Certification of the principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 32.1            | Certification of the principal executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |
| 32.2            | Certification of the principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

By: /s/ Robert L. Moody  
Name: Robert L. Moody  
Title: Chairman of the Board & Chief Executive Officer

By: /s/ John J. Dunn, Jr.  
Name: John J. Dunn, Jr.,  
Title: *Corporate Chief Financial Officer*