

AMERICAN NATIONAL INSURANCE CO /TX/

Form 10-Q

November 05, 2010

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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 September 30, 2010**

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number: 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 number)*

**One Moody Plaza**

**Galveston, Texas**

*(Address of principal executive offices)*

**77550-7999**

*(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 (§232.405 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 the 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 October 31, 2010, the registrant had 26,820,166 shares of common stock, \$1.00 par value per share, outstanding.

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

|                                                                                                                                         | <b>Three Months Ended September 30,</b> |                | <b>Nine Months Ended September 30,</b> |                  |
|-----------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------|----------------|----------------------------------------|------------------|
|                                                                                                                                         | <b>2010</b>                             | <b>2009</b>    | <b>2010</b>                            | <b>2009</b>      |
| <b>PREMIUMS AND OTHER REVENUE</b>                                                                                                       |                                         |                |                                        |                  |
| Premiums                                                                                                                                |                                         |                |                                        |                  |
| Life                                                                                                                                    | \$ 71,352                               | \$ 76,320      | \$ 209,670                             | \$ 211,638       |
| Annuity                                                                                                                                 | 51,180                                  | 58,284         | 132,140                                | 149,141          |
| Accident and health                                                                                                                     | 64,288                                  | 74,428         | 200,553                                | 224,001          |
| Property and casualty                                                                                                                   | 297,703                                 | 298,073        | 871,672                                | 866,989          |
| Other policy revenues                                                                                                                   | 46,342                                  | 45,292         | 138,066                                | 133,740          |
| Net investment income                                                                                                                   | 238,081                                 | 222,192        | 667,964                                | 629,880          |
| Realized investments gains (losses)                                                                                                     | 22,135                                  | 3,252          | 56,696                                 | (2,768)          |
| Other-than-temporary impairments                                                                                                        | (3,509)                                 | (4,187)        | (6,259)                                | (78,335)         |
| Other income                                                                                                                            | 2,884                                   | 3,214          | 13,227                                 | 17,533           |
| <b>Total revenues</b>                                                                                                                   | <b>790,456</b>                          | <b>776,868</b> | <b>2,283,729</b>                       | <b>2,151,819</b> |
| <b>BENEFITS, LOSSES AND EXPENSES</b>                                                                                                    |                                         |                |                                        |                  |
| Policy Benefits                                                                                                                         |                                         |                |                                        |                  |
| Life                                                                                                                                    | 73,402                                  | 75,865         | 220,408                                | 222,131          |
| Annuity                                                                                                                                 | 56,963                                  | 63,776         | 155,100                                | 170,584          |
| Accident and health                                                                                                                     | 43,140                                  | 57,217         | 141,330                                | 178,983          |
| Property and casualty                                                                                                                   | 208,893                                 | 222,196        | 702,070                                | 714,041          |
| Interest credited to policy account balances                                                                                            | 110,871                                 | 98,252         | 284,797                                | 275,554          |
| Commissions for acquiring and servicing policies                                                                                        | 120,408                                 | 114,144        | 343,185                                | 341,734          |
| Other operating costs and expenses                                                                                                      | 110,951                                 | 124,875        | 333,841                                | 349,494          |
| Increase in deferred policy acquisition costs                                                                                           | (13,806)                                | (14,351)       | (46,815)                               | (48,380)         |
| <b>Total benefits, losses and expenses</b>                                                                                              | <b>710,822</b>                          | <b>741,974</b> | <b>2,133,916</b>                       | <b>2,204,141</b> |
| <b>Income (loss) from continuing operations before federal income tax, and equity in earnings (losses) of unconsolidated affiliates</b> |                                         |                |                                        |                  |
|                                                                                                                                         | <b>79,634</b>                           | <b>34,894</b>  | <b>149,813</b>                         | <b>(52,322)</b>  |
| Provision (benefit) for federal income taxes                                                                                            |                                         |                |                                        |                  |

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|                                                                                               |                  |                  |                   |                    |
|-----------------------------------------------------------------------------------------------|------------------|------------------|-------------------|--------------------|
| Current                                                                                       | 29,162           | 4,516            | 48,690            | (20,559)           |
| Deferred                                                                                      | 2,095            | (1,338)          | (4,110)           | (17,313)           |
| Total provision (benefit) for federal income taxes                                            | 31,257           | 3,178            | 44,580            | (37,872)           |
| Equity in earnings (losses) of unconsolidated affiliates, net of tax                          | (144)            | 2,110            | (75)              | (3,007)            |
| Income (loss) from continuing operations                                                      | 48,233           | 33,826           | 105,158           | (17,457)           |
| Income (loss) from discontinued operations, net of income tax expense (benefit) (See Note 16) | (513)            | 122              | 1,488             | (1,214)            |
| <b>Net income (loss)</b>                                                                      | <b>47,720</b>    | <b>33,948</b>    | <b>106,646</b>    | <b>(18,671)</b>    |
| Less: Net income (loss) attributable to noncontrolling interest                               | 664              | 1,248            | (1,810)           | 679                |
| <b>Net income (loss) attributable to American National Insurance Company and Subsidiaries</b> | <b>\$ 47,056</b> | <b>\$ 32,700</b> | <b>\$ 108,456</b> | <b>\$ (19,350)</b> |
| <b>Amounts available to American National Insurance Company common stockholders</b>           |                  |                  |                   |                    |
| Earnings (loss) per share:                                                                    |                  |                  |                   |                    |
| Basic                                                                                         | \$ 1.77          | \$ 1.23          | \$ 4.08           | \$ (0.73)          |
| Diluted                                                                                       | \$ 1.76          | \$ 1.23          | \$ 4.07           | \$ (0.73)          |
| Weighted average common shares outstanding                                                    | 26,558,832       | 26,528,832       | 26,558,832        | 26,518,832         |
| Weighted average common shares outstanding and dilutive potential common shares               | 26,678,394       | 26,571,368       | 26,678,394        | 26,518,832         |
| <i>See accompanying notes to the 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>September 30,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|------------------------------------------------------------------------------------|-------------------------------|------------------------------|
| <b>ASSETS</b>                                                                      |                               |                              |
| Investments, other than investments in unconsolidated affiliates                   |                               |                              |
| Fixed Securities:                                                                  |                               |                              |
| Bonds held-to-maturity                                                             | \$ 8,006,389                  | \$ 7,461,711                 |
| Bonds available-for-sale                                                           | 4,349,356                     | 4,213,550                    |
| Equity securities:                                                                 |                               |                              |
| Preferred stocks                                                                   | 38,850                        | 35,717                       |
| Common stocks                                                                      | 973,505                       | 934,754                      |
| Mortgage loans on real estate, net of allowance                                    | 2,429,663                     | 2,229,659                    |
| Policy loans                                                                       | 374,391                       | 364,354                      |
| Investment real estate, net of accumulated depreciation of \$230,932 and \$209,115 | 688,910                       | 635,110                      |
| Short-term investments                                                             | 775,014                       | 636,823                      |
| Other invested assets                                                              | 111,701                       | 94,442                       |
| <br>Total investments                                                              | <br>17,747,779                | <br>16,606,120               |
| Cash                                                                               | 164,829                       | 161,483                      |
| Investments in unconsolidated affiliates                                           | 166,870                       | 156,809                      |
| Accrued investment income                                                          | 206,069                       | 191,737                      |
| Reinsurance ceded receivables                                                      | 367,179                       | 371,654                      |
| Prepaid reinsurance premiums                                                       | 47,314                        | 53,545                       |
| Premiums due and other receivables                                                 | 301,377                       | 282,865                      |
| Deferred policy acquisition costs                                                  | 1,297,733                     | 1,330,981                    |
| Property and equipment, net                                                        | 81,418                        | 88,705                       |
| Current federal income taxes                                                       | 16,272                        | 29,474                       |
| Deferred federal income taxes                                                      |                               | 5,034                        |
| Other assets                                                                       | 146,664                       | 152,722                      |
| Separate account assets                                                            | 739,752                       | 718,378                      |
| Assets held-for-sale                                                               | 12,886                        |                              |
| <br><b>Total assets</b>                                                            | <br><b>\$ 21,296,142</b>      | <br><b>\$ 20,149,507</b>     |
| <br><b>LIABILITIES</b>                                                             |                               |                              |
| Policyholder funds                                                                 |                               |                              |
| Future policy benefits:                                                            |                               |                              |
| Life                                                                               | \$ 2,525,389                  | \$ 2,485,886                 |
| Annuity                                                                            | 845,186                       | 783,065                      |
| Accident and health                                                                | 92,252                        | 97,407                       |
| Policy account balances                                                            | 10,306,550                    | 9,567,860                    |
| Policy and contract claims                                                         | 1,297,922                     | 1,293,791                    |
| Participating policyholder share                                                   | 174,396                       | 162,794                      |
| Other policyholder funds                                                           | 927,186                       | 919,864                      |

|                                                                                                              |                      |                      |
|--------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| Total policyholder liabilities                                                                               | 16,168,881           | 15,310,667           |
| Liability for retirement benefits                                                                            | 181,959              | 180,909              |
| Notes payable                                                                                                | 73,052               | 73,842               |
| Deferred federal income taxes                                                                                | 48,524               |                      |
| Other liabilities                                                                                            | 463,805              | 393,302              |
| Separate account liabilities                                                                                 | 739,752              | 718,378              |
| Liabilities held-for-sale                                                                                    | 1,970                |                      |
| <b>Total liabilities</b>                                                                                     | <b>17,677,943</b>    | <b>16,677,098</b>    |
| <b>STOCKHOLDERS' EQUITY</b>                                                                                  |                      |                      |
| Common stock, \$1.00 par value    Authorized 50,000,000, Issued 30,832,449,<br>Outstanding 26,820,166 shares | 30,832               | 30,832               |
| Additional paid-in capital                                                                                   | 14,346               | 11,986               |
| Accumulated other comprehensive income                                                                       | 217,463              | 117,649              |
| Retained earnings                                                                                            | 3,444,993            | 3,398,492            |
| Treasury stock, at cost, 4,012,283 shares                                                                    | (98,505)             | (98,505)             |
| Total American National stockholders' equity                                                                 | 3,609,129            | 3,460,454            |
| Noncontrolling interest                                                                                      | 9,070                | 11,955               |
| <b>Total stockholders' equity</b>                                                                            | <b>3,618,199</b>     | <b>3,472,409</b>     |
| <b>Total liabilities and stockholders' equity</b>                                                            | <b>\$ 21,296,142</b> | <b>\$ 20,149,507</b> |

*See accompanying notes to the 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>Nine Months Ended September<br/>30,</b> |             |
|----------------------------------------------------------------------------------------|--------------------------------------------|-------------|
|                                                                                        | <b>2010</b>                                | <b>2009</b> |
| <b>Common Stock</b>                                                                    |                                            |             |
| Balance at beginning and end of the period                                             | \$ 30,832                                  | \$ 30,832   |
| <b>Additional Paid-In Capital</b>                                                      |                                            |             |
| Balance at beginning of the year                                                       | 11,986                                     | 7,552       |
| Issuance of treasury shares as restricted stock                                        |                                            | 179         |
| Tax benefit on excess restricted stock                                                 |                                            | 439         |
| Amortization of restricted stock                                                       | 2,360                                      | 3,136       |
| Balance as of September 30,                                                            | 14,346                                     | 11,306      |
| <b>Accumulated Other Comprehensive Income</b>                                          |                                            |             |
| Balance at beginning of the year                                                       | 117,649                                    | (221,148)   |
| Change in unrealized gains on marketable securities, net                               | 99,612                                     | 377,196     |
| Cumulative effect of change in accounting                                              |                                            | (50,411)    |
| Foreign exchange adjustments                                                           | 69                                         | 539         |
| Minimum pension liability adjustment                                                   | 133                                        | 2,654       |
| Balance as of September 30,                                                            | 217,463                                    | 108,830     |
| <b>Retained Earnings</b>                                                               |                                            |             |
| Balance at beginning of the year                                                       | 3,398,492                                  | 3,414,946   |
| Net income (loss) attributable to American National Insurance Company and Subsidiaries | 108,456                                    | (19,350)    |
| Cash dividends to common stockholders (\$2.31 and \$2.31 per share)                    | (61,955)                                   | (61,839)    |
| Cumulative effect of change in accounting                                              |                                            | 50,411      |
| Balance as of September 30,                                                            | 3,444,993                                  | 3,384,168   |
| <b>Treasury Stock</b>                                                                  |                                            |             |
| Balance at beginning of the year                                                       | (98,505)                                   | (98,326)    |
| Net issuance of restricted stock                                                       |                                            | (179)       |
| Balance as of September 30,                                                            | (98,505)                                   | (98,505)    |

**Noncontrolling Interest**

|                                                     |         |        |
|-----------------------------------------------------|---------|--------|
| Balance at beginning of the year                    | 11,955  | 8,377  |
| Contributions                                       | 843     | 817    |
| Distributions                                       | (944)   | (87)   |
| Gain (loss) attributable to noncontrolling interest | (2,784) | 1,044  |
| Balance as of September 30,                         | 9,070   | 10,151 |

**Total Equity**

|                             |              |              |
|-----------------------------|--------------|--------------|
| Balance as of September 30, | \$ 3,618,199 | \$ 3,446,782 |
|-----------------------------|--------------|--------------|

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Unaudited and in thousands)

|                                                                                                                      | <b>Three Months Ended<br/>September 30,</b> |                   | <b>Nine Months Ended September<br/>30,</b> |                   |
|----------------------------------------------------------------------------------------------------------------------|---------------------------------------------|-------------------|--------------------------------------------|-------------------|
|                                                                                                                      | <b>2010</b>                                 | <b>2009</b>       | <b>2010</b>                                | <b>2009</b>       |
| Net income (loss) attributable to<br>American National Insurance Company<br>and Subsidiaries                         | \$ 47,056                                   | \$ 32,700         | \$ 108,456                                 | \$ (19,350)       |
| Other comprehensive income, net of tax                                                                               |                                             |                   |                                            |                   |
| Change in unrealized gains on marketable<br>securities, net                                                          | 103,635                                     | 171,551           | 99,612                                     | 377,196           |
| Foreign exchange adjustments                                                                                         | 137                                         | 1,315             | 69                                         | 539               |
| Minimum pension liability adjustment                                                                                 | 44                                          | 1,091             | 133                                        | 2,654             |
| <b>Total other comprehensive income</b>                                                                              | <b>103,816</b>                              | <b>173,957</b>    | <b>99,814</b>                              | <b>380,389</b>    |
| <b>Total other comprehensive income<br/>attributable to American National<br/>Insurance Company and Subsidiaries</b> | <b>\$ 150,872</b>                           | <b>\$ 206,657</b> | <b>\$ 208,270</b>                          | <b>\$ 361,039</b> |

*See accompanying notes to the consolidated financial statements.*

**Table of Contents****AMERICAN NATIONAL INSURANCE COMPANY  
CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited and in thousands)

|                                                                                          | <b>Nine Months Ended September<br/>30,</b> |             |
|------------------------------------------------------------------------------------------|--------------------------------------------|-------------|
|                                                                                          | <b>2010</b>                                | <b>2009</b> |
| <b>OPERATING ACTIVITIES</b>                                                              |                                            |             |
| Net income (loss) attributable to American National Insurance Company and Subsidiaries   | \$ 108,456                                 | \$ (19,350) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                                            |             |
| Realized (gains) losses on investments                                                   | (59,217)                                   | 4,809       |
| Other-than-temporary impairments                                                         | 6,259                                      | 78,335      |
| Amortization of discounts and premiums on bonds                                          | 12,353                                     | 12,010      |
| Net capitalized interest on policy loans and mortgage loans                              | (22,737)                                   | (20,705)    |
| Depreciation                                                                             | 37,601                                     | 26,774      |
| Interest credited to policy account balances                                             | 284,797                                    | 275,554     |
| Charges to policy account balances                                                       | (138,066)                                  | (133,740)   |
| Deferred federal income tax benefit                                                      | (2,764)                                    | (18,029)    |
| Deferral of policy acquisition costs                                                     | (370,695)                                  | (351,349)   |
| Amortization of deferred policy acquisition costs                                        | 323,880                                    | 302,969     |
| Equity in losses of unconsolidated affiliates                                            | 115                                        | 4,627       |
| Changes in:                                                                              |                                            |             |
| Policyholder funds liabilities                                                           | 119,524                                    | 10,355      |
| Reinsurance ceded receivables                                                            | 4,475                                      | 76,875      |
| Premiums due and other receivables                                                       | (21,683)                                   | 25,362      |
| Accrued investment income                                                                | (14,332)                                   | (1,073)     |
| Current federal income taxes                                                             | 12,589                                     | 49,040      |
| Liability for retirement benefits                                                        | 1,050                                      | 3,312       |
| Prepaid reinsurance premiums                                                             | 6,231                                      | 4,893       |
| Other, net                                                                               | 4,533                                      | 24,263      |
| Net cash provided by operating activities                                                | 292,369                                    | 354,932     |
| <b>INVESTING ACTIVITIES</b>                                                              |                                            |             |
| Proceeds from sales of:                                                                  |                                            |             |
| Bonds available-for-sale                                                                 | 229,320                                    | 33,411      |
| Common stocks                                                                            | 96,528                                     | 60,908      |
| Real estate                                                                              | 28,802                                     | 4,837       |
| Other invested assets                                                                    | 8,613                                      |             |
| Disposals of property and equipment                                                      | 751                                        | 502         |
| Distributions from unconsolidated affiliates                                             | 3,902                                      | 9,216       |
| Proceeds from maturity of:                                                               |                                            |             |
| Bonds available-for-sale                                                                 | 266,753                                    | 218,595     |
| Bonds held-to-maturity                                                                   | 314,846                                    | 510,477     |
| Principal payments received on:                                                          |                                            |             |
| Mortgage loans                                                                           | 91,638                                     | 94,670      |
| Policy loans                                                                             | 37,734                                     | 39,618      |

|                                                        |            |             |
|--------------------------------------------------------|------------|-------------|
| Purchases of investments:                              |            |             |
| Bonds available-for-sale                               | (395,588)  | (67,584)    |
| Bonds held-to-maturity                                 | (802,600)  | (1,128,081) |
| Common stocks                                          | (99,403)   | (20,517)    |
| Real estate                                            | (35,939)   | (80,461)    |
| Mortgage loans                                         | (330,497)  | (344,470)   |
| Policy loans                                           | (30,114)   | (28,207)    |
| Other invested assets                                  | (31,189)   | (10,590)    |
| Additions to property and equipment                    | (7,029)    | (11,305)    |
| Contributions to unconsolidated affiliates             | (20,882)   | (12,663)    |
| Net increase in short-term investments                 | (138,191)  | (355,312)   |
| Other, net                                             | 3,136      | 3,846       |
| Net cash used in investing activities                  | (809,409)  | (1,083,110) |
| <b>FINANCING ACTIVITIES</b>                            |            |             |
| Policyholders deposits to policy account balances      | 1,342,376  | 1,771,406   |
| Policyholders withdrawals from policy account balances | (750,417)  | (964,490)   |
| Increase (decrease) in notes payable                   | (790)      | 10,372      |
| Dividends to stockholders                              | (61,955)   | (61,839)    |
| Net cash provided by financing activities              | 529,214    | 755,449     |
| <b>NET INCREASE IN CASH</b>                            | 12,174     | 27,271      |
| Cash:                                                  |            |             |
| Beginning of the year                                  | 161,483    | 66,096      |
| Cash attributed to assets held-for-sale (See Note 16)  | (8,828)    |             |
| Balance as of September 30,                            | \$ 164,829 | \$ 93,367   |

*See accompanying notes to the 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 primarily 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 (i) U.S. generally accepted accounting principles ("GAAP") for interim financial information; and (ii) the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") for Form 10-Q. In addition to GAAP accounting literature, specific SEC regulation is also applied to the financial statements issued by insurance companies. Investments in unconsolidated affiliates are shown at cost plus equity in undistributed earnings since the dates of acquisition.

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 financial position, 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 financial statements and notes thereto included in the Company's Annual Report on Form 10-K as of and for the year ended December 31, 2009. The results of operations for the interim periods should not be considered indicative of results to be expected for the full year.

Certain reclassifications have been made to prior period amounts to conform to the current period presentation. During the first quarter of 2010, American National consolidated two real estate joint ventures that were previously accounted for under the equity method of accounting. This change was due to an increase in American National's investment in the entities, which resulted in a controlling financial interest in the entities and therefore meeting the criteria for consolidation. The consolidation of these two joint ventures did not have a material effect on the interim consolidated financial statements as of September 30, 2010.

The preparation of consolidated financial statements in conformity with GAAP requires the use of estimates and assumptions that affect the reported 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 of investment securities;

Deferred policy acquisition costs;

Reserves;

Reinsurance ceded receivables;

Pension and postretirement benefit plan liabilities;

Litigation contingencies; and

Federal income taxes.

As of September 30, 2010, American National's significant accounting policies and practices remain materially unchanged from those disclosed in Note 2 of Notes to Consolidated Financial Statements incorporated within the Company's 2009 Annual Report on Form 10-K.



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### **3. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

#### **Adoption of New Accounting Standards**

In January 2010, the FASB issued ASU No. 2010-02, *Accounting and Reporting for Decreases in Ownership of a Subsidiary – A Scope Clarification* (ASU 2010-02), which amends ASC 810. ASU 2010-02 changed ASC 810 by excluding some dispositions of not-for-profit activities and assets sales such as in-substance real estate from its scope. This guidance also required expanded disclosures about changes in ownership of subsidiaries. ASU 2010-02 was effective for annual and interim periods that commenced at the beginning of the first reporting period ending after December 15, 2009. Accordingly, this guidance was adopted on January 1, 2010 and did not have a material effect on American National's consolidated financial statements.

In January 2010, the FASB issued ASU No. 2010-06, *Improving Disclosures about Fair Value Measurements* (ASU 2010-06), which amends ASC 820 *Fair Value Measurements and Disclosures* (ASC 820). 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 established by ASC 820; 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 was effective for the Company for interim and annual reporting periods that began after December 15, 2009, except for the disclosure of the reconciliation of the Level 3 activities, which is effective for reporting periods that begin after December 15, 2010. Accordingly, American National adopted this guidance on January 1, 2010, except for the disclosure of the reconciliation of the Level 3 activities, which will be adopted effective January 1, 2011. Other than requiring additional disclosures, the adoption of this guidance on January 1, 2010 did not have a material impact on American National's consolidated financial statements.

In February 2010, the FASB issued ASU No. 2010-09, *Subsequent Events* (ASU 2010-09), which amends ASC 855 *Subsequent Events* (ASC 855). ASU 2010-09 amended ASC 855 by removing the requirement for an entity that files or furnishes financial statements with the SEC to disclose a date through which subsequent events have been evaluated in both originally issued and restated financial statements. This ASU removed potential conflicts with the SEC guidance. ASU 2010-09 was effective upon its issuance. Accordingly, this guidance was adopted on February 28, 2010 and did not have a material effect on American National's consolidated financial statements.

#### **Future Adoption of New Accounting Standards**

ASU 2010-06 guidance was bifurcated between two effective dates. The disclosure requirement for a reconciliation of Level 3 activities is effective January 1, 2011. Accordingly, this guidance will be adopted on January 1, 2011 and is not expected to have a material effect on American National's consolidated financial statements. Refer to the above discussion on ASU 2010-06 for additional details.

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* (ASU 2010-15), which amends ASC Subtopic 944-80 *Financial Services – Insurance*. 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 ASU also clarifies that for purposes 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 annual periods and interim periods within those annual periods, commencing after December 15, 2010. Early adoption is permitted and guidance will be applied retrospectively to all prior periods upon adoption. Accordingly, this guidance will be adopted on January 1, 2011 and is not expected to have a material effect on American National's consolidated financial statements.



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In July 2010, the FASB issued ASU No. 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses (ASU 2010-20). This ASU amends ASC Topic 310 - Receivables, related to financing receivables credit quality and credit loss disclosures. 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 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 does not expect the adoption of ASU 2010-20 to materially affect its consolidated financial statements as this guidance only requires additional disclosures.

In October 2010, the FASB issued ASU No. 2010-26, Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts (ASU 2010-26), which amends ASC Topic 944 Financial Services Insurance. The new standard 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 standard also specifies that advertising costs should be deferred only if the capitalization criteria for direct-response advertising under ASC Subtopic 340-20, Other Assets and Deferred Cost, are met. ASU 2010-26 is effective for annual periods and interim periods within those annual periods, commencing after December 15, 2011. Accordingly, this guidance is expected to be adopted by American National on January 1, 2012. American National is currently assessing the effect that ASU 2010-26 will have on its consolidated financial statements.

Table of Contents**4. INVESTMENTS**

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

|                                                                   |                              | As of September 30, 2010     |                               |                            |
|-------------------------------------------------------------------|------------------------------|------------------------------|-------------------------------|----------------------------|
|                                                                   | Cost or<br>Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value |
| Debt securities                                                   |                              |                              |                               |                            |
| Bonds held-to-maturity:                                           |                              |                              |                               |                            |
| U.S. treasury and other U.S. government corporations and agencies | \$ 23,147                    | \$ 387                       | \$                            | \$ 23,534                  |
| States of the U.S. and political subdivisions of the states       | 317,886                      | 17,092                       | (84)                          | 334,894                    |
| Foreign governments                                               | 29,014                       | 5,894                        |                               | 34,908                     |
| Corporate debt securities                                         | 6,862,175                    | 637,286                      | (12,753)                      | 7,486,708                  |
| Residential mortgage-backed securities                            | 687,247                      | 42,826                       | (6,786)                       | 723,287                    |
| Commercial mortgage-backed securities                             | 33,931                       |                              | (22,477)                      | 11,454                     |
| Collateralized debt securities                                    | 8,748                        | 77                           | (935)                         | 7,890                      |
| Other debt securities                                             | 44,241                       | 4,559                        |                               | 48,800                     |
| <b>Total bonds held-to-maturity</b>                               | <b>8,006,389</b>             | <b>708,121</b>               | <b>(43,035)</b>               | <b>8,671,475</b>           |
| <br>Bonds available-for-sale:                                     |                              |                              |                               |                            |
| U.S. treasury and other U.S. government corporations and agencies | 12,280                       | 931                          | (3)                           | 13,208                     |
| States of the U.S. and political subdivisions of the states       | 573,396                      | 34,544                       | (9)                           | 607,931                    |
| Foreign governments                                               | 5,000                        | 2,385                        |                               | 7,385                      |
| Corporate debt securities                                         | 3,130,368                    | 263,103                      | (23,930)                      | 3,369,541                  |
| Residential mortgage-backed securities                            | 303,645                      | 12,357                       | (1,835)                       | 314,167                    |
| Collateralized debt securities                                    | 20,127                       | 1,979                        | (313)                         | 21,793                     |
| Other debt securities                                             | 14,204                       | 1,127                        |                               | 15,331                     |
| <b>Total bonds available-for-sale</b>                             | <b>4,059,020</b>             | <b>316,426</b>               | <b>(26,090)</b>               | <b>4,349,356</b>           |
| <br><b>Total debt securities</b>                                  | <b>12,065,409</b>            | <b>1,024,547</b>             | <b>(69,125)</b>               | <b>13,020,831</b>          |
| <br>Marketable equity securities                                  |                              |                              |                               |                            |
| Common stock:                                                     |                              |                              |                               |                            |
| Consumer goods                                                    | 141,355                      | 58,536                       | (2,499)                       | 197,392                    |
| Energy and utilities                                              | 121,778                      | 45,554                       | (1,376)                       | 165,956                    |
| Finance                                                           | 124,043                      | 41,223                       | (4,365)                       | 160,901                    |
| Healthcare                                                        | 85,325                       | 30,712                       | (2,276)                       | 113,761                    |
| Industrials                                                       | 64,172                       | 38,671                       | (318)                         | 102,525                    |

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|                                           |                      |                     |                    |                      |
|-------------------------------------------|----------------------|---------------------|--------------------|----------------------|
| Information technology                    | 113,383              | 50,509              | (959)              | 162,933              |
| Materials                                 | 16,474               | 11,439              | (6)                | 27,907               |
| Telecommunication services                | 31,678               | 10,563              | (111)              | 42,130               |
| <b>Total common stock</b>                 | <b>698,208</b>       | <b>287,207</b>      | <b>(11,910)</b>    | <b>973,505</b>       |
| Preferred stock                           | 33,359               | 7,033               | (1,542)            | 38,850               |
| <b>Total marketable equity securities</b> | <b>731,567</b>       | <b>294,240</b>      | <b>(13,452)</b>    | <b>1,012,355</b>     |
| <b>Total investments in securities</b>    | <b>\$ 12,796,976</b> | <b>\$ 1,318,787</b> | <b>\$ (82,577)</b> | <b>\$ 14,033,186</b> |

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|                                                                   |                        | As of December 31, 2009 |                         |                      |
|-------------------------------------------------------------------|------------------------|-------------------------|-------------------------|----------------------|
|                                                                   | Cost or Amortized Cost | Gross Unrealized Gains  | Gross Unrealized Losses | Estimated Fair Value |
| Debt securities                                                   |                        |                         |                         |                      |
| Bonds held-to-maturity:                                           |                        |                         |                         |                      |
| U.S. treasury and other U.S. government corporations and agencies | \$ 21,222              | \$ 183                  | \$ (58)                 | \$ 21,347            |
| States of the U.S. and political subdivisions of the states       | 240,403                | 8,619                   | (1,144)                 | 247,878              |
| Foreign governments                                               | 28,997                 | 3,606                   |                         | 32,603               |
| Corporate debt securities                                         | 6,390,377              | 327,535                 | (73,856)                | 6,644,056            |
| Residential mortgage-backed securities                            | 693,178                | 24,650                  | (21,856)                | 695,972              |
| Commercial mortgage-backed securities                             | 33,128                 |                         | (23,941)                | 9,187                |
| Collateralized debt securities                                    | 9,627                  | 85                      | (1,036)                 | 8,676                |
| Other debt securities                                             | 44,779                 | 2,009                   | (31)                    | 46,757               |
| <b>Total bonds held-to-maturity</b>                               | <b>7,461,711</b>       | <b>366,687</b>          | <b>(121,922)</b>        | <b>7,706,476</b>     |
| <br>Bonds available-for-sale:                                     |                        |                         |                         |                      |
| U.S. treasury and other U.S. government corporations and agencies | 3,438                  | 448                     |                         | 3,886                |
| States of the U.S. and political subdivisions of the states       | 540,210                | 18,869                  | (1,044)                 | 558,035              |
| Foreign governments                                               | 5,000                  | 1,188                   |                         | 6,188                |
| Corporate debt securities                                         | 3,196,202              | 126,742                 | (69,932)                | 3,253,012            |
| Residential mortgage-backed securities                            | 353,729                | 8,507                   | (6,671)                 | 355,565              |
| Collateralized debt securities                                    | 23,064                 | 983                     | (1,553)                 | 22,494               |
| Other debt securities                                             | 14,401                 | 225                     | (256)                   | 14,370               |
| <b>Total bonds available-for-sale</b>                             | <b>4,136,044</b>       | <b>156,962</b>          | <b>(79,456)</b>         | <b>4,213,550</b>     |
| <br><b>Total debt securities</b>                                  | <b>11,597,755</b>      | <b>523,649</b>          | <b>(201,378)</b>        | <b>11,920,026</b>    |
| <br>Marketable equity securities                                  |                        |                         |                         |                      |
| Common stock:                                                     |                        |                         |                         |                      |
| Consumer goods                                                    | 129,363                | 47,093                  | (2,336)                 | 174,120              |
| Energy and utilities                                              | 83,284                 | 42,939                  | (1,453)                 | 124,770              |
| Finance                                                           | 118,622                | 40,296                  | (2,174)                 | 156,744              |
| Healthcare                                                        | 81,454                 | 29,767                  | (1,100)                 | 110,121              |
| Industrials                                                       | 58,900                 | 28,887                  | (357)                   | 87,430               |
| Information technology                                            | 102,171                | 48,413                  | (422)                   | 150,162              |
| Materials                                                         | 17,875                 | 7,317                   | (22)                    | 25,170               |
| Mutual funds                                                      | 59,853                 | 6,426                   | (77)                    | 66,202               |

|                                           |                      |                   |                     |                      |
|-------------------------------------------|----------------------|-------------------|---------------------|----------------------|
| Telecommunication services                | 32,272               | 8,118             | (355)               | 40,035               |
| <b>Total common stock</b>                 | <b>683,794</b>       | <b>259,256</b>    | <b>(8,296)</b>      | <b>934,754</b>       |
| Preferred stock                           | 35,359               | 5,269             | (4,911)             | 35,717               |
| <b>Total marketable equity securities</b> | <b>719,153</b>       | <b>264,525</b>    | <b>(13,207)</b>     | <b>970,471</b>       |
| <b>Total investments in securities</b>    | <b>\$ 12,316,908</b> | <b>\$ 788,174</b> | <b>\$ (214,585)</b> | <b>\$ 12,890,497</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. The amortized costs and estimated fair values, by contractual maturity, of debt securities are shown below (in thousands):

|                                        | As of September 30, 2010 |                            |                          |                            |
|----------------------------------------|--------------------------|----------------------------|--------------------------|----------------------------|
|                                        | Bonds Held-to-Maturity   |                            | Bonds Available-for-Sale |                            |
|                                        | Amortized<br>Cost        | Estimated<br>Fair<br>Value | Amortized<br>Cost        | Estimated<br>Fair<br>Value |
| Due in one year or less                | \$ 281,739               | \$ 287,030                 | \$ 313,213               | \$ 318,887                 |
| Due after one year through five years  | 4,058,958                | 4,394,316                  | 1,850,379                | 1,980,685                  |
| Due after five years through ten years | 2,786,005                | 3,069,275                  | 1,276,897                | 1,391,888                  |
| Due after ten years                    | 873,837                  | 915,929                    | 613,531                  | 653,096                    |
|                                        | 8,000,539                | 8,666,550                  | 4,054,020                | 4,344,556                  |
| Without single maturity date           | 5,850                    | 4,925                      | 5,000                    | 4,800                      |
| <b>Total</b>                           | <b>\$ 8,006,389</b>      | <b>\$ 8,671,475</b>        | <b>\$ 4,059,020</b>      | <b>\$ 4,349,356</b>        |

Residential and commercial mortgage-backed securities, which are not due at a single maturity, have been allocated to their respective categories in the table above based on the year of final contractual maturity.

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

|                                                      | For the Three Months<br>Ended<br>September 30, |           | For the Nine Months Ended<br>September 30, |           |
|------------------------------------------------------|------------------------------------------------|-----------|--------------------------------------------|-----------|
|                                                      | 2010                                           | 2009      | 2010                                       | 2009      |
| Proceeds from sales of available-for-sale securities | \$ 120,348                                     | \$ 12,958 | \$ 325,848                                 | \$ 94,319 |
| Gross realized gains                                 | 8,610                                          | 351       | 31,485                                     | 4,890     |
| Gross realized losses                                | (23)                                           |           | (1,170)                                    | (11,022)  |

There were no securities transferred from held-to-maturity to available-for-sale during the nine months ended September 30, 2010.

For the nine months ended September 30, 2009, securities with an amortized cost of \$230,000 were transferred from held-to-maturity to available-for-sale due to evidence of a significant deterioration in the issuers' creditworthiness. An unrealized loss of \$136,000 was established at the time of transfer.

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

**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 accounted for as hedges under accounting rules. The following tables detail the estimated fair value amounts and the gain or loss on derivatives related to equity indexed annuities (in thousands):

| Derivatives Not Designated as Hedging Instruments | Location of Asset (Liability) Reported in the Statements of Financial Position | Estimated Fair Value as of |                   |
|---------------------------------------------------|--------------------------------------------------------------------------------|----------------------------|-------------------|
|                                                   |                                                                                | September 30, 2010         | December 31, 2009 |
| Equity indexed options                            | Other invested assets                                                          | \$ 55,359                  | \$ 32,801         |
| Equity indexed annuity embedded derivative        | Future policy benefits-Annuity                                                 | (49,003)                   | (22,487)          |

| Derivatives Not Designated as Hedging Instruments | Location of Gain (Loss) Recognized in the Statements of Operations | Amount of Gain (Loss) Recognized in Income on Derivatives |          |                                         |          |
|---------------------------------------------------|--------------------------------------------------------------------|-----------------------------------------------------------|----------|-----------------------------------------|----------|
|                                                   |                                                                    | For the Three Months Ended September 30,                  |          | For the Nine Months Ended September 30, |          |
|                                                   |                                                                    | 2010                                                      | 2009     | 2010                                    | 2009     |
| Equity indexed options                            | Net investment income                                              | \$ 10,554                                                 | \$ 6,103 | \$ (1,335)                              | \$ 4,002 |
| Equity indexed annuity embedded derivative        | Interest credited to policy account balances                       | (9,288)                                                   | (5,970)  | 3,623                                   | (6,708)  |

**Unrealized gains (losses) on securities**

Unrealized gains (losses) on marketable equity securities and bonds available-for-sale, presented in the stockholders equity section of the consolidated statements of financial position, are net of deferred tax expense of \$158,200,000 and \$97,521,000 as of September 30, 2010 and 2009, respectively.

The change in the net unrealized gains (losses) on investments are summarized as follows (in thousands):

|                                                                       | For the Three Months Ended September 30, |            | For the Nine Months Ended September 30, |            |
|-----------------------------------------------------------------------|------------------------------------------|------------|-----------------------------------------|------------|
|                                                                       | 2010                                     | 2009       | 2010                                    | 2009       |
| Bonds available-for-sale                                              | \$ 102,191                               | \$ 232,883 | \$ 212,830                              | \$ 482,382 |
| Preferred stocks                                                      | 1,960                                    | 3,429      | 5,133                                   | 12,092     |
| Common stocks                                                         | 103,143                                  | 127,667    | 24,337                                  | 219,501    |
| Effect of change in unrealized gains on available-for-sale securities | (40,583)                                 | (90,135)   | (80,063)                                | (193,892)  |
|                                                                       | 166,711                                  | 273,844    | 162,237                                 | 520,083    |
| Provision for federal income taxes                                    | 58,269                                   | 96,493     | 56,760                                  | 181,497    |
|                                                                       | 108,442                                  | 177,351    | 105,477                                 | 338,586    |
|                                                                       | (4,807)                                  | (6,321)    | (5,865)                                 | (11,801)   |

Change in unrealized losses of investments  
attributable to participating policyholders  
interest

|                                           |  |     |  |        |
|-------------------------------------------|--|-----|--|--------|
| Cumulative effect of change in accounting |  | 521 |  | 50,411 |
|-------------------------------------------|--|-----|--|--------|

|              |            |            |           |            |
|--------------|------------|------------|-----------|------------|
| <b>Total</b> | \$ 103,635 | \$ 171,551 | \$ 99,612 | \$ 377,196 |
|--------------|------------|------------|-----------|------------|

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

|                                                                   | Less than 12 months  |                | As of September 30, 2010<br>12 Months or more |                | Total                |                |
|-------------------------------------------------------------------|----------------------|----------------|-----------------------------------------------|----------------|----------------------|----------------|
|                                                                   | Unrealized<br>Losses | Fair<br>Value  | Unrealized<br>Losses                          | Fair<br>Value  | Unrealized<br>Losses | Fair<br>Value  |
| Debt securities                                                   |                      |                |                                               |                |                      |                |
| Bonds held-to-maturity:                                           |                      |                |                                               |                |                      |                |
| States of the U.S. and political subdivisions of the states       | \$ 62                | \$ 10,850      | \$ 22                                         | \$ 917         | \$ 84                | \$ 11,767      |
| Corporate debt securities                                         | 908                  | 103,735        | 11,845                                        | 219,128        | 12,753               | 322,863        |
| Residential mortgage-backed securities                            | 29                   | 4,921          | 6,757                                         | 77,386         | 6,786                | 82,307         |
| Commercial mortgage-backed securities                             |                      |                | 22,477                                        | 11,455         | 22,477               | 11,455         |
| Collateralized debt securities                                    |                      |                | 935                                           | 4,996          | 935                  | 4,996          |
| <b>Total bonds held-to-maturity</b>                               | <b>999</b>           | <b>119,506</b> | <b>42,036</b>                                 | <b>313,882</b> | <b>43,035</b>        | <b>433,388</b> |
| <br>Bonds available-for-sale:                                     |                      |                |                                               |                |                      |                |
| U.S. Treasury and other U.S. government corporations and agencies | 3                    | 6,044          |                                               |                | 3                    | 6,044          |
| States of the U.S. and political subdivisions of the states       | 9                    | 419            |                                               |                | 9                    | 419            |
| Corporate debt securities                                         | 323                  | 45,678         | 23,607                                        | 181,827        | 23,930               | 227,505        |
| Residential mortgage-backed securities                            | 240                  | 35,156         | 1,595                                         | 29,587         | 1,835                | 64,743         |
| Collateralized debt securities                                    |                      |                | 313                                           | 4,909          | 313                  | 4,909          |
| <b>Total bonds available-for-sale</b>                             | <b>575</b>           | <b>87,297</b>  | <b>25,515</b>                                 | <b>216,323</b> | <b>26,090</b>        | <b>303,620</b> |
| <b>Total debt securities</b>                                      | <b>1,574</b>         | <b>206,803</b> | <b>67,551</b>                                 | <b>530,205</b> | <b>69,125</b>        | <b>737,008</b> |
| <br>Marketable equity securities                                  |                      |                |                                               |                |                      |                |
| Common stock:                                                     |                      |                |                                               |                |                      |                |
| Consumer goods                                                    | 1,020                | 6,729          | 1,479                                         | 12,765         | 2,499                | 19,494         |
| Energy and utilities                                              | 1,346                | 12,069         | 30                                            | 1,052          | 1,376                | 13,121         |
| Finance                                                           | 3,944                | 24,056         | 421                                           | 2,298          | 4,365                | 26,354         |
| Healthcare                                                        | 1,321                | 18,915         | 955                                           | 6,849          | 2,276                | 25,764         |
| Industrials                                                       | 230                  | 1,407          | 88                                            | 458            | 318                  | 1,865          |
| Information technology                                            | 942                  | 11,316         | 17                                            | 391            | 959                  | 11,707         |
| Materials                                                         | 6                    | 393            |                                               |                | 6                    | 393            |
| Telecommunications services                                       | 93                   | 1,676          | 18                                            | 440            | 111                  | 2,116          |

|                                           |                  |                   |                  |                   |                  |                   |
|-------------------------------------------|------------------|-------------------|------------------|-------------------|------------------|-------------------|
| <b>Total common stock</b>                 | <b>8,902</b>     | <b>76,561</b>     | <b>3,008</b>     | <b>24,253</b>     | <b>11,910</b>    | <b>100,814</b>    |
| Preferred stock                           | 340              | 690               | 1,202            | 6,298             | 1,542            | 6,988             |
| <b>Total marketable equity securities</b> | <b>9,242</b>     | <b>77,251</b>     | <b>4,210</b>     | <b>30,551</b>     | <b>13,452</b>    | <b>107,802</b>    |
| <b>Total investments in securities</b>    | <b>\$ 10,816</b> | <b>\$ 284,054</b> | <b>\$ 71,761</b> | <b>\$ 560,756</b> | <b>\$ 82,577</b> | <b>\$ 844,810</b> |

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|                                                                         | Less than 12 months  |                  | As of December 31, 2009<br>12 Months or more |                  | Total                |                  |
|-------------------------------------------------------------------------|----------------------|------------------|----------------------------------------------|------------------|----------------------|------------------|
|                                                                         | Unrealized<br>Losses | Fair<br>Value    | Unrealized<br>Losses                         | Fair<br>Value    | Unrealized<br>Losses | Fair<br>Value    |
| Debt securities                                                         |                      |                  |                                              |                  |                      |                  |
| Bonds held-to-maturity:                                                 |                      |                  |                                              |                  |                      |                  |
| U.S. Treasury and other U.S.<br>government corporations and<br>agencies | \$ 58                | \$ 6,387         | \$                                           | \$               | \$ 58                | \$ 6,387         |
| States of the U.S. and<br>political subdivisions of the<br>states       | 666                  | 24,819           | 478                                          | 5,849            | 1,144                | 30,668           |
| Corporate debt securities                                               | 12,602               | 543,459          | 61,254                                       | 700,718          | 73,856               | 1,244,177        |
| Residential mortgage-backed<br>securities                               | 445                  | 23,750           | 21,411                                       | 182,315          | 21,856               | 206,065          |
| Commercial mortgage-backed<br>securities                                |                      |                  | 23,941                                       | 9,187            | 23,941               | 9,187            |
| Collateralized debt securities                                          | 53                   | 2,844            | 983                                          | 2,310            | 1,036                | 5,154            |
| Other debt securities                                                   | 31                   | 3,428            |                                              |                  | 31                   | 3,428            |
| <b>Total bonds<br/>held-to-maturity</b>                                 | <b>13,855</b>        | <b>604,687</b>   | <b>108,067</b>                               | <b>900,379</b>   | <b>121,922</b>       | <b>1,505,066</b> |
| <br>Bonds available-for-sale:                                           |                      |                  |                                              |                  |                      |                  |
| States of the U.S. and<br>political subdivisions of the<br>states       | 520                  | 58,622           | 524                                          | 18,941           | 1,044                | 77,563           |
| Corporate debt securities                                               | 13,340               | 318,569          | 56,592                                       | 506,881          | 69,932               | 825,450          |
| Residential mortgage-backed<br>securities                               | 2,273                | 49,066           | 4,398                                        | 36,649           | 6,671                | 85,715           |
| Collateralized debt securities                                          | 269                  | 1,313            | 1,284                                        | 9,077            | 1,553                | 10,390           |
| Other debt securities                                                   | 256                  | 9,947            |                                              |                  | 256                  | 9,947            |
| <b>Total bonds<br/>available-for-sale</b>                               | <b>16,658</b>        | <b>437,517</b>   | <b>62,798</b>                                | <b>571,548</b>   | <b>79,456</b>        | <b>1,009,065</b> |
| <br><b>Total debt securities</b>                                        | <b>30,513</b>        | <b>1,042,204</b> | <b>170,865</b>                               | <b>1,471,927</b> | <b>201,378</b>       | <b>2,514,131</b> |
| <br>Marketable equity securities                                        |                      |                  |                                              |                  |                      |                  |
| Common stock:                                                           |                      |                  |                                              |                  |                      |                  |
| Consumer goods                                                          | 837                  | 5,838            | 1,499                                        | 14,900           | 2,336                | 20,738           |
| Energy and utilities                                                    | 296                  | 7,949            | 1,157                                        | 7,006            | 1,453                | 14,955           |
| Finance                                                                 | 1,712                | 29,515           | 462                                          | 3,881            | 2,174                | 33,396           |
| Healthcare                                                              | 464                  | 6,124            | 636                                          | 5,316            | 1,100                | 11,440           |
| Industrials                                                             | 163                  | 2,567            | 194                                          | 1,678            | 357                  | 4,245            |
| Information technology                                                  | 358                  | 2,583            | 64                                           | 533              | 422                  | 3,116            |

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|                                           |                  |                     |                   |                     |                   |                     |
|-------------------------------------------|------------------|---------------------|-------------------|---------------------|-------------------|---------------------|
| Materials                                 | 19               | 453                 | 3                 | 45                  | 22                | 498                 |
| Mutual funds                              | 77               | 4,372               |                   |                     | 77                | 4,372               |
| Telecommunications services               | 232              | 3,188               | 123               | 2,542               | 355               | 5,730               |
| <b>Total common stock</b>                 | <b>4,158</b>     | <b>62,589</b>       | <b>4,138</b>      | <b>35,901</b>       | <b>8,296</b>      | <b>98,490</b>       |
| Preferred stock                           | 21               | 4,169               | 4,890             | 15,210              | 4,911             | 19,379              |
| <b>Total marketable equity securities</b> | <b>4,179</b>     | <b>66,758</b>       | <b>9,028</b>      | <b>51,111</b>       | <b>13,207</b>     | <b>117,869</b>      |
| <b>Total investments in securities</b>    | <b>\$ 34,692</b> | <b>\$ 1,108,962</b> | <b>\$ 179,893</b> | <b>\$ 1,523,038</b> | <b>\$ 214,585</b> | <b>\$ 2,632,000</b> |

For all investment securities, including those securities in an unrealized loss position for 12 months or more, American National performs a quarterly analysis to determine if an other-than-temporary impairment loss should be recorded for any securities. As of September 30, 2010, the securities with unrealized losses did not meet management's criteria for other-than-temporary impairment. Even though the duration of the unrealized losses on some of the debt 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) from continuing operations, before federal income taxes are summarized as follows (in thousands):

|                                             | <b>Net Investment<br/>Income<br/>Three Months<br/>Ended<br/>September 30,</b> |                   | <b>Realized Investments<br/>Gains/(Losses)<br/>Three Months Ended<br/>September 30,</b> |                 | <b>Net Investment<br/>Income<br/>Nine Months Ended<br/>September 30,</b> |                   | <b>Realized Investments<br/>Gains/(Losses)<br/>Nine Months Ended<br/>September 30,</b> |                   |
|---------------------------------------------|-------------------------------------------------------------------------------|-------------------|-----------------------------------------------------------------------------------------|-----------------|--------------------------------------------------------------------------|-------------------|----------------------------------------------------------------------------------------|-------------------|
|                                             | <b>2010</b>                                                                   | <b>2009</b>       | <b>2010</b>                                                                             | <b>2009</b>     | <b>2010</b>                                                              | <b>2009</b>       | <b>2010</b>                                                                            | <b>2009</b>       |
| Bonds                                       | \$ 164,026                                                                    | \$ 160,559        | \$ 7,631                                                                                | \$ 2,094        | \$ 489,325                                                               | \$ 468,289        | \$ 24,183                                                                              | \$ (1,309)        |
| Preferred stocks                            | 586                                                                           | 547               |                                                                                         |                 | 1,973                                                                    | 2,613             | (880)                                                                                  | (1,620)           |
| Common stocks                               | 5,017                                                                         | 5,420             | 3,869                                                                                   | 469             | 15,758                                                                   | 17,949            | 14,768                                                                                 | 1,692             |
| Mortgage loans                              | 42,901                                                                        | 36,303            |                                                                                         |                 | 124,743                                                                  | 102,612           |                                                                                        |                   |
| Real estate                                 | 39,243                                                                        | 35,929            | 8,814                                                                                   | 1,523           | 100,842                                                                  | 97,994            | 10,816                                                                                 | 1,523             |
| Options                                     | 9,339                                                                         | 5,977             |                                                                                         |                 | (1,658)                                                                  | 4,002             |                                                                                        |                   |
| Other invested assets                       | 11,155                                                                        | 8,620             | (1,024)                                                                                 | (7)             | 30,975                                                                   | 25,579            | (1,078)                                                                                | 280               |
|                                             | 272,267                                                                       | 253,355           | 19,290                                                                                  | 4,079           | 761,958                                                                  | 719,038           | 47,809                                                                                 | 566               |
| Investment expenses                         | (34,186)                                                                      | (31,163)          |                                                                                         |                 | (93,994)                                                                 | (89,158)          |                                                                                        |                   |
| Decrease (Increase) in valuation allowances |                                                                               |                   | 2,845                                                                                   | (827)           |                                                                          |                   | 8,887                                                                                  | (3,334)           |
| <b>Total</b>                                | <b>\$ 238,081</b>                                                             | <b>\$ 222,192</b> | <b>\$ 22,135</b>                                                                        | <b>\$ 3,252</b> | <b>\$ 667,964</b>                                                        | <b>\$ 629,880</b> | <b>\$ 56,696</b>                                                                       | <b>\$ (2,768)</b> |

**Other-than-temporary impairments**

The following table summarizes other-than-temporary impairments (in thousands):

|                | <b>Three months ended September<br/>30,</b> |                   | <b>Nine months ended September<br/>30,</b> |                    |
|----------------|---------------------------------------------|-------------------|--------------------------------------------|--------------------|
|                | <b>2010</b>                                 | <b>2009</b>       | <b>2010</b>                                | <b>2009</b>        |
| Bonds          | \$                                          | \$ (4,148)        | \$                                         | \$ (10,046)        |
| Stocks         | (1,515)                                     | (39)              | (4,265)                                    | (67,789)           |
| Mortgage loans | (1,676)                                     |                   | (1,676)                                    |                    |
| Real estate    | (318)                                       |                   | (318)                                      | (500)              |
| <b>Total</b>   | <b>\$ (3,509)</b>                           | <b>\$ (4,187)</b> | <b>\$ (6,259)</b>                          | <b>\$ (78,335)</b> |

**Mortgage loans**

In general, mortgage loans are secured by first liens on income-producing real estate. The loans are expected to be repaid from the operating cash flows of the properties, proceeds from the sale of real estate, or refinancing by either American National or another mortgage lender at the maturity of the current mortgage loan. During the nine months ended September 30, 2010, total non-cash transactions were \$30.5 million. This amount includes one mortgage loan which was foreclosed upon and transferred to real estate investments totaling \$2.0 million and one transfer to real

estate investments related to a mortgage loan payoff totaling \$28.5 million. Non-cash transactions during the twelve months ended December 31, 2009 totaled \$24.6 million in foreclosed mortgage loans which were transferred to real estate investments.

**Table of Contents****5. 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 quality rating is summarized as follows:

|               | <b>September 30,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|---------------|-------------------------------|------------------------------|
| AAA           | 10.4%                         | 11.6%                        |
| AA+           | 1.8                           | 1.6                          |
| AA            | 2.9                           | 2.0                          |
| AA-           | 3.9                           | 4.5                          |
| A+            | 7.2                           | 7.6                          |
| A             | 15.1                          | 14.5                         |
| A-            | 14.9                          | 13.6                         |
| BBB+          | 10.8                          | 13.1                         |
| BBB           | 16.5                          | 16.4                         |
| BBB-          | 8.0                           | 7.7                          |
| BB+ and below | 8.5                           | 7.4                          |
| <b>Total</b>  | <b>100.0%</b>                 | <b>100.0%</b>                |

**Common stock**

American National's common stock portfolio by market sector distribution is summarized as follows:

|                        | <b>September 30,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|------------------------|-------------------------------|------------------------------|
| Consumer goods         | 20.3%                         | 18.6%                        |
| Financials             | 16.5                          | 16.8                         |
| Information technology | 16.7                          | 16.1                         |
| Energy and utilities   | 17.0                          | 13.3                         |
| Healthcare             | 11.7                          | 11.8                         |
| Industrials            | 10.6                          | 9.3                          |
| Communications         | 4.3                           | 4.3                          |
| Mutual funds           |                               | 7.1                          |
| Materials              | 2.9                           | 2.7                          |
| <b>Total</b>           | <b>100.0%</b>                 | <b>100.0%</b>                |

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

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

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

|                   | <b>Mortgage Loans</b> |                 | <b>Investment Real Estate</b> |                 |
|-------------------|-----------------------|-----------------|-------------------------------|-----------------|
|                   | <b>September</b>      | <b>December</b> | <b>September</b>              | <b>December</b> |
|                   | <b>30,</b>            | <b>31,</b>      | <b>30,</b>                    | <b>31,</b>      |
|                   | <b>2010</b>           | <b>2009</b>     | <b>2010</b>                   | <b>2009</b>     |
| Office buildings  | 31.1%                 | 31.3%           | 16.1%                         | 15.1%           |
| Industrial        | 29.2                  | 28.1            | 38.0                          | 36.8            |
| Shopping centers  | 18.5                  | 18.6            | 16.6                          | 18.7            |
| Hotels and motels | 13.8                  | 15.0            | 1.6                           | 1.8             |
| Other             | 7.4                   | 7.0             | 27.7                          | 27.6            |
| <b>Total</b>      | <b>100.0%</b>         | <b>100.0%</b>   | <b>100.0%</b>                 | <b>100.0%</b>   |

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

|                    | <b>Mortgage Loans</b> |                 | <b>Investment Real Estate</b> |                 |
|--------------------|-----------------------|-----------------|-------------------------------|-----------------|
|                    | <b>September</b>      | <b>December</b> | <b>September</b>              | <b>December</b> |
|                    | <b>30,</b>            | <b>31,</b>      | <b>30,</b>                    | <b>31,</b>      |
|                    | <b>2010</b>           | <b>2009</b>     | <b>2010</b>                   | <b>2009</b>     |
| West South Central | 21.5%                 | 22.4%           | 59.8%                         | 58.4%           |
| East North Central | 21.1                  | 19.8            | 6.7                           | 7.8             |
| South Atlantic     | 20.9                  | 20.3            | 11.3                          | 12.5            |
| Pacific            | 9.8                   | 9.9             | 1.7                           | 2.2             |
| Middle Atlantic    | 6.9                   | 7.8             | 9.1                           | 10.2            |
| East South Central | 6.1                   | 5.9             | 6.7                           | 7.4             |
| Mountain           | 6.4                   | 6.3             | 3.9                           | 0.6             |
| New England        | 3.4                   | 3.8             | 0.0                           | 0.0             |
| West North Central | 3.9                   | 3.8             | 0.8                           | 0.9             |
| <b>Total</b>       | <b>100.0%</b>         | <b>100.0%</b>   | <b>100.0%</b>                 | <b>100.0%</b>   |

**Table of Contents****6. FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

|                                                                   | <b>As of September 30, 2010</b> |                                 | <b>As of December 31, 2009</b> |                                 |
|-------------------------------------------------------------------|---------------------------------|---------------------------------|--------------------------------|---------------------------------|
|                                                                   | <b>Carrying<br/>Amount</b>      | <b>Estimated<br/>Fair Value</b> | <b>Carrying<br/>Amount</b>     | <b>Estimated<br/>Fair Value</b> |
| Financial assets:                                                 |                                 |                                 |                                |                                 |
| Fixed maturities                                                  |                                 |                                 |                                |                                 |
| Held-to-maturity:                                                 |                                 |                                 |                                |                                 |
| U.S. treasury and other U.S. government corporations and agencies | \$ 23,147                       | \$ 23,534                       | \$ 21,222                      | \$ 21,347                       |
| States of the U.S. and political subdivisions of the states       | 317,886                         | 334,894                         | 240,403                        | 247,878                         |
| Foreign governments                                               | 29,014                          | 34,908                          | 28,997                         | 32,603                          |
| Corporate debt securities                                         | 6,862,175                       | 7,486,708                       | 6,390,377                      | 6,644,056                       |
| Residential mortgage-backed securities                            | 687,247                         | 723,287                         | 693,178                        | 695,972                         |
| Commercial mortgage-backed securities                             | 33,931                          | 11,454                          | 33,128                         | 9,187                           |
| Collateralized debt securities                                    | 8,748                           | 7,890                           | 9,627                          | 8,676                           |
| Other debt securities                                             | 44,241                          | 48,800                          | 44,779                         | 46,757                          |
| <b>Total fixed maturities, held-to-maturity</b>                   | <b>8,006,389</b>                | <b>8,671,475</b>                | <b>7,461,711</b>               | <b>7,706,476</b>                |
| Available-for-sale:                                               |                                 |                                 |                                |                                 |
| U.S. treasury and other U.S. government corporations and agencies | 13,208                          | 13,208                          | 3,886                          | 3,886                           |
| States of the U.S. and political subdivisions of the states       | 607,931                         | 607,931                         | 558,035                        | 558,035                         |
| Foreign governments                                               | 7,385                           | 7,385                           | 6,188                          | 6,188                           |
| Corporate debt securities                                         | 3,369,541                       | 3,369,541                       | 3,253,012                      | 3,253,012                       |
| Residential mortgage-backed securities                            | 314,167                         | 314,167                         | 355,565                        | 355,565                         |
| Collateralized debt securities                                    | 21,793                          | 21,793                          | 22,494                         | 22,494                          |
| Other debt securities                                             | 15,331                          | 15,331                          | 14,370                         | 14,370                          |
| <b>Total fixed maturities, available-for-sale</b>                 | <b>4,349,356</b>                | <b>4,349,356</b>                | <b>4,213,550</b>               | <b>4,213,550</b>                |
| <b>Total fixed maturities</b>                                     | <b>12,355,745</b>               | <b>13,020,831</b>               | <b>11,675,261</b>              | <b>11,920,026</b>               |
| Marketable equity securities                                      |                                 |                                 |                                |                                 |
| Common stock:                                                     |                                 |                                 |                                |                                 |
| Consumer goods                                                    | 197,392                         | 197,392                         | 174,120                        | 174,120                         |
| Energy and utilities                                              | 165,956                         | 165,956                         | 124,770                        | 124,770                         |
| Finance                                                           | 160,901                         | 160,901                         | 156,744                        | 156,744                         |
| Healthcare                                                        | 113,761                         | 113,761                         | 110,121                        | 110,121                         |
| Industrials                                                       | 102,525                         | 102,525                         | 87,430                         | 87,430                          |
| Information technology                                            | 162,933                         | 162,933                         | 150,162                        | 150,162                         |
| Materials                                                         | 27,907                          | 27,907                          | 25,170                         | 25,170                          |
| Mutual funds                                                      |                                 |                                 | 66,202                         | 66,202                          |
| Telecommunication services                                        | 42,130                          | 42,130                          | 40,035                         | 40,035                          |
| Preferred stock                                                   | 38,850                          | 38,850                          | 35,717                         | 35,717                          |

|                                                                |                      |                      |                      |                      |
|----------------------------------------------------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Total marketable equity securities</b>                      | <b>1,012,355</b>     | <b>1,012,355</b>     | <b>970,471</b>       | <b>970,471</b>       |
| Options                                                        | 55,359               | 55,359               | 32,801               | 32,801               |
| Mortgage loans on real estate, net of allowance                | 2,429,663            | 2,565,943            | 2,229,659            | 2,267,157            |
| Policy loans                                                   | 374,391              | 374,391              | 364,354              | 364,354              |
| Short-term investments                                         | 775,014              | 775,014              | 636,823              | 636,823              |
| <b>Total financial assets</b>                                  | <b>\$ 17,002,527</b> | <b>\$ 17,803,893</b> | <b>\$ 15,909,369</b> | <b>\$ 16,191,632</b> |
| Financial liabilities:                                         |                      |                      |                      |                      |
| Investment contracts                                           | \$ 8,319,587         | \$ 8,319,587         | \$ 7,828,243         | \$ 7,828,243         |
| Liability for embedded derivatives of equity indexed annuities | 49,003               | 49,003               | 22,487               | 22,487               |
| Notes payable                                                  | 73,052               | 73,052               | 73,842               | 73,842               |
| <b>Total financial liabilities</b>                             | <b>\$ 8,441,642</b>  | <b>\$ 8,441,642</b>  | <b>\$ 7,924,572</b>  | <b>\$ 7,924,572</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 maturities 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 service's 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.

The fair value estimates of most fixed maturity investments including municipal bonds are based on observable market information rather than market quotes. Accordingly, the estimates of fair value for such fixed maturities 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 maturities that have characteristics that make them unsuitable for matrix pricing. For these fixed 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 maturities. 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 the companies' 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 following tables provide quantitative disclosures regarding fair value hierarchy measurements of our financial assets and liabilities (in thousands):

|                                                                      |                                                     | Fair Value Measurement as of September 30, 2010 Using:                           |                                                           |                                                    |
|----------------------------------------------------------------------|-----------------------------------------------------|----------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
|                                                                      |                                                     | Quoted<br>Prices in<br>Active<br>Markets<br>for Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|                                                                      | Estimated Fair<br>Value at<br>September 30,<br>2010 |                                                                                  |                                                           |                                                    |
| Financial assets:                                                    |                                                     |                                                                                  |                                                           |                                                    |
| Debt securities                                                      |                                                     |                                                                                  |                                                           |                                                    |
| Held-to-maturity:                                                    |                                                     |                                                                                  |                                                           |                                                    |
| U.S. treasury and other U.S.<br>government corporations and agencies | \$ 23,534                                           | \$                                                                               | \$ 23,534                                                 | \$                                                 |
| States of the U.S. and political<br>subdivisions of the states       | 334,894                                             |                                                                                  | 334,639                                                   | 255                                                |
| Foreign governments                                                  | 34,908                                              |                                                                                  | 34,908                                                    |                                                    |
| Corporate debt securities                                            | 7,486,708                                           |                                                                                  | 7,429,149                                                 | 57,559                                             |
| Residential mortgage-backed<br>securities                            | 723,287                                             |                                                                                  | 720,701                                                   | 2,586                                              |
| Commercial mortgage-backed<br>securities                             | 11,454                                              |                                                                                  | 11,454                                                    |                                                    |
| Collateralized debt securities                                       | 7,890                                               |                                                                                  | 40                                                        | 7,850                                              |
| Other debt securities                                                | 48,800                                              |                                                                                  | 48,800                                                    |                                                    |
| <b>Total fixed maturities,<br/>held-to-maturity</b>                  | <b>8,671,475</b>                                    |                                                                                  | <b>8,603,225</b>                                          | <b>68,250</b>                                      |
| Available-for-sale:                                                  |                                                     |                                                                                  |                                                           |                                                    |
| U.S. treasury and other U.S.<br>government corporations and agencies | 13,208                                              |                                                                                  | 13,208                                                    |                                                    |
| States of the U.S. and political<br>subdivisions of the states       | 607,931                                             |                                                                                  | 605,406                                                   | 2,525                                              |
| Foreign governments                                                  | 7,385                                               |                                                                                  | 7,385                                                     |                                                    |
| Corporate debt securities                                            | 3,369,541                                           |                                                                                  | 3,346,258                                                 | 23,283                                             |
| Residential mortgage-backed<br>securities                            | 314,167                                             |                                                                                  | 314,151                                                   | 16                                                 |
| Collateralized debt securities                                       | 21,793                                              |                                                                                  | 21,531                                                    | 262                                                |
| Other debt securities                                                | 15,331                                              |                                                                                  | 15,331                                                    |                                                    |
| <b>Total fixed maturities,<br/>available-for-sale</b>                | <b>4,349,356</b>                                    |                                                                                  | <b>4,323,270</b>                                          | <b>26,086</b>                                      |
| <b>Total fixed maturities</b>                                        | <b>13,020,831</b>                                   |                                                                                  | <b>12,926,495</b>                                         | <b>94,336</b>                                      |

|                                                                |                      |                     |                      |                   |  |
|----------------------------------------------------------------|----------------------|---------------------|----------------------|-------------------|--|
| Marketable equity securities                                   |                      |                     |                      |                   |  |
| Common stock:                                                  |                      |                     |                      |                   |  |
| Consumer goods                                                 | 197,392              | 197,392             |                      |                   |  |
| Energy and utilities                                           | 165,956              | 165,956             |                      |                   |  |
| Finance                                                        | 160,901              | 160,901             |                      |                   |  |
| Healthcare                                                     | 113,761              | 113,761             |                      |                   |  |
| Industrials                                                    | 102,525              | 102,525             |                      |                   |  |
| Information technology                                         | 162,933              | 162,933             |                      |                   |  |
| Materials                                                      | 27,907               | 27,907              |                      |                   |  |
| Mutual funds                                                   |                      |                     |                      |                   |  |
| Telecommunication services                                     | 42,130               | 42,130              |                      |                   |  |
| Preferred stock                                                | 38,850               | 38,850              |                      |                   |  |
| <b>Total marketable equity securities</b>                      | <b>1,012,355</b>     | <b>1,012,355</b>    |                      |                   |  |
| Options                                                        | 55,359               |                     |                      | 55,359            |  |
| Mortgage loans on real estate                                  | 2,565,943            |                     | 2,565,943            |                   |  |
| Short-term investments                                         | 775,014              |                     | 775,014              |                   |  |
| <b>Total financial assets</b>                                  | <b>\$ 17,429,502</b> | <b>\$ 1,012,355</b> | <b>\$ 16,267,452</b> | <b>\$ 149,695</b> |  |
| Financial liabilities:                                         |                      |                     |                      |                   |  |
| Liability for embedded derivatives of equity indexed annuities | \$ 49,003            | \$                  | \$                   | \$ 49,003         |  |
| <b>Total financial liabilities</b>                             | <b>\$ 49,003</b>     | <b>\$</b>           | <b>\$</b>            | <b>\$ 49,003</b>  |  |

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|                                                                   |                   | Fair Value Measurement as of December 31, 2009 Using:          |                                               |                                           |
|-------------------------------------------------------------------|-------------------|----------------------------------------------------------------|-----------------------------------------------|-------------------------------------------|
|                                                                   |                   | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Estimated Fair Value at December 31, 2009                         |                   |                                                                |                                               |                                           |
| Financial assets:                                                 |                   |                                                                |                                               |                                           |
| Debt securities                                                   |                   |                                                                |                                               |                                           |
| Held-to-maturity:                                                 |                   |                                                                |                                               |                                           |
| U.S. treasury and other U.S. government corporations and agencies | \$ 21,347         | \$                                                             | \$ 21,347                                     | \$                                        |
| States of the U.S. and political subdivisions of the states       | 247,878           |                                                                | 247,878                                       |                                           |
| Foreign governments                                               | 32,603            |                                                                | 32,603                                        |                                           |
| Corporate debt securities                                         | 6,644,056         |                                                                | 6,635,387                                     | 8,669                                     |
| Residential mortgage-backed securities                            | 695,972           |                                                                | 692,702                                       | 3,270                                     |
| Commercial mortgage-backed securities                             | 9,187             |                                                                | 9,187                                         |                                           |
| Collateralized debt securities                                    | 8,676             |                                                                | 624                                           | 8,052                                     |
| Other debt securities                                             | 46,757            |                                                                | 46,757                                        |                                           |
| <b>Total fixed maturities, held-to-maturity</b>                   | <b>7,706,476</b>  |                                                                | <b>7,686,485</b>                              | <b>19,991</b>                             |
| Available-for-sale:                                               |                   |                                                                |                                               |                                           |
| U.S. treasury and other U.S. government corporations and agencies | 3,886             |                                                                | 3,886                                         |                                           |
| States of the U.S. and political subdivisions of the states       | 558,035           |                                                                | 558,035                                       |                                           |
| Foreign governments                                               | 6,188             |                                                                | 6,188                                         |                                           |
| Corporate debt securities                                         | 3,253,012         |                                                                | 3,238,004                                     | 15,008                                    |
| Residential mortgage-backed securities                            | 355,565           |                                                                | 355,548                                       | 17                                        |
| Collateralized debt securities                                    | 22,494            |                                                                | 21,138                                        | 1,356                                     |
| Other debt securities                                             | 14,370            |                                                                | 14,370                                        |                                           |
| <b>Total fixed maturities, available-for-sale</b>                 | <b>4,213,550</b>  |                                                                | <b>4,197,169</b>                              | <b>16,381</b>                             |
| <b>Total fixed maturities</b>                                     | <b>11,920,026</b> |                                                                | <b>11,883,654</b>                             | <b>36,372</b>                             |
| Marketable equity securities                                      |                   |                                                                |                                               |                                           |

|                                                                |                      |                   |                      |                  |            |
|----------------------------------------------------------------|----------------------|-------------------|----------------------|------------------|------------|
| Common stock:                                                  |                      |                   |                      |                  |            |
| Consumer goods                                                 | 174,120              | 174,120           |                      |                  |            |
| Energy and utilities                                           | 124,770              | 124,770           |                      |                  |            |
| Finance                                                        | 156,744              | 156,744           |                      |                  |            |
| Healthcare                                                     | 110,121              | 110,121           |                      |                  |            |
| Industrials                                                    | 87,430               | 87,430            |                      |                  |            |
| Information technology                                         | 150,162              | 150,162           |                      |                  |            |
| Materials                                                      | 25,170               | 25,170            |                      |                  |            |
| Mutual funds                                                   | 66,202               | 66,202            |                      |                  |            |
| Telecommunication services                                     | 40,035               | 40,035            |                      |                  |            |
| Preferred stock                                                | 35,717               | 35,123            |                      |                  | 594        |
| <b>Total marketable equity securities</b>                      | <b>970,471</b>       | <b>969,877</b>    |                      |                  | <b>594</b> |
| Options                                                        | 32,801               |                   |                      |                  | 32,801     |
| Mortgage loans on real estate                                  | 2,267,157            |                   | 2,267,157            |                  |            |
| Short-term investments                                         | 636,823              |                   | 636,823              |                  |            |
| <b>Total financial assets</b>                                  | <b>\$ 15,827,278</b> | <b>\$ 969,877</b> | <b>\$ 14,787,634</b> | <b>\$ 69,767</b> |            |
| Financial liabilities:                                         |                      |                   |                      |                  |            |
| Liability for embedded derivatives of equity indexed annuities | \$ 22,487            | \$                | \$                   | \$ 22,487        |            |
| <b>Total financial liabilities</b>                             | <b>\$ 22,487</b>     | <b>\$</b>         | <b>\$</b>            | <b>\$ 22,487</b> |            |

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For assets and liabilities 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 as follows (in thousands):

|                                                            | <b>Investment<br/>Securities</b> | <b>Other<br/>Investments</b> | <b>Total</b>      |
|------------------------------------------------------------|----------------------------------|------------------------------|-------------------|
| <b>Beginning balance December 31, 2009</b>                 | <b>\$ 36,966</b>                 | <b>\$ 10,314</b>             | <b>\$ 47,280</b>  |
| Total realized and unrealized investment gains (losses)    |                                  |                              |                   |
| Included in other comprehensive income                     | 1,004                            |                              | 1,004             |
| Net fair value change included in realized losses          | (10)                             |                              | (10)              |
| Net loss for derivatives included in net investment income |                                  | (1,335)                      | (1,335)           |
| Net fair value change included in interest credited        |                                  | (26,516)                     | (26,516)          |
| Purchases and settlements/maturities                       |                                  |                              |                   |
| Purchases                                                  | 65,036                           | 31,141                       | 96,177            |
| Settlements/maturities                                     | (1,472)                          | (7,248)                      | (8,720)           |
| Gross transfers into Level 3                               | 5,912                            |                              | 5,912             |
| Gross transfers out of Level 3                             | (13,100)                         |                              | (13,100)          |
| <b>Ending balance September 30, 2010</b>                   | <b>\$ 94,336</b>                 | <b>\$ 6,356</b>              | <b>\$ 100,692</b> |

The transfers into Level 3 were the result of existing securities no longer being priced by the third-party pricing service. In accordance with American National's pricing methodology, these securities are being valued using similar techniques as the pricing service; however, the Company-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 now being priced by a third-party service, 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.

**7. DEFERRED POLICY ACQUISITION COSTS**

Deferred policy acquisition costs and premiums are summarized as follows (in thousands):

|                                                                       | <b>Life<br/>&amp; Annuity</b> | <b>Accident<br/>&amp; Health</b> | <b>Property &amp;<br/>Casualty</b> | <b>Total</b> |
|-----------------------------------------------------------------------|-------------------------------|----------------------------------|------------------------------------|--------------|
| Balance at December 31, 2009                                          | \$ 1,114,491                  | \$ 69,853                        | \$ 146,637                         | \$ 1,330,981 |
| Additions                                                             | 151,660                       | 13,775                           | 205,260                            | 370,695      |
| Amortization                                                          | (105,173)                     | (17,559)                         | (201,148)                          | (323,880)    |
| Effect of change in unrealized gains on available-for-sale securities | (80,063)                      |                                  |                                    | (80,063)     |
| Net change                                                            | (33,576)                      | (3,784)                          | 4,112                              | (33,248)     |
| Balance at September 30, 2010                                         | \$ 1,080,915                  | \$ 66,069                        | \$ 150,749                         | \$ 1,297,733 |
| Premiums for the nine months ended:                                   |                               |                                  |                                    |              |
| 2010 Premiums                                                         | \$ 341,810                    | \$ 200,553                       | \$ 871,672                         | \$ 1,414,035 |
| 2009 Premiums                                                         | \$ 360,779                    | \$ 224,001                       | \$ 866,989                         | \$ 1,451,769 |

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

Acquisitions relate to the purchase of various insurance portfolios under assumption reinsurance agreements. All amounts for the present value of future profits resulting from the acquisition of life insurance portfolios have been accounted for in accordance with ASC 944-20-S99-2, Accounting for Intangible Assets Arising from Insurance Contracts Acquired in a Business Combination, and are immaterial in all periods presented.

**Table of Contents****8. LIABILITY FOR UNPAID CLAIMS AND CLAIM ADJUSTMENT EXPENSES**

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

|                                 | <b>2010</b>         | <b>2009</b>         |
|---------------------------------|---------------------|---------------------|
| Balance at January 1,           | \$ 1,240,287        | \$ 1,330,380        |
| Less reinsurance recoverables   | 285,554             | 386,232             |
| <b>Net beginning balance</b>    | <b>954,733</b>      | <b>944,148</b>      |
| Incurred related to:            |                     |                     |
| Current                         | 914,471             | 898,253             |
| Prior years                     | (71,071)            | (5,229)             |
| <b>Total incurred</b>           | <b>843,400</b>      | <b>893,024</b>      |
| Paid related to:                |                     |                     |
| Current                         | 530,422             | 528,289             |
| Prior years                     | 293,702             | 351,658             |
| <b>Total paid</b>               | <b>824,124</b>      | <b>879,947</b>      |
| Net balance                     | 974,009             | 957,225             |
| Plus reinsurance recoverables   | 253,605             | 279,472             |
| <b>Balance at September 30,</b> | <b>\$ 1,227,614</b> | <b>\$ 1,236,697</b> |

The balances at September 30 are included in policy and contract claims in the consolidated statements of financial position.

The potential uncertainty generated 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 losses and loss adjustment expenses attributable to insured events of prior years decreased by approximately \$71,000,000 in the first nine months of 2010 and \$5,000,000 for the same period in 2009.

**9. NOTES PAYABLE**

At September 30, 2010, and December 31, 2009 American National's real estate holding companies were partners in affiliates that had notes payable to third-party lenders totaling \$73,052,000 and \$73,842,000, respectively. These notes have interest rates ranging from 5.40% to 7.25% and maturities from 2014 to 2020. Each of these notes is secured by the real estate owned through the respective affiliated entity, and American National's liability for these notes is limited to the amount of its investment in the respective affiliate, which totaled \$32,414,000 and \$33,265,000 at September 30, 2010 and December 31, 2009, respectively.

**10. FEDERAL INCOME TAXES**

The federal income tax provisions vary from the amounts computed when applying the statutory federal income tax rate. A reconciliation of the effective tax rate of the companies to the statutory federal income tax rate is as follows (in thousands, except percentages):

**Three Months Ended September 30,**

**Nine Months Ended September 30,**

|                                              | <b>2010</b> |       | <b>2009</b> |        | <b>2010</b> |       | <b>2009</b> |       |
|----------------------------------------------|-------------|-------|-------------|--------|-------------|-------|-------------|-------|
|                                              | Amount      | Rate  | Amount      | Rate   | Amount      | Rate  | Amount      | Rate  |
| Income tax<br>(benefit) on pre-tax<br>income | \$ 27,872   | 35.0% | \$ 12,213   | 35.0%  | \$ 52,435   | 35.0% | \$ (18,313) | 35.0% |
| Tax-exempt<br>investment income              | (2,211)     | (2.8) | (2,420)     | (6.9)  | (6,771)     | (4.5) | (7,115)     | 13.6  |
| Dividend exclusion                           | (636)       | (0.8) | (3,730)     | (10.7) | (3,485)     | (2.3) | (10,140)    | 19.4  |
| Miscellaneous tax<br>credits, net            | (1,766)     | (2.2) | (1,520)     | (4.4)  | (5,344)     | (3.6) | (4,706)     | 9.0   |
| Other items, net                             | 7,998       | 10.0  | (1,365)     | (3.9)  | 7,745       | 5.2   | 2,402       | (4.6) |
|                                              | \$ 31,257   | 39.2% | \$ 3,178    | 9.1%   | \$ 44,580   | 29.8% | \$ (37,872) | 72.4% |

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

|                                                                                                                                               | <b>September 30,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|-----------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|------------------------------|
| <b>DEFERRED TAX ASSETS:</b>                                                                                                                   |                               |                              |
| Marketable securities, principally due to impairment losses                                                                                   | \$ 104,822                    | \$ 109,650                   |
| Investment in real estate, mortgage loans and other invested assets, principally due to investment valuation allowances and impairment losses | 12,763                        | 18,315                       |
| Policyholder funds, principally due to policy reserve discount                                                                                | 231,527                       | 211,547                      |
| Policyholder funds, principally due to unearned premium reserve                                                                               | 34,010                        | 31,312                       |
| Non-qualified pension                                                                                                                         | 29,399                        | 29,109                       |
| Participating policyholders' surplus                                                                                                          | 30,513                        | 28,505                       |
| Pension                                                                                                                                       | 34,271                        | 35,228                       |
| Commissions and other expenses                                                                                                                | 4,389                         | 16,209                       |
| Tax carryforwards                                                                                                                             | 23,047                        | 8,666                        |
| Other assets                                                                                                                                  | 12,601                        | 5,952                        |
| <b>Gross deferred tax assets</b>                                                                                                              | <b>517,342</b>                | <b>494,493</b>               |
| Valuation allowance                                                                                                                           |                               | (400)                        |
| <b>Net deferred tax assets</b>                                                                                                                | <b>517,342</b>                | <b>494,093</b>               |
| <b>DEFERRED TAX LIABILITIES:</b>                                                                                                              |                               |                              |
| Marketable securities, principally due to net unrealized gains                                                                                | (199,642)                     | (114,861)                    |
| Investment in bonds, principally due to accrual of discount on bonds                                                                          | (16,478)                      | (13,426)                     |
| Deferred policy acquisition costs, due to difference between GAAP and tax amortization methods                                                | (343,821)                     | (356,014)                    |
| Property, plant and equipment, principally due to difference between GAAP and tax depreciation methods                                        | (5,925)                       | (4,758)                      |
| <b>Gross deferred tax liabilities</b>                                                                                                         | <b>(565,866)</b>              | <b>(489,059)</b>             |
| <b>Total net deferred tax asset (liability)</b>                                                                                               | <b>\$ (48,524)</b>            | <b>\$ 5,034</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. However, if not utilized within the statutory timeframe, American National has approximately \$23,047,000 in deferred tax assets resulting from ordinary loss carryforwards that will expire at the end of tax year 2030.

In accordance with ASC 740-10, *Accounting for Uncertainty in Income Taxes*, American National maintained a reserve for unrecognized tax benefits in 2008. The reserve was removed during 2009 because the tax was fully settled. The change in the reserve is as follows (in thousands):

|                                 | <b>September<br/>30,<br/>2010</b> | <b>December<br/>31,<br/>2009</b> |
|---------------------------------|-----------------------------------|----------------------------------|
| <b>UNCERTAIN TAX POSITIONS:</b> |                                   |                                  |
| Balance at beginning of year    | \$                                | \$ 1,054                         |

|                             |         |
|-----------------------------|---------|
| Settlements during the year | (1,054) |
|-----------------------------|---------|

|                                 |    |    |
|---------------------------------|----|----|
| <b>Balance at end of period</b> | \$ | \$ |
|---------------------------------|----|----|

American National recognizes interest expense and penalties related to uncertain tax positions. Interest expense and penalties are included in the "Other operating costs and expenses" line in the consolidated statements of operations. However, no interest expense was incurred as of September 30, 2010 or December 31, 2009. 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.

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The statute of limitations for the examination of federal income tax returns by the Internal Revenue Service for years 2005 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.

The amount of federal income taxes paid was \$35.9 million for the nine months ended September 30, 2010, while \$71.3 million was refunded for the same period in 2009.

**11. COMPONENTS OF COMPREHENSIVE INCOME**

The items included in comprehensive income (loss), other than net income (loss), are unrealized gains and losses on available-for-sale securities (net of deferred acquisition costs), foreign exchange adjustments and pension liability adjustments. The details on the unrealized gains and losses included in comprehensive income (loss), and the related tax effects thereon, are as follows (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>September 30, 2010</b>                                                             |                                          |                                           |                                          |
| Total holding gains during the period                                                 | \$ 271,202                               | \$ 94,897                                 | \$ 176,305                               |
| Reclassification adjustment for net gain realized in net income/(loss)                | (28,902)                                 | (10,116)                                  | (18,786)                                 |
| Unrealized gains on securities                                                        | 242,300                                  | 84,781                                    | 157,519                                  |
| Effect of change in unrealized gains on available-for-sale securities                 | (80,063)                                 | (28,021)                                  | (52,042)                                 |
| Unrealized losses on investments attributable to participating policyholders interest | (9,023)                                  | (3,158)                                   | (5,865)                                  |
| <b>Net unrealized gain component of comprehensive income</b>                          | <b>\$ 153,214</b>                        | <b>\$ 53,602</b>                          | <b>\$ 99,612</b>                         |
| <b>September 30, 2009</b>                                                             |                                          |                                           |                                          |
| Total holding gains during the period                                                 | \$ 632,829                               | \$ 221,071                                | \$ 411,758                               |
| Reclassification adjustment for net gain realized in net income/(loss)                | 81,146                                   | 28,330                                    | 52,816                                   |
| Unrealized gains on securities                                                        | 713,975                                  | 249,401                                   | 464,574                                  |
| Effect of change in unrealized gains on available-for-sale securities                 | (193,892)                                | (67,904)                                  | (125,988)                                |
| Unrealized losses on investments attributable to participating policyholders interest | (18,155)                                 | (6,354)                                   | (11,801)                                 |
| Cumulative effect of change in accounting                                             | 77,555                                   | 27,144                                    | 50,411                                   |
| <b>Net unrealized gain component of comprehensive income</b>                          | <b>\$ 579,483</b>                        | <b>\$ 202,287</b>                         | <b>\$ 377,196</b>                        |

**Table of Contents****12. 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 were as follows:

|                                        | <b>September 30,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|----------------------------------------|-------------------------------|------------------------------|
| <b>Common stock</b>                    |                               |                              |
| Shares issued                          | 30,832,449                    | 30,832,449                   |
| Treasury shares                        | 4,012,283                     | 4,012,283                    |
| Restricted shares                      | 261,334                       | 261,334                      |
| <b>Unrestricted outstanding shares</b> | <b>26,558,832</b>             | <b>26,558,832</b>            |

**Stock-based compensation**

American National has one stock-based compensation plan. Under this plan, American National can grant Non-Qualified Stock Options, Stock Appreciation Rights, Restricted Stock Awards, Restricted Stock Units, Performance Rewards, Incentive Awards and 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.

The plan provides for the award of Restricted Stock. Restricted Stock Awards entitle the participant to full dividend and voting rights. Unvested shares are restricted as to disposition, and are subject to forfeiture under certain circumstances. Compensation expense is recognized over the vesting period. The restrictions on these awards lapse after 10 years, and feature a graded vesting schedule in the case of the retirement of an award holder. Restricted stock has been granted, with a total of 340,334 shares granted at an exercise price of zero. These awards result in compensation expense to American National over the vesting period. The amount of compensation expense recorded for the three and nine months ended September 30, 2010 was \$630,000, and \$1,970,000, respectively. For the three and nine months ended September 30, 2009, the compensation expense recorded was \$1,536,000 and \$3,052,000, respectively.

The plan provides for the award of Stock Appreciation Rights (SAR). The SARs give the holder the right to compensation based on the difference between the price of a share of stock on the grant date and the price on the exercise date. The SARs vest at a rate of 20% per year for 5 years and expire 5 years after the vesting period. American National uses the average of the high and low price on the last trading day of the period to calculate the fair value and compensation expense for SARs. The fair value of the SARs was \$6,700 and \$1,613,000 at September 30, 2010 and December 31, 2009, respectively. Compensation income was recorded totaling \$23,000, and \$1,606,000 for the three and nine months ended September 30, 2010, respectively, and for the same period in 2009 the amount of compensation expense recorded was \$13,000 and \$20,000, respectively.

The plan provides for the award of Restricted Stock Units ( RSU ). Beginning in 2010, RSUs are awarded as a result of achieving the objectives of a performance based incentive compensation plan. The RSUs generally vest after two 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 recorded totaling \$130,000 and \$390,000 for the three and nine months ended September 30, 2010.

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SAR and Restricted Stock (RS) information is as follows:

|                                              | <b>SAR<br/>Shares</b> | <b>SAR<br/>Weighted-<br/>Average<br/>Price<br/>per Share</b> | <b>RS<br/>Shares</b> | <b>RS<br/>Weighted-<br/>Average<br/>Price per<br/>Share</b> | <b>RS<br/>Units</b> | <b>RSU<br/>Weighted-<br/>Average<br/>Price per<br/>Share</b> |
|----------------------------------------------|-----------------------|--------------------------------------------------------------|----------------------|-------------------------------------------------------------|---------------------|--------------------------------------------------------------|
| <b>Outstanding at<br/>December 31, 2009</b>  | <b>161,449</b>        | <b>\$ 108.53</b>                                             | <b>261,334</b>       | <b>\$ 102.98</b>                                            |                     | <b>\$</b>                                                    |
| Granted                                      | 1,835                 | 110.83                                                       |                      |                                                             | 10,230              | 109.29                                                       |
| Exercised                                    | (9,633)               | 95.06                                                        |                      |                                                             | (811)               | 109.29                                                       |
| Forfeited                                    | (6,800)               | 113.42                                                       |                      |                                                             |                     |                                                              |
| Expired                                      | (2,500)               | 90.86                                                        |                      |                                                             |                     |                                                              |
| <b>Outstanding at<br/>September 30, 2010</b> | <b>144,351</b>        | <b>109.53</b>                                                | <b>261,334</b>       | <b>102.98</b>                                               | <b>9,419</b>        | <b>109.29</b>                                                |

The weighted-average contractual remaining life for the 144,351 SAR shares outstanding as of September 30, 2010, is 4.6 years. The weighted-average exercise price for these shares is \$109.53 per share. Of the shares outstanding, 87,353 are exercisable at a weighted-average exercise price of \$106.62 per share.

The weighted-average contractual remaining life for the 261,334 Restricted Stock shares outstanding as of September 30, 2010, is 6.1 years. The weighted-average price at the date of grant for these shares is \$102.98 per share. None of the shares outstanding was exercisable.

The weighted-average contractual remaining life for the 9,419 Restricted Stock Units authorized as of September 30, 2010, is 1.4 years. The weighted-average price at the date of grant for these units is \$109.29 per share. None of the authorized units were exercisable.

**Earnings per share**

Basic earnings per share was calculated using a weighted average number of shares outstanding of 26,558,832 and 26,518,832 at September 30, 2010 and 2009, respectively. The Restricted Stock resulted in diluted earnings per share as follows for the periods indicated:

|                                                       | <b>Three Months Ended<br/>September 30,</b> |                      | <b>Nine Months Ended<br/>September 30,</b> |                        |
|-------------------------------------------------------|---------------------------------------------|----------------------|--------------------------------------------|------------------------|
|                                                       | <b>2010</b>                                 | <b>2009</b>          | <b>2010</b>                                | <b>2009</b>            |
| Weighted average shares outstanding                   | 26,558,832                                  | 26,528,832           | 26,558,832                                 | 26,518,832             |
| Incremental shares from restricted stock              | 119,562                                     | 42,536               | 119,562                                    |                        |
| <b>Total shares for diluted calculations</b>          | <b>26,678,394</b>                           | <b>26,571,368</b>    | <b>26,678,394</b>                          | <b>26,518,832</b>      |
| <b>Net income (loss) from continuing operations</b>   | <b>\$ 47,569,000</b>                        | <b>\$ 32,578,000</b> | <b>\$ 106,968,000</b>                      | <b>\$ (18,136,000)</b> |
| <b>Net income (loss) from discontinued operations</b> | <b>(513,000)</b>                            | <b>122,000</b>       | <b>1,488,000</b>                           | <b>(1,214,000)</b>     |
|                                                       | <b>\$ 47,056,000</b>                        | <b>\$ 32,700,000</b> | <b>\$ 108,456,000</b>                      | <b>\$ (19,350,000)</b> |

**Net income (loss) attributable to American  
National Insurance Company and  
Subsidiaries**

|                                                                       |           |               |           |             |           |             |           |               |
|-----------------------------------------------------------------------|-----------|---------------|-----------|-------------|-----------|-------------|-----------|---------------|
| <b>Basic earnings per share from continued operations</b>             | <b>\$</b> | <b>1.79</b>   | <b>\$</b> | <b>1.23</b> | <b>\$</b> | <b>4.02</b> | <b>\$</b> | <b>(0.68)</b> |
| <b>Basic earnings (loss) per share from discontinued operations</b>   |           | <b>(0.02)</b> |           |             |           | <b>0.06</b> |           | <b>(0.05)</b> |
| <b>Basic earnings per share</b>                                       | <b>\$</b> | <b>1.77</b>   | <b>\$</b> | <b>1.23</b> | <b>\$</b> | <b>4.08</b> | <b>\$</b> | <b>(0.73)</b> |
| <b>Diluted earnings per share from continued operations</b>           | <b>\$</b> | <b>1.78</b>   | <b>\$</b> | <b>1.23</b> | <b>\$</b> | <b>4.01</b> | <b>\$</b> | <b>(0.68)</b> |
| <b>Diluted earnings (loss) per share from discontinued operations</b> |           | <b>(0.02)</b> |           |             |           | <b>0.06</b> |           | <b>(0.05)</b> |
| <b>Diluted earnings per share</b>                                     | <b>\$</b> | <b>1.76</b>   | <b>\$</b> | <b>1.23</b> | <b>\$</b> | <b>4.07</b> | <b>\$</b> | <b>(0.73)</b> |

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### **Dividends**

American National's payment of dividends to stockholders is restricted by statutory regulations. Generally, the restrictions require life insurance companies to maintain minimum amounts of capital and surplus, and in the absence of special approval, limit the payment of dividends to 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 September 30, 2010 and December 31, 2009, American National's statutory capital and surplus was \$1,883,804,000 and \$1,892,467,000, respectively.

Generally, the same restrictions on amounts that can transfer in the form of dividends, loans, or advances to the parent company apply to American National's insurance subsidiaries. Dividends received by American National from its non-insurance subsidiaries amounted to \$2,000,000, and \$6,000,000 for the three and nine months ended September 30, 2010, respectively, while no dividends were received during the same period in 2009.

At September 30, 2010, approximately \$1,399,352,000 of American National's consolidated stockholders' equity represents net assets of its insurance subsidiaries, compared to \$1,406,599,000 at December 31, 2009. Any transfer of these net assets to American National would be subject to statutory restrictions and approval.

### **Noncontrolling interests**

American National County Mutual Insurance Company (County Mutual) is a mutual insurance company that is owned by its policyholders. However, County Mutual has a management agreement with American National, 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 interest that the policyholders of County Mutual have in the financial position of County Mutual is reflected as noncontrolling interest totaling \$6,750,000 at September 30, 2010 and December 31, 2009.

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 liability of \$2,320,000 and \$5,205,000 at September 30, 2010 and December 31, 2009, respectively.

The accompanying consolidated financial statements are presented in our reporting currency, the U.S. dollar. All material intercompany transactions with consolidated entities have been eliminated.

### **13. 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, employer medical stop loss, true group, 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 capital not allocated to the insurance lines and the operations of non-insurance lines of business.

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The accounting policies of the segments are the same as those described in the summary of significant accounting policies. 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:

Net investment income from fixed income assets (bonds and mortgage loans) is allocated based on the funds generated by each line of business at the yield available from these fixed income assets at the time such funds become available.

Net investment income from all other assets is allocated to the operating segments in accordance with the amount of equity invested in 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 are allocated to Corporate and Other.

Equity in earnings of unconsolidated affiliates are allocated to Corporate and Other.

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 Corporate and Other.

The following tables summarize American National's key financial measures used by the chief operating decision makers, including operating results for the three and nine months ended September 30, 2010 and 2009 (in thousands):

**Three Months Ended September 30, 2010**

|                                                  | <b>Life</b>    | <b>Annuity</b> | <b>Health</b> | <b>Property<br/>&amp;<br/>Casualty</b> | <b>Corporate &amp;<br/>Other</b> | <b>TOTAL</b>   |
|--------------------------------------------------|----------------|----------------|---------------|----------------------------------------|----------------------------------|----------------|
| <b>Premiums and Other Revenues:</b>              |                |                |               |                                        |                                  |                |
| Premiums                                         | \$ 71,352      | \$ 51,180      | \$ 64,288     | \$ 297,703                             | \$                               | \$ 484,523     |
| Other policy revenues                            | 42,837         | 3,505          |               |                                        |                                  | 46,342         |
| Net investment income                            | 55,466         | 136,297        | 3,590         | 16,548                                 | 26,180                           | 238,081        |
| Other income                                     | 996            | (3,139)        | 2,364         | 2,226                                  | 437                              | 2,884          |
| <b>Total operating revenues</b>                  | <b>170,651</b> | <b>187,843</b> | <b>70,242</b> | <b>316,477</b>                         | <b>26,617</b>                    | <b>771,830</b> |
| Realized gains on investments                    |                |                |               |                                        | 18,626                           | 18,626         |
| <b>Total revenues</b>                            | <b>170,651</b> | <b>187,843</b> | <b>70,242</b> | <b>316,477</b>                         | <b>45,243</b>                    | <b>790,456</b> |
| <b>Benefits, Losses and Expenses:</b>            |                |                |               |                                        |                                  |                |
| Policy benefits                                  | 73,402         | 56,963         | 43,140        | 208,893                                |                                  | 382,398        |
| Interest credited to policy account balances     | 16,283         | 94,564         |               | 24                                     |                                  | 110,871        |
| Commissions for acquiring and servicing policies | 23,851         | 24,795         | 8,150         | 63,612                                 |                                  | 120,408        |
| Other operating costs and expenses               | 45,229         | 15,312         | 10,694        | 30,758                                 | 8,958                            | 110,951        |

|                                                                                                                                         |                  |                 |                 |                  |                  |                  |
|-----------------------------------------------------------------------------------------------------------------------------------------|------------------|-----------------|-----------------|------------------|------------------|------------------|
| Decrease (increase) in<br>deferred policy acquisition<br>costs                                                                          | (1,759)          | (11,644)        | 891             | (1,294)          |                  | (13,806)         |
| <b>Total benefits, losses and<br/>expenses</b>                                                                                          | <b>157,006</b>   | <b>179,990</b>  | <b>62,875</b>   | <b>301,993</b>   | <b>8,958</b>     | <b>710,822</b>   |
| <b>Income from continuing<br/>operations before federal<br/>income taxes, and equity<br/>in losses of<br/>unconsolidated affiliates</b> | <b>\$ 13,645</b> | <b>\$ 7,853</b> | <b>\$ 7,367</b> | <b>\$ 14,484</b> | <b>\$ 36,285</b> | <b>\$ 79,634</b> |

**Table of Contents****Three Months Ended September 30, 2009**

|                                                                                                                                | <b>Life</b>    | <b>Annuity</b> | <b>Health</b> | <b>Property<br/>&amp;<br/>Casualty</b> | <b>Corporate &amp;<br/>Other</b> | <b>TOTAL</b>   |
|--------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|---------------|----------------------------------------|----------------------------------|----------------|
| <b>Premiums and Other Revenues:</b>                                                                                            |                |                |               |                                        |                                  |                |
| Premiums                                                                                                                       | \$ 76,320      | \$ 58,284      | \$ 74,428     | \$ 298,073                             | \$                               | \$ 507,105     |
| Other policy revenues                                                                                                          | 41,569         | 3,723          |               |                                        |                                  | 45,292         |
| Net investment income                                                                                                          | 55,724         | 118,963        | 4,031         | 16,171                                 | 27,303                           | 222,192        |
| Other income                                                                                                                   | 948            | (2,168)        | 2,729         | 856                                    | 849                              | 3,214          |
| <b>Total operating revenues</b>                                                                                                | <b>174,561</b> | <b>178,802</b> | <b>81,188</b> | <b>315,100</b>                         | <b>28,152</b>                    | <b>777,803</b> |
| Realized losses on investments                                                                                                 |                |                |               |                                        | (935)                            | (935)          |
| <b>Total revenues</b>                                                                                                          | <b>174,561</b> | <b>178,802</b> | <b>81,188</b> | <b>315,100</b>                         | <b>27,217</b>                    | <b>776,868</b> |
| <b>Benefits, Losses and Expenses:</b>                                                                                          |                |                |               |                                        |                                  |                |
| Policy benefits                                                                                                                | 75,865         | 63,776         | 57,217        | 222,196                                |                                  | 419,054        |
| Interest credited to policy account balances                                                                                   | 13,932         | 84,320         |               |                                        |                                  | 98,252         |
| Commissions for acquiring and servicing policies                                                                               | 25,241         | 21,807         | 11,226        | 55,862                                 | 8                                | 114,144        |
| Other operating costs and expenses                                                                                             | 48,000         | 14,511         | 15,267        | 33,788                                 | 13,309                           | 124,875        |
| Decrease (increase) in deferred policy acquisition costs                                                                       | (177)          | (9,650)        | 423           | (4,947)                                |                                  | (14,351)       |
| <b>Total benefits, losses and expenses</b>                                                                                     | <b>162,861</b> | <b>174,764</b> | <b>84,133</b> | <b>306,899</b>                         | <b>13,317</b>                    | <b>741,974</b> |
| <b>Income (loss) from continuing operations before federal income taxes, and equity in losses of unconsolidated affiliates</b> |                |                |               |                                        |                                  |                |
|                                                                                                                                | \$ 11,700      | \$ 4,038       | \$ (2,945)    | \$ 8,201                               | \$ 13,900                        | \$ 34,894      |

**Nine Months Ended September 30, 2010**

|                                                                                                                                |                  |                  |                  | Property<br>&<br>Casualty | Corporate &<br>Other | TOTAL             |
|--------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|------------------|---------------------------|----------------------|-------------------|
|                                                                                                                                | Life             | Annuity          | Health           |                           |                      |                   |
| <b>Premiums and Other Revenues:</b>                                                                                            |                  |                  |                  |                           |                      |                   |
| Premiums                                                                                                                       | \$ 209,670       | \$ 132,140       | \$ 200,553       | \$ 871,672                | \$                   | \$ 1,414,035      |
| Other policy revenues                                                                                                          | 126,613          | 11,453           |                  |                           |                      | 138,066           |
| Net investment income                                                                                                          | 166,907          | 367,509          | 11,273           | 51,250                    | 71,025               | 667,964           |
| Other income                                                                                                                   | 2,786            | (6,061)          | 7,654            | 6,121                     | 2,727                | 13,227            |
| <b>Total operating revenues</b>                                                                                                | <b>505,976</b>   | <b>505,041</b>   | <b>219,480</b>   | <b>929,043</b>            | <b>73,752</b>        | <b>2,233,292</b>  |
| Realized gains on investments                                                                                                  |                  |                  |                  |                           | 50,437               | 50,437            |
| <b>Total revenues</b>                                                                                                          | <b>505,976</b>   | <b>505,041</b>   | <b>219,480</b>   | <b>929,043</b>            | <b>124,189</b>       | <b>2,283,729</b>  |
| <b>Benefits, Losses and Expenses:</b>                                                                                          |                  |                  |                  |                           |                      |                   |
| Policy benefits                                                                                                                | 220,408          | 155,100          | 141,330          | 702,070                   |                      | 1,218,908         |
| Interest credited to policy account balances                                                                                   | 44,277           | 240,456          |                  | 64                        |                      | 284,797           |
| Commissions for acquiring and servicing policies                                                                               | 67,513           | 75,944           | 27,265           | 172,460                   | 3                    | 343,185           |
| Other operating costs and expenses                                                                                             | 131,604          | 46,113           | 35,806           | 94,028                    | 26,290               | 333,841           |
| Decrease (increase) in deferred policy acquisition costs                                                                       | (5,903)          | (40,584)         | 3,784            | (4,112)                   |                      | (46,815)          |
| <b>Total benefits, losses and expenses</b>                                                                                     | <b>457,899</b>   | <b>477,029</b>   | <b>208,185</b>   | <b>964,510</b>            | <b>26,293</b>        | <b>2,133,916</b>  |
| <b>Income (loss) from continuing operations before federal income taxes, and equity in losses of unconsolidated affiliates</b> | <b>\$ 48,077</b> | <b>\$ 28,012</b> | <b>\$ 11,295</b> | <b>\$ (35,467)</b>        | <b>\$ 97,896</b>     | <b>\$ 149,813</b> |

#### Nine Months Ended September 30, 2009

|  |      |         |        | Property<br>&<br>Casualty | Corporate &<br>Other | TOTAL |
|--|------|---------|--------|---------------------------|----------------------|-------|
|  | Life | Annuity | Health |                           |                      |       |

**Premiums and Other Revenues:**

|                                 |                |                |                |                |                |                  |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|------------------|
| Premiums                        | \$ 211,638     | \$ 149,141     | \$ 224,001     | \$ 866,989     | \$             | \$ 1,451,769     |
| Other policy revenues           | 122,420        | 11,320         |                |                |                | 133,740          |
| Net investment income           | 166,510        | 331,607        | 12,080         | 49,941         | 69,742         | 629,880          |
| Other income                    | 1,868          | 295            | 7,757          | 5,308          | 2,305          | 17,533           |
| <b>Total operating revenues</b> | <b>502,436</b> | <b>492,363</b> | <b>243,838</b> | <b>922,238</b> | <b>72,047</b>  | <b>2,232,922</b> |
| Realized losses on investments  |                |                |                |                | (81,103)       | (81,103)         |
| <b>Total revenues</b>           | <b>502,436</b> | <b>492,363</b> | <b>243,838</b> | <b>922,238</b> | <b>(9,056)</b> | <b>2,151,819</b> |

**Benefits, Losses and Expenses:**

|                                                          |                |                |                |                |               |                  |
|----------------------------------------------------------|----------------|----------------|----------------|----------------|---------------|------------------|
| Policy benefits                                          | 222,131        | 170,584        | 178,983        | 714,041        |               | 1,285,739        |
| Interest credited to policy account balances             | 44,140         | 231,414        |                |                |               | 275,554          |
| Commissions for acquiring and servicing policies         | 68,931         | 77,790         | 34,038         | 160,967        | 8             | 341,734          |
| Other operating costs and expenses                       | 138,712        | 43,794         | 46,834         | 93,271         | 26,883        | 349,494          |
| Decrease (increase) in deferred policy acquisition costs | 152            | (41,117)       | 4,262          | (11,677)       |               | (48,380)         |
| <b>Total benefits, losses and expenses</b>               | <b>474,066</b> | <b>482,465</b> | <b>264,117</b> | <b>956,602</b> | <b>26,891</b> | <b>2,204,141</b> |

**Income (loss) from continuing operations before federal income taxes, and equity in losses of unconsolidated affiliates**

|                  |                 |                    |                    |                    |                    |
|------------------|-----------------|--------------------|--------------------|--------------------|--------------------|
| <b>\$ 28,370</b> | <b>\$ 9,898</b> | <b>\$ (20,279)</b> | <b>\$ (34,364)</b> | <b>\$ (35,947)</b> | <b>\$ (52,322)</b> |
|------------------|-----------------|--------------------|--------------------|--------------------|--------------------|

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**14. COMMITMENTS AND CONTINGENCIES**

**Commitments**

In the ordinary course of operations, American National had commitments outstanding at September 30, 2010, to purchase, expand or improve real estate, to fund mortgage loans, and to purchase other invested assets aggregating \$274,091,000, of which \$252,008,000 is expected to be funded in 2010. The remaining balance of \$22,083,000 is scheduled to be funded in 2011 and beyond. As of September 30, 2010, all of the mortgage loan commitments have interest rates that are fixed.

On September 15, 2010 the Company 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 the Company's working capital requirements. The combination of borrowings and outstanding letters of credit cannot exceed \$100,000,000 at any time. As of September 30, 2010 and December 31, 2009 the outstanding letters of credit were \$37,076,000 and \$36,205,000, respectively, and there were no borrowings on this facility to meet liquidity 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 loan. However, since the cash value of the life insurance policies always equals or exceeds the balances of the loans, management does not foresee any loss on the guarantees. The total amount of the guarantees outstanding as of September 30, 2010, was approximately \$206,513,000, while the total cash values of the related life insurance policies was approximately \$209,159,000.

**Litigation**

As previously reported, American National was a defendant in a lawsuit related to the alleged inducement of another company's insurance agents to become agents of American National (Farm Bureau Life Insurance Company and Farm Bureau Mutual Insurance Company v. American National Insurance Company et al., U.S. District Court for the District of Utah, filed July 23, 2003). Plaintiffs initially alleged that American National improperly induced agents to leave Plaintiffs and join American National, asserting claims against American National for inducing one of Plaintiffs managers to breach duties allegedly owed to Plaintiffs as well as claims against American National for misappropriation of trade secrets, tortious interference with contractual relationships, business disparagement, libel, defamation, civil conspiracy, unjust enrichment and unfair competition. By the time of trial, some claims had been dismissed; however, Plaintiffs' surviving claims continued to allege that their damages from the wrongful conduct exceeded \$3.9 million, and Plaintiffs also sought punitive damages. The jury reached a verdict adverse to American National, in the total amount of approximately \$63.6 million, of which approximately \$60.0 million represented punitive damages; however, the court subsequently reduced the punitive damages award, resulting in a total award of approximately \$7.1 million against American National. An appeal has been taken to the Tenth Circuit. American National has accrued an appropriate amount for resolution of this case, including attorneys' fees, and believes that any additional amounts necessary will not be material to the consolidated financial statements.

As previously reported, 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 & Professions, Welfare & 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 rescissory and/or injunctive relief in an unspecified amount. Discovery in this case is ongoing. If necessary, class certification issues may be briefed and argument heard by the Court in early to mid 2011. 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. American National believes that it has meritorious defenses; however, no prediction can be made as to the probability or remoteness of any recovery against American National.

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.

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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.

**15. 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 from as of |                   |
|--------------------------------|--------------------------------------------------|--------------------------------------|--------------------|-----------------------|-------------------|
|                                |                                                  | Nine Months Ended September 30, 2010 | September 30, 2009 | September 30, 2010    | December 31, 2009 |
| Gal-Tex Hotel Corporation      | Mortgage loans on real estate                    | 687                                  | 639                | 11,188                | 11,875            |
| Gal-Tex Hotel Corporation      | Net investment income                            | 629                                  | 677                | 68                    | 72                |
| Gal-Tex Hotel Corporation      | Other operating costs and expenses               | 196                                  | 215                | 18                    | 20                |
| Gal-Tex Hotel Corporation      | Accident and health premiums                     | 56                                   | 44                 | 56                    |                   |
| Moody Insurance Group, Inc.    | Commissions for acquiring and servicing policies | 2,249                                | 2,328              | 10                    | 388               |
| Moody Insurance Group, Inc.    | Other operating costs and expenses               | 103                                  | 174                |                       |                   |
| National Western Life Ins. Co. | Accident and health premiums                     | 116                                  | 130                | 17                    |                   |
| National Western Life Ins. Co. | Other operating costs and expenses               | 925                                  | 891                |                       |                   |
| Moody Foundation               | Accident and health premiums                     | 206                                  | 219                | 7                     |                   |
| Greer, Herz and Adams, LLP     | Other operating costs and expenses               | 8,387                                | 6,733              | 411                   | 370               |

**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 Insurance Company ( we or us ). As of September 30, 2010, we 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 \$11,188,000 as of September 30, 2010, 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. Such loan impacts the Mortgage loans on real estate and Investment income lines of our consolidated financial statements.

*Management Contracts with Gal-Tex:* We have entered into management contracts with Gal-Tex for the management of a hotel and adjacent fitness center owned by us. Such contracts are terminable by us upon thirty days prior written notice. Payments by us to Gal-Tex pursuant to these management contracts impact the Other operating costs and expenses line of the consolidated financial statements.

*Transactions with Moody Insurance Group, Inc.:* Robert L. Moody, Jr. ( RLM Jr. ) is the son of our Chairman and Chief Executive Officer, brother of two of our directors, and he is one of our 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 us and some of our subsidiaries in connection with the marketing of insurance products. MIG and we 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 our Restricted Stock granted to MIG as a consultant. Such compensation impacts the Other operating costs and expenses line of our consolidated financial statements.

*Health Insurance Contracts with Certain Affiliates:* Our Merit Plan is insured by National Western Life Insurance Company ( National Western ). Robert L. Moody, Sr., our Chairman of the Board and Chief Executive Officer, is also the Chairman of the Board, Chief Executive Officer, and controlling stockholder of National Western. Our Merit Plan is an insured medical plan that supplements our 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. Payments made by us to National Western in connection with the Merit Plan impact the Other costs and expenses line of our consolidated financial statements.

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In addition, we insure substantially similar plans offered by National Western, Gal-Tex, and The Moody Foundation to certain of their officers. We also insure The Moody Foundation's basic health insurance plan. Amounts paid to us by such entities are reflected in the "Accident and health premiums" line of our consolidated financial statements.

*Transactions with Greer, Herz & Adams, L.L.P.:* Irwin M. Herz, Jr. is our advisory director and a Partner with Greer, Herz Adams, L.L.P. which serves as our General Counsel. Legal fees and reimbursements of expenses in connection with such firm's services as our General Counsel and for all of our subsidiaries are reflected in the "Other operating costs and expenses" line of the consolidated financial statements.

**16. DISCONTINUED OPERATIONS**

In October 2010, the Company entered into an agreement to sell its wholly-owned registered investment advisor and broker-dealer subsidiary, Securities, Management & Research, Inc. ("SM&R"). American National expects the sale to close in the fourth quarter of 2010 and, accordingly, the results of operations for this subsidiary are presented as discontinued operations in American National's Consolidated Statements of Operations for all periods presented and the aggregated assets and liabilities are presented separately as single line items in the asset and liability sections of the Consolidated Statements of Financial Position at September 30, 2010. Cash flows related to discontinued operations have been combined with cash flows from continuing operations within each category of cash flows. American National recorded a \$1.0 million impairment in the third quarter of 2010 as a result of the pending disposal. SM&R had previously been a component of the Corporate and Other reportable segment.

The following table summarizes income (loss) from discontinued operations (in thousands):

|                                                                                       | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|---------------------------------------------------------------------------------------|---------------------------------------------|-------------|--------------------------------------------|-------------|
|                                                                                       | <b>2010</b>                                 | <b>2009</b> | <b>2010</b>                                | <b>2009</b> |
| <b>Revenues:</b>                                                                      |                                             |             |                                            |             |
| Net investment income                                                                 | \$                                          | \$ 74       | \$ 145                                     | \$ 246      |
| Realized investments gains (losses)                                                   | 591                                         |             | 3,521                                      | (2,041)     |
| Other income                                                                          | 1,997                                       | 3,405       | 8,504                                      | 10,110      |
| <br>Total Revenues                                                                    | <br>2,588                                   | <br>3,479   | <br>12,170                                 | <br>8,315   |
| <b>Expenses</b>                                                                       |                                             |             |                                            |             |
| Other operating costs and expenses                                                    | 2,378                                       | 3,306       | 8,928                                      | 10,227      |
| <br>Total Expenses                                                                    | <br>2,378                                   | <br>3,306   | <br>8,928                                  | <br>10,227  |
| <br>Income (loss) from discontinued operations                                        | <br>210                                     | <br>173     | <br>3,242                                  | <br>(1,912) |
| <br>Impairment                                                                        | <br>(1,000)                                 |             | <br>(1,000)                                |             |
| <br>Income (loss) from discontinued operations before<br>income tax expense (benefit) | <br>(790)                                   | <br>173     | <br>2,242                                  | <br>(1,912) |
| <br>Income tax expense (benefit)                                                      | <br>(277)                                   | <br>51      | <br>754                                    | <br>(698)   |

|                                                        |    |       |    |     |    |       |    |         |
|--------------------------------------------------------|----|-------|----|-----|----|-------|----|---------|
| Income (loss) from discontinued operations, net of tax | \$ | (513) | \$ | 122 | \$ | 1,488 | \$ | (1,214) |
|--------------------------------------------------------|----|-------|----|-----|----|-------|----|---------|

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The following table summarizes assets and liabilities held for sale (in thousands):

|                                        | <b>September<br/>30,<br/>2010</b> | <b>December<br/>31,<br/>2009</b> |
|----------------------------------------|-----------------------------------|----------------------------------|
| <b>Assets:</b>                         |                                   |                                  |
| Cash                                   | \$ 8,828                          | \$                               |
| Premiums due and other receivables     | 3,171                             |                                  |
| Other Assets                           | 887                               |                                  |
| <b>Total Assets Held-for-Sale</b>      | <b>\$ 12,886</b>                  | <b>\$</b>                        |
| <b>Liabilities</b>                     |                                   |                                  |
| Deferred federal income tax            | \$ 549                            | \$                               |
| Accrued commissions & other expenses   | 1,421                             |                                  |
| <b>Total Liabilities Held-for-Sale</b> | <b>\$ 1,970</b>                   | <b>\$</b>                        |

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**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 and nine month periods ended September 30, 2010 and 2009, 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 together with the notes to the consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q.

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### **Forward-Looking Statements**

Certain statements contained herein are forward-looking statements. The forward-looking statements contained herein 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, similar meaning; 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 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 assumptions related to deferred policy acquisition costs, valuation of business acquired or goodwill;
- 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 1A, Risk Factors, in our 2009 Annual Report on Form 10-K filed with the SEC on March 12, 2010. 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**

American National Insurance Company has more than 100 years of experience. We have maintained our home office in Galveston, Texas since our founding in 1905. Our core businesses are life insurance, annuities, and property and casualty insurance. We also offer pension services and limited health insurance. Within our property and casualty business, we offer insurance for personal lines, agribusiness, and targeted commercial exposures. We provide personalized service to approximately eight million policyholders throughout the United States, the District of Columbia, Puerto Rico, Guam, and American Samoa. Our total assets and stockholders equity as of September 30,

2010 were \$21.3 billion and \$3.6 billion, respectively, and at December 31, 2009 were \$20.1 billion and \$3.5 billion, respectively.

**General Trends**

There were no material changes to the general trends we are experiencing, as discussed in the MD&A included in our 2009 Annual Report on Form 10-K filed with the SEC on March 12, 2010.

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**Critical Accounting Estimates**

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

We have identified the following estimates as critical to our business operations and the understanding of the results of our operations, as they involve a higher degree of judgment and are subject to a significant degree of variability: evaluation of other-than-temporary impairments on securities; deferred policy acquisition costs; reserves; valuation of policyholder liabilities and associated reinsurance recoverables; pension and other postretirement benefit obligations; contingencies relating to corporate litigation and regulatory matters; and federal income taxes.

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 the critical accounting estimates, see the MD&A in our 2009 Annual Report on Form 10-K filed with the SEC on March 12, 2010. There were no material changes in accounting policies from December 31, 2009.

**Recently Issued Accounting Pronouncements**

Refer to Item 1, Note 3 of Notes to the Consolidated Financial Statements for a discussion on Recently Issued Accounting Pronouncements.

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

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

|                                                                  | <b>Three Months Ended<br/>September 30,</b> |                  |                  | <b>Nine Months Ended<br/>September 30,</b> |                    |                   |
|------------------------------------------------------------------|---------------------------------------------|------------------|------------------|--------------------------------------------|--------------------|-------------------|
|                                                                  | <b>2010</b>                                 | <b>2009</b>      | <b>Change</b>    | <b>2010</b>                                | <b>2009</b>        | <b>Change</b>     |
| <b>Premiums and other revenues:</b>                              |                                             |                  |                  |                                            |                    |                   |
| Premiums                                                         | \$ 484,523                                  | \$ 507,105       | \$ (22,582)      | \$ 1,414,035                               | \$ 1,451,769       | \$ (37,734)       |
| Other policy revenues                                            | 46,342                                      | 45,292           | 1,050            | 138,066                                    | 133,740            | 4,326             |
| Net investment income                                            | 238,081                                     | 222,192          | 15,889           | 667,964                                    | 629,880            | 38,084            |
| Realized investments gains (losses), net                         | 18,626                                      | (935)            | 19,561           | 50,437                                     | (81,103)           | 131,540           |
| Other income                                                     | 2,884                                       | 3,214            | (330)            | 13,227                                     | 17,533             | (4,306)           |
| <b>Total revenues</b>                                            | <b>790,456</b>                              | <b>776,868</b>   | <b>13,588</b>    | <b>2,283,729</b>                           | <b>2,151,819</b>   | <b>131,910</b>    |
| <b>Benefits, losses and expenses:</b>                            |                                             |                  |                  |                                            |                    |                   |
| Policy benefits                                                  | 382,398                                     | 419,054          | (36,656)         | 1,218,908                                  | 1,285,739          | (66,831)          |
| Interest credited to policy account balances                     | 110,871                                     | 98,252           | 12,619           | 284,797                                    | 275,554            | 9,243             |
| Commissions                                                      | 120,408                                     | 114,144          | 6,264            | 343,185                                    | 341,734            | 1,451             |
| Other operating costs and expenses                               | 110,951                                     | 124,875          | (13,924)         | 333,841                                    | 349,494            | (15,653)          |
| Change in deferred policy acquisition costs <sup>(1)</sup>       | (13,806)                                    | (14,351)         | 545              | (46,815)                                   | (48,380)           | 1,565             |
| <b>Total benefits and expenses</b>                               | <b>710,822</b>                              | <b>741,974</b>   | <b>(31,152)</b>  | <b>2,133,916</b>                           | <b>2,204,141</b>   | <b>(70,225)</b>   |
| <b>Income (loss) before other items and federal income taxes</b> | <b>\$ 79,634</b>                            | <b>\$ 34,894</b> | <b>\$ 44,740</b> | <b>\$ 149,813</b>                          | <b>\$ (52,322)</b> | <b>\$ 202,135</b> |

(1) A positive amount of net change indicates less expense was deferred than amortized and represents

an increase to  
expenses in the  
periods  
indicated.

Consolidated income before other items and federal income taxes increased during the three and nine months ended September 30, 2010 compared to the same periods in 2009. The increase is primarily driven by a decrease in policy benefits across all segments, a decrease in other operating costs and expenses in our Life and Health segments, in addition to the increase in realized investment gains as a result of improved market conditions. This increase is partially offset by a decrease in premiums and an increase in interest credited to policy account balances.

**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, variable universal life and indexed universal life. These products are marketed on a nationwide basis through employee agents, multiple line agents, independent agents and brokers and direct marketing channels.

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

|                                                           | <b>Three Months Ended<br/>September 30,</b> |                  |                 | <b>Nine Months Ended<br/>September 30,</b> |                  |                  |
|-----------------------------------------------------------|---------------------------------------------|------------------|-----------------|--------------------------------------------|------------------|------------------|
|                                                           | <b>2010</b>                                 | <b>2009</b>      | <b>Change</b>   | <b>2010</b>                                | <b>2009</b>      | <b>Change</b>    |
| <b>Revenues:</b>                                          |                                             |                  |                 |                                            |                  |                  |
| Premiums                                                  | \$ 71,352                                   | \$ 76,320        | \$ (4,968)      | \$ 209,670                                 | \$ 211,638       | \$ (1,968)       |
| Other policy revenues                                     | 42,837                                      | 41,569           | 1,268           | 126,613                                    | 122,420          | 4,193            |
| Net investment income                                     | 55,466                                      | 55,724           | (258)           | 166,907                                    | 166,510          | 397              |
| Other income                                              | 996                                         | 948              | 48              | 2,786                                      | 1,868            | 918              |
| <b>Total revenues</b>                                     | <b>170,651</b>                              | <b>174,561</b>   | <b>(3,910)</b>  | <b>505,976</b>                             | <b>502,436</b>   | <b>3,540</b>     |
| <b>Benefits, losses and expenses:</b>                     |                                             |                  |                 |                                            |                  |                  |
| Policy benefits                                           | 73,402                                      | 75,865           | (2,463)         | 220,408                                    | 222,131          | (1,723)          |
| Interest credited to policy account balances              | 16,283                                      | 13,932           | 2,351           | 44,277                                     | 44,140           | 137              |
| Commissions                                               | 23,851                                      | 25,241           | (1,390)         | 67,513                                     | 68,931           | (1,418)          |
| Other operating costs and expenses                        | 45,229                                      | 48,000           | (2,771)         | 131,604                                    | 138,712          | (7,108)          |
| Change in deferred policy acquisition costs               | (1,759)                                     | (177)            | (1,582)         | (5,903)                                    | 152              | (6,055)          |
| <b>Total benefits, losses and expenses</b>                | <b>157,006</b>                              | <b>162,861</b>   | <b>(5,855)</b>  | <b>457,899</b>                             | <b>474,066</b>   | <b>(16,167)</b>  |
| <b>Income before other items and federal income taxes</b> | <b>\$ 13,645</b>                            | <b>\$ 11,700</b> | <b>\$ 1,945</b> | <b>\$ 48,077</b>                           | <b>\$ 28,370</b> | <b>\$ 19,707</b> |

Earnings for the three months ended September 30, 2010 improved when compared to 2009 primarily due to a decrease in operating expenses. Operating expenses for the same period in 2009 were higher due to the nonrecurring costs from Sarbanes-Oxley and SEC registration related consulting fees. The decrease in expenses was partially offset by a reduction in premium due to an increase in ceded reinsurance premium and lower single-premium policy issuance.

Earnings for the nine months ended September 30, 2010 increased significantly compared to 2009 primarily due to an increase in other policy revenue and a decrease in policy benefits and operating expenses. As previously noted, operating expenses in 2009 were higher due to nonrecurring costs from Sarbanes-Oxley and SEC registration related consulting fees. The increase in other policy revenue was due to higher policy service fees on a growing block of interest-sensitive life policies.

***Premiums***

Premiums decreased for the three and nine months ended September 30, 2010 compared to 2009. The decreases in premium for both periods were primarily due to an increase in ceded reinsurance premium and lower single-premium policy sales.

***Other Policy Revenues***

Other policy revenues include mortality charges, earned policy service fees, and surrender charges on interest-sensitive life insurance policies. These charges increased for the three and nine months ended September 30, 2010 compared to 2009 primarily due to higher policy service fees on a growing block of life policies. The increase in fees reflects growth in the block of interest sensitive life business in the Independent Marketing channel, a trend that we expect to continue as the Company emphasizes growth in life business to complement its large annuity block.

**Table of Contents*****Policy Benefits***

Policy benefits include death claims, surrenders and other benefits paid to traditional whole life and term life policyholders (net of reserves released on terminated policies), reserve increases on existing life policies (reflecting the portion of revenues actuarially determined to be set aside to provide for benefit guarantees in future periods), claim benefits in excess of account balances returned to interest sensitive life policyholders, and interest credited on account balances.

***Other Operating Costs and Expenses***

Other operating costs and expenses decreased for the three and nine months ended September 30, 2010 compared to 2009. The decreases for both periods were primarily due to a reduction in consulting fees attributed to Sarbanes-Oxley and SEC registration related consulting fees, as well as a decrease in marketing expenses.

***Change in Deferred Policy Acquisition Costs***

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

|                                                    | Three Months Ended<br>September 30, |           |          | Nine Months Ended<br>September 30, |           |          |
|----------------------------------------------------|-------------------------------------|-----------|----------|------------------------------------|-----------|----------|
|                                                    | 2010                                | 2009      | Change   | 2010                               | 2009      | Change   |
| Acquisition cost capitalized                       | \$ 21,474                           | \$ 19,757 | \$ 1,717 | \$ 59,622                          | \$ 54,881 | \$ 4,741 |
| Amortization of DAC                                | (19,715)                            | (19,580)  | (135)    | (53,719)                           | (55,033)  | 1,314    |
| <b>Change in deferred policy acquisition costs</b> |                                     |           |          |                                    |           |          |
| (1)                                                | \$ 1,759                            | \$ 177    | \$ 1,582 | \$ 5,903                           | \$ (152)  | \$ 6,055 |

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

We regularly review the underlying DAC assumptions, including future mortality, expenses, lapses, premium persistency, investment yields and interest spreads. Relatively minor adjustments to these assumptions can significantly impact changes in DAC. We monitor the amortization of DAC as a percentage of gross profits before DAC amortization. An increase in this ratio could indicate an emergence of adverse experience affecting the future profitability of a particular block of business and, in turn, affects the recoverability of DAC from such future profits. The amortization of DAC as a percentage of gross profit for the nine months ended September 30, 2010 and 2009 was 36.0% and 41.2%, respectively. The decrease in DAC amortization rate was primarily due to lower lapse rates in 2010. The average annualized lapse/surrender rates in the Life segment were 9.8% and 10.4% for the nine months ended September 30, 2010 and 2009, respectively. These combined rates reflect both first year and renewal business. In general, stable or lower lapse rates are important toward maintaining profitability of the Life segment, as higher lapse rates will reduce the average life expectancy of the in-force block of business and could result in acceleration of DAC amortization.



**Table of Contents*****Policy in-force information***

The following tables summarize changes in the Life segment's in-force amounts and policy counts (dollar amounts in thousands):

|                                      | <b>As of September 30,</b> |                      |                   |
|--------------------------------------|----------------------------|----------------------|-------------------|
|                                      | <b>2010</b>                | <b>2009</b>          | <b>Change</b>     |
| <b>Life insurance in-force:</b>      |                            |                      |                   |
| Traditional life                     | \$ 45,751,640              | \$ 46,270,129        | \$ (518,489)      |
| Interest sensitive life              | 23,999,398                 | 23,151,676           | 847,722           |
| <b>Total life insurance in-force</b> | <b>\$ 69,751,038</b>       | <b>\$ 69,421,805</b> | <b>\$ 329,233</b> |

|                                 | <b>As of September 30,</b> |                  |                 |
|---------------------------------|----------------------------|------------------|-----------------|
|                                 | <b>2010</b>                | <b>2009</b>      | <b>Change</b>   |
| <b>Number of policies:</b>      |                            |                  |                 |
| Traditional life                | 2,298,203                  | 2,366,373        | (68,170)        |
| Interest sensitive life         | 175,873                    | 173,770          | 2,103           |
| <b>Total number of policies</b> | <b>2,474,076</b>           | <b>2,540,143</b> | <b>(66,067)</b> |

There was a slight percentage increase in total life insurance in-force as of September 30, 2010 when compared to 2009. The aggregate of the face amount on new policies issued is partially offset by the aggregate of the face amount of older policies terminated by death, lapse, or surrender.

The decrease in our policy count is primarily attributable to the natural attrition of a larger number of older policies, partially offset by 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, and multiple line and employee agents.

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

|                                                           | Three Months Ended<br>September 30, |                 |                 | Nine Months Ended<br>September 30, |                 |                  |
|-----------------------------------------------------------|-------------------------------------|-----------------|-----------------|------------------------------------|-----------------|------------------|
|                                                           | 2010                                | 2009            | Change          | 2010                               | 2009            | Change           |
| <b>Revenues:</b>                                          |                                     |                 |                 |                                    |                 |                  |
| Premiums                                                  | \$ 51,180                           | \$ 58,284       | \$ (7,104)      | \$ 132,140                         | \$ 149,141      | \$ (17,001)      |
| Other policy revenues                                     | 3,505                               | 3,723           | (218)           | 11,453                             | 11,320          | 133              |
| Net investment income                                     | 136,297                             | 118,963         | 17,334          | 367,509                            | 331,607         | 35,902           |
| Other income                                              | (3,139)                             | (2,168)         | (971)           | (6,061)                            | 295             | (6,356)          |
| <b>Total revenues</b>                                     | <b>187,843</b>                      | <b>178,802</b>  | <b>9,041</b>    | <b>505,041</b>                     | <b>492,363</b>  | <b>12,678</b>    |
| <b>Benefits, losses and expenses:</b>                     |                                     |                 |                 |                                    |                 |                  |
| Policy benefits                                           | 56,963                              | 63,776          | (6,813)         | 155,100                            | 170,584         | (15,484)         |
| Interest credited to policy account balances              | 94,564                              | 84,320          | 10,244          | 240,456                            | 231,414         | 9,042            |
| Commissions                                               | 24,795                              | 21,807          | 2,988           | 75,944                             | 77,790          | (1,846)          |
| Other operating costs and expenses                        | 15,312                              | 14,511          | 801             | 46,113                             | 43,794          | 2,319            |
| Change in deferred policy acquisition costs               | (11,644)                            | (9,650)         | (1,994)         | (40,584)                           | (41,117)        | 533              |
| <b>Total benefits, losses and expenses</b>                | <b>179,990</b>                      | <b>174,764</b>  | <b>5,226</b>    | <b>477,029</b>                     | <b>482,465</b>  | <b>(5,436)</b>   |
| <b>Income before other items and federal income taxes</b> | <b>\$ 7,853</b>                     | <b>\$ 4,038</b> | <b>\$ 3,815</b> | <b>\$ 28,012</b>                   | <b>\$ 9,898</b> | <b>\$ 18,114</b> |

Earnings for the three and nine months ended September 30, 2010 improved significantly when compared to 2009 primarily due to a substantial increase in our investment income less interest credited to policy account balances and reserves.

**Premiums**

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

|                                 | Three Months Ended<br>September 30, |            |           | Nine Months Ended<br>September 30, |              |              |
|---------------------------------|-------------------------------------|------------|-----------|------------------------------------|--------------|--------------|
|                                 | 2010                                | 2009       | Change    | 2010                               | 2009         | Change       |
| Fixed deferred annuity          | \$ 334,649                          | \$ 287,528 | \$ 47,121 | \$ 781,041                         | \$ 1,429,434 | \$ (648,393) |
| Equity indexed deferred annuity | 61,692                              | 56,497     | 5,195     | 310,647                            | 119,701      | 190,946      |

|                                  |                  |                  |                   |                   |                   |                    |
|----------------------------------|------------------|------------------|-------------------|-------------------|-------------------|--------------------|
| Single premium immediate annuity | 52,478           | 60,197           | (7,719)           | 135,253           | 153,687           | (18,434)           |
| Variable deferred annuity        | 18,864           | 26,221           | (7,357)           | 67,168            | 67,452            | (284)              |
| <b>Total</b>                     | <b>467,683</b>   | <b>430,443</b>   | <b>37,240</b>     | <b>1,294,109</b>  | <b>1,770,274</b>  | <b>(476,165)</b>   |
| Less: policy deposits            | 416,503          | 372,159          | 44,344            | 1,161,969         | 1,621,133         | (459,164)          |
| <b>Total earned premiums</b>     | <b>\$ 51,180</b> | <b>\$ 58,284</b> | <b>\$ (7,104)</b> | <b>\$ 132,140</b> | <b>\$ 149,141</b> | <b>\$ (17,001)</b> |

Amounts received on single premium immediate annuities ( SPIAs ) are classified as premiums and are earned immediately as income. Amounts received from fixed deferred annuity policyholders and equity-indexed annuity policyholders are classified as policy deposits and are not part of earned premiums.

Fixed deferred annuity receipts increased for the three months ended September 30, 2010 compared to 2009. The increase in sales was primarily due to annuitants turning to fixed annuities instead of other fixed interest financial products with relatively lower yields.

Fixed deferred annuity receipts for the nine months ended September 30, 2010 were lower compared to 2009. The decrease in sales was a result of the comparison to abnormally high sales in the first quarter of 2009 due to a flight to safety related to the credit crisis of late 2008.

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Equity-indexed deferred annuity premiums increased for the three and nine months ended September 30, 2010 compared to 2009. The increases were primarily the result of certain annuitants accepting some exposure to volatility in the pursuit of potentially higher returns. Equity-indexed deferred annuities allow policyholders to participate in equity returns while also having certain downside protection resulting from the guaranteed minimum returns defined in the product.

SPIA premiums decreased for the three and nine months ended September 30, 2010 compared to 2009. The competitiveness of rates in the SPIA line can change very quickly and premium income can reflect changes in our position relative to the financial marketplace. We believe that the current low interest rate environment has led some prospective SPIA buyers to defer their purchase of a payout annuity and temporarily invest in cash, in the hope that rates will be higher at a later date, affording a higher annuity payment per premium dollar.

Policy deposits increased for the three months ended September 30, 2010 and decreased during the nine month period when compared to 2009. The changes were mainly the result of changes in the fixed deferred annuity premiums noted above.

**Net Investment Income**

Net investment income, a key component of the profitability of the Annuity segment, increased for the three and nine months ended September 30, 2010 compared to 2009. On a quarter-to-date and year-to-date basis, the asset base increased by 12.2% and 15.2%, respectively, as a result of a comparable increase in the related policy account balances. The increase in quarter-to-date net investment income was further improved by a \$4.5 million increase in the equity options derivative gain. However, on a year-to-date basis the increase in net investment income was partially offset by a \$5.3 million decrease in the equity options derivative gain.

Equity options are purchased and held as a means to hedge equity-indexed annuity benefits. Realized and unrealized gains or losses on the equity options portfolio are recognized in earnings as net investment income. Equity indexed annuities include a fixed host annuity contract and an embedded equity derivative. The gain or loss on the embedded derivative is recognized in earnings as interest credited to policy account balances.

The following table details the gain or loss on derivatives related to equity indexed deferred annuities (in thousands):

|                                                                     | Three Months Ended<br>September 30, |            |            | Nine Months Ended<br>September 30, |            |            |
|---------------------------------------------------------------------|-------------------------------------|------------|------------|------------------------------------|------------|------------|
|                                                                     | 2010                                | 2009       | Change     | 2010                               | 2009       | Change     |
| Derivative gain/(loss)<br>included in net<br>investment income      | \$ 10,554                           | \$ 6,103   | \$ 4,451   | \$ (1,335)                         | \$ 4,002   | \$ (5,337) |
| Embedded derivative<br>gain/(loss) included in<br>interest credited | \$ (9,288)                          | \$ (5,970) | \$ (3,318) | \$ 3,623                           | \$ (6,708) | \$ 10,331  |

The derivative gain/(loss) included in net investment income is offset by the embedded derivative gain/(loss) included in interest credited. See the discussion in the Interest Credited to Policy Account Balances section for further details.

**Interest Spread and Account Values**

We evaluate the performance of our Annuity segment primarily based on interest spreads. Interest spread is the difference between investment income on assets supporting the product lines and benefits credited to policyholders, including interest credited to deferred annuities. In determining interest spread, deferred sales inducements, such as first-year interest bonuses, are excluded from the interest credited measurement. The variable annuity spread is equal to the mortality and expense charge assessed against policyholder funds.

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The table below shows the interest spreads for our annuity products (in thousands, except percentages):

|                                                                  | <b>Nine Months Ended September<br/>30,</b> |             |
|------------------------------------------------------------------|--------------------------------------------|-------------|
|                                                                  | <b>2010</b>                                | <b>2009</b> |
| <b>Fixed deferred annuity</b>                                    |                                            |             |
| <b>Interest spread (excluding first year sales inducements):</b> |                                            |             |
| Dollar amount                                                    | \$ 103,355                                 | \$ 85,299   |
| Annualized rate                                                  | 1.62%                                      | 1.54%       |
| <b>Variable deferred annuity</b>                                 |                                            |             |
| <b>Mortality and expense charge:</b>                             |                                            |             |
| Dollar amount                                                    | \$ 3,586                                   | \$ 2,942    |
| Annualized rate                                                  | 1.20%                                      | 1.14%       |
| <b>Total annuity:</b>                                            |                                            |             |
| <b>Gross interest spreads:</b>                                   |                                            |             |
| Dollar amount                                                    | \$ 106,941                                 | \$ 88,241   |
| Annualized rate                                                  | 1.60%                                      | 1.52%       |

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. Interest spread income can vary from period to period due to factors such as yields on investments, the portion of the portfolio invested in cash, commercial mortgage loan prepayments, product mix, and the credited rate partially based on competition in the annuity market.

A portion of the variable deferred annuity policies in the table above include guaranteed minimum death benefits. The total account value related to variable deferred annuity policies with guaranteed minimum death benefit features was \$64.1 million and \$64.9 million as of September 30, 2010 and 2009, respectively.

We are subject to equity market volatility related to these guaranteed minimum death benefits. We use reinsurance to mitigate the mortality exposure associated with such benefits. Our maximum guaranteed minimum death benefit exposure, before reinsurance, which represents the total exposure in the event that all annuitants die, was \$4.8 million and \$8.1 million for the nine months ended September 30, 2010 and September 30, 2009, respectively. The decrease in the guaranteed minimum death benefit amount at risk in the nine months ended September 30, 2010 compared to 2009 was due to an improved equity market condition.

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*Account Values:* In addition to interest spread, we monitor account values and changes in account values as a key indicator of the performance of our Annuity segment. The table below shows the account values, reserves, and the changes in these values as a result of net inflows and outflows, fees, interest credited, mortality expenses, and market value changes (in thousands):

|                                          | <b>Three Months Ended September 30,</b> |                     | <b>Nine Months Ended September 30,</b> |                     |
|------------------------------------------|-----------------------------------------|---------------------|----------------------------------------|---------------------|
|                                          | <b>2010</b>                             | <b>2009</b>         | <b>2010</b>                            | <b>2009</b>         |
| <b>Fixed deferred annuity:</b>           |                                         |                     |                                        |                     |
| Account value, beginning of period       | \$ 8,556,019                            | \$ 7,644,917        | \$ 8,151,366                           | \$ 6,918,365        |
| Net inflows                              | 198,544                                 | 118,623             | 460,618                                | 705,327             |
| Fees                                     | (2,263)                                 | (2,655)             | (7,746)                                | (8,365)             |
| Interest credited                        | 95,020                                  | 83,402              | 243,082                                | 228,960             |
| <b>Account value, end of period</b>      | <b>\$ 8,847,320</b>                     | <b>\$ 7,844,287</b> | <b>\$ 8,847,320</b>                    | <b>\$ 7,844,287</b> |
| <b>Variable deferred annuity:</b>        |                                         |                     |                                        |                     |
| Account value, beginning of period       | \$ 385,559                              | \$ 336,720          | \$ 400,624                             | \$ 309,011          |
| Net inflows/(outflows)                   | (18,045)                                | 5,831               | (19,063)                               | 13,735              |
| Fees                                     | (1,177)                                 | (1,072)             | (3,585)                                | (2,942)             |
| Change in market value and other         | 32,157                                  | 39,268              | 20,518                                 | 60,943              |
| <b>Account value, end of period</b>      | <b>\$ 398,494</b>                       | <b>\$ 380,747</b>   | <b>\$ 398,494</b>                      | <b>\$ 380,747</b>   |
| <b>Single premium immediate annuity:</b> |                                         |                     |                                        |                     |
| Reserve, beginning of period             | \$ 858,324                              | \$ 740,702          | \$ 820,295                             | \$ 701,141          |
| Net inflows                              | 16,137                                  | 27,398              | 33,231                                 | 51,816              |
| Interest and mortality                   | 9,046                                   | 8,566               | 29,981                                 | 23,709              |
| <b>Reserve, end of period</b>            | <b>\$ 883,507</b>                       | <b>\$ 776,666</b>   | <b>\$ 883,507</b>                      | <b>\$ 776,666</b>   |

*Fixed Deferred Annuity:* For the three months ended September 30, 2010 and 2009, fixed deferred annuity account values increased \$291.3 million and \$199.4 million, respectively. The higher quarter-to-date growth in 2010 was primarily due to an increase in sales resulting from more competitive rates being offered by fixed annuity products in comparison to other fixed interest financial products. However, for the nine months ended September 30, 2010 and 2009, fixed deferred annuity account values increased \$696.0 million and \$925.9 million, respectively. The reduced year-to-date growth in 2010 resulted from the abnormally high levels of the prior year.

*Variable Deferred Annuity:* For the three months ended September 30, 2010 and 2009, variable deferred annuity account values increased \$12.9 and \$44.0 million, respectively. However, for the nine months ended September 30, 2010, variable deferred annuity account values decreased \$2.1 million versus an increase of \$77.7 million during the same period of 2009. The decrease in business in 2010 resulted from net outflows and fees that exceeded the growth in account value due to market appreciation. The growth in business in 2009 was largely due to market appreciation.

*SPIA:* For the three months ended September 30, 2010 and 2009, SPIA reserves increased \$25.2 million and \$36.0 million, respectively. For the nine months ended September 30, 2010 and 2009, SPIA reserves increased \$63.2 million and \$75.5 million, respectively. The decrease in growth was primarily due to slower sales in a lower interest rate environment.

***Policy Benefits***

Benefits consist of annuity payments and reserve increases on SPIA contracts. Benefits decreased for the three and nine months ended September 30, 2010 compared to 2009. The decreases for both periods were mainly attributed to a reduced amount of new-issue reserve additions due to lower SPIA premium receipts in 2010.

***Interest Credited to Policy Account Balances***

Interest credited for the three and nine months ended September 30, 2010 increased compared to 2009 primarily due to an increase in the policy account balance. On a quarter-to-date and year-to-date basis, policy account balances increased by 12.2% and 15.2%, respectively. The increase in interest credited for the three month period ended September 30, 2010 was further increased by a \$3.3 million increase in embedded derivative return. On the other hand, the year-to-date increase in interest credited was partially offset by a \$10.3 million decrease in embedded derivative return.

**Table of Contents*****Commissions***

Commissions increased for the three months ended September 30, 2010 compared to 2009. The increase was primarily due to an increase in deferred annuity sales. However, for the nine months ended September 30, 2010 commissions decreased compared to 2009 as a result of the overall decrease in sales.

***Change in Deferred Policy Acquisition Costs***

DAC on deferred annuities is amortized in proportion to gross profits. The change in the DAC balance consisted of new DAC additions from acquisition costs capitalized in the current period, less amortization of outstanding DAC balances from prior periods. The following table presents the components of change in DAC (in thousands):

|                                                    | <b>Three Months Ended<br/>September 30,</b> |                 |                 | <b>Nine Months Ended<br/>September 30,</b> |                  |                 |
|----------------------------------------------------|---------------------------------------------|-----------------|-----------------|--------------------------------------------|------------------|-----------------|
|                                                    | <b>2010</b>                                 | <b>2009</b>     | <b>Change</b>   | <b>2010</b>                                | <b>2009</b>      | <b>Change</b>   |
| Acquisition cost capitalized                       | \$ 28,633                                   | \$ 27,055       | \$ 1,578        | \$ 92,038                                  | \$ 91,897        | \$ 141          |
| Amortization of DAC                                | (16,989)                                    | (17,405)        | 416             | (51,454)                                   | (50,780)         | (674)           |
| <b>Change in deferred policy acquisition costs</b> |                                             |                 |                 |                                            |                  |                 |
| (1)                                                | <b>\$ 11,644</b>                            | <b>\$ 9,650</b> | <b>\$ 1,994</b> | <b>\$ 40,584</b>                           | <b>\$ 41,117</b> | <b>\$ (533)</b> |

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

A performance measure of the Annuity segment that we monitor 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 September 30, 2010 and 2009 was 65.1% and 65.2%, respectively.

The amortization of DAC as a percentage of gross profits for the nine months ended September 30, 2010 and 2009 improved to 55.8% from 66.0%, respectively. The reduction in the ratio was due to improved persistency. We believe low interest rates on competing guaranteed interest products, such as certificates of deposit and money market funds, was a contributing factor to our improved persistency in both periods.

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

The Health segment has been primarily focused 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. Our other health products include credit accident and health policies, employer-based stop loss, and dental coverage. We distribute our health insurance products through our network of independent agents and managing general underwriters ( MGU s ).

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

|                                                                  | Three Months Ended<br>September 30, |                   |                  | Nine Months Ended<br>September 30, |                    |                  |
|------------------------------------------------------------------|-------------------------------------|-------------------|------------------|------------------------------------|--------------------|------------------|
|                                                                  | 2010                                | 2009              | Change           | 2010                               | 2009               | Change           |
| <b>Revenues:</b>                                                 |                                     |                   |                  |                                    |                    |                  |
| Premiums                                                         | \$ 64,288                           | \$ 74,428         | \$ (10,140)      | \$ 200,553                         | \$ 224,001         | \$ (23,448)      |
| Net investment income                                            | 3,590                               | 4,031             | (441)            | 11,273                             | 12,080             | (807)            |
| Other income                                                     | 2,364                               | 2,729             | (365)            | 7,654                              | 7,757              | (103)            |
| <b>Total premiums and other revenues</b>                         | <b>70,242</b>                       | <b>81,188</b>     | <b>(10,946)</b>  | <b>219,480</b>                     | <b>243,838</b>     | <b>(24,358)</b>  |
| <b>Benefits and expenses:</b>                                    |                                     |                   |                  |                                    |                    |                  |
| Policy benefits                                                  | 43,140                              | 57,217            | (14,077)         | 141,330                            | 178,983            | (37,653)         |
| Commissions                                                      | 8,150                               | 11,226            | (3,076)          | 27,265                             | 34,038             | (6,773)          |
| Other operating costs and expenses                               | 10,694                              | 15,267            | (4,573)          | 35,806                             | 46,834             | (11,028)         |
| Change in deferred policy acquisition costs                      | 891                                 | 423               | 468              | 3,784                              | 4,262              | (478)            |
| <b>Total benefits and expenses</b>                               | <b>62,875</b>                       | <b>84,133</b>     | <b>(21,258)</b>  | <b>208,185</b>                     | <b>264,117</b>     | <b>(55,932)</b>  |
| <b>Income (loss) before other items and federal income taxes</b> | <b>\$ 7,367</b>                     | <b>\$ (2,945)</b> | <b>\$ 10,312</b> | <b>\$ 11,295</b>                   | <b>\$ (20,279)</b> | <b>\$ 31,574</b> |

Earnings for the Health lines of business improved for the three and nine month periods ended September 30, 2010 compared to 2009, primarily as a result of reductions in policy benefits. Lower operating costs and expenses also contributed to the improvement in earnings resulting from personnel reductions and a decrease to commissions. A decrease in premiums resulting from a reduction of in-force policies partially offset the improvement in earnings for the three and nine months ended September 30, 2010.

**Health Care Reform**

During March 2010, the Patient Protection and Affordable Care Act, and a reconciliation measure, the Health Care and Education Reconciliation Act of 2010 (collectively, the Act ), were signed into law. The Act mandates broad changes in the delivery of health care benefits that impact our current business model, including its relationship with current and future customers, producers and health care providers, products, services, processes and technology. We have been evaluating potential business opportunities resulting from the Act that will enable us to leverage our strengths and capabilities. The Act includes provisions for mandatory payment of assessment fees, coverage of benefits and a minimum medical loss ratio, eliminates lifetime and annual benefit limits and creates health insurance

exchanges. These provisions are expected to take effect over the next several years from 2010 to 2018. Management is currently unable to estimate the ultimate impact of the Act on our results of operations, financial condition and liquidity due to the uncertainties of interpretation, implementation and timing of the many provisions of the Act.

Additionally, as a result of the Act, management decided to discontinue the sale of individual medical expense insurance plans effective June 30, 2010. Such insurance plans included our major medical and hospital surgical product lines.

**Table of Contents****Premiums**

The Health segment's earned premiums decreased \$10.1 million during the three months ended September 30, 2010 compared to 2009, which was mainly attributable to the discontinuation of sales of our medical expense insurance plans effective June 30, 2010. Similarly earned premiums decreased \$23.4 million for the nine months ended September 30, 2010 compared to 2009, which was primarily driven by the winding down of our major medical and hospital surgical product lines, the loss of two major MGUs, diminished sales of our Medicare Supplement product, and the booking of a one-time premium associated with the unwinding of an MGU agreement in 2009 that did not occur in 2010.

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

|                              | <b>Three Months<br/>Ended September<br/>30, 2010</b> |               | <b>Three Months<br/>Ended September<br/>30, 2009</b> |               | <b>Nine Months Ended<br/>September 30, 2010</b> |               | <b>Nine Months Ended<br/>September 30, 2009</b> |               |
|------------------------------|------------------------------------------------------|---------------|------------------------------------------------------|---------------|-------------------------------------------------|---------------|-------------------------------------------------|---------------|
|                              | <b>Premiums</b>                                      |               | <b>Premiums</b>                                      |               | <b>Premiums</b>                                 |               | <b>Premiums</b>                                 |               |
|                              | dollars                                              | percentage    | dollars                                              | percentage    | dollars                                         | percentage    | dollars                                         | percentage    |
| Medicare Supplement          | \$ 29,218                                            | 45.4%         | \$ 32,517                                            | 43.7%         | \$ 89,340                                       | 44.5%         | \$ 92,695                                       | 41.4%         |
| Managing general underwriter | 2,541                                                | 4.1           | 3,280                                                | 4.4           | 8,288                                           | 4.1           | 17,021                                          | 7.6           |
| Group                        | 7,459                                                | 11.6          | 8,280                                                | 11.1          | 21,761                                          | 10.9          | 25,271                                          | 11.3          |
| Major medical                | 5,397                                                | 8.4           | 7,007                                                | 9.4           | 17,464                                          | 8.7           | 22,944                                          | 10.2          |
| Hospital surgical            | 10,610                                               | 16.5          | 12,886                                               | 17.3          | 35,004                                          | 17.5          | 37,960                                          | 16.9          |
| Long-term care               | 383                                                  | 0.6           | 497                                                  | 0.7           | 1,205                                           | 0.6           | 1,567                                           | 0.7           |
| Supplemental insurance       | 2,017                                                | 3.1           | 2,037                                                | 2.7           | 5,957                                           | 3.0           | 6,243                                           | 2.8           |
| Credit accident and health   | 5,283                                                | 8.2           | 5,924                                                | 8.0           | 16,126                                          | 8.0           | 13,873                                          | 6.2           |
| All other                    | 1,380                                                | 2.1           | 2,000                                                | 2.7           | 5,408                                           | 2.7           | 6,427                                           | 2.9           |
| <b>Total</b>                 | <b>\$ 64,288</b>                                     | <b>100.0%</b> | <b>\$ 74,428</b>                                     | <b>100.0%</b> | <b>\$ 200,553</b>                               | <b>100.0%</b> | <b>\$ 224,001</b>                               | <b>100.0%</b> |

Our MGU line's in-force policies had a net decrease of 36,000 for the nine months ended September 30, 2010 compared to 2009. The net decrease was mainly attributed to the loss of two major MGUs. There were also significant decreases in the Medicare Supplement line's in-force policies due to policy lapses and low sales.

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

|                              | <b>As of September 30, 2010</b> |            | <b>As of September 30, 2009</b> |            |
|------------------------------|---------------------------------|------------|---------------------------------|------------|
|                              | <b>Certificates/Policies</b>    |            | <b>Certificates/Policies</b>    |            |
|                              | number                          | percentage | number                          | percentage |
| Medicare Supplement          | 51,164                          | 8.3%       | 58,804                          | 8.5%       |
| Managing general underwriter | 79,960                          | 13.0       | 116,227                         | 16.8       |
| Group                        | 13,443                          | 2.2        | 18,878                          | 2.7        |
| Major medical                | 2,580                           | 0.4        | 3,834                           | 0.6        |
| Hospital surgical            | 10,054                          | 1.6        | 15,790                          | 2.3        |

|                            |                |               |                |               |
|----------------------------|----------------|---------------|----------------|---------------|
| Long-term care             | 1,788          | 0.3           | 1,929          | 0.3           |
| Supplemental insurance     | 92,923         | 15.2          | 97,743         | 14.1          |
| Credit accident and health | 300,826        | 49.1          | 311,738        | 45.1          |
| All other                  | 60,446         | 9.9           | 66,612         | 9.6           |
| <b>Total</b>               | <b>613,184</b> | <b>100.0%</b> | <b>691,555</b> | <b>100.0%</b> |

***Policy Benefits***

The benefit ratio, measured as the ratio of claims and other benefits to premiums, decreased to 67.1% and 70.5% for the three and nine months ended September 30, 2010, respectively, from 76.9% and 79.9% for the same periods in 2009. Unexpected high claim payments on medical expense products in 2009, with a subsequent return to lower levels during 2010, contributed to the decrease in the benefit ratio.

**Table of Contents*****Commissions***

Commissions decreased \$3.1 million during the three months ended September 30, 2010 compared to 2009, which was mainly attributable to a decrease in sales. Commissions decreased \$6.8 million for the nine months ended September 30, 2010 compared to 2009, which was primarily due to a large ceded commission in the MGU line in 2009 that did not occur in 2010, with the remainder of the decrease due to reduced sales of medical expense products which have higher commissions than other products we offer.

***Other Operating Costs and Expenses***

Other operating costs and expenses decreased \$4.6 million during the three months ended September 30, 2010 compared to 2009, which was mainly attributable to a reduction of personnel in the fourth quarter of 2009. Other operating costs and expenses decreased \$11.0 million for the nine months ended September 30, 2010 compared to 2009 which was primarily attributed to lower payroll costs and a one-time write-off of agent balances in the second quarter of 2009.

***Change in Deferred Policy Acquisition Costs***

Health premiums are recognized as revenue when due, but certain expenses associated with the acquisition of new business, such as commissions, are incurred before premiums can be earned. In order to recognize profits over the life of the policy, the expenses are deferred and amortized over the life of the policy. Generally, we expect the change in DAC expense to continue to follow changes in the in-force block by policy duration.

As of September 30, 2010, the Health related DAC balances were \$66.1 million compared to \$70.6 million as of September 30, 2009. The following table presents the components of change in DAC for the three and nine months ended September 30, 2010 and 2009 (in thousands):

|                              | <b>Three Months Ended<br/>September 30,</b> |             |               | <b>Nine Months Ended<br/>September 30,</b> |             |               |
|------------------------------|---------------------------------------------|-------------|---------------|--------------------------------------------|-------------|---------------|
|                              | <b>2010</b>                                 | <b>2009</b> | <b>Change</b> | <b>2010</b>                                | <b>2009</b> | <b>Change</b> |
| Acquisition cost capitalized | \$ 4,455                                    | \$ 6,197    | \$ (1,742)    | \$ 13,775                                  | \$ 12,117   | \$ 1,658      |
| Amortization of DAC          | (5,346)                                     | (6,620)     | 1,274         | (17,559)                                   | (16,379)    | (1,180)       |
| <b>Total change in DAC</b>   |                                             |             |               |                                            |             |               |
| (1)                          | \$ (891)                                    | \$ (423)    | \$ (468)      | \$ (3,784)                                 | \$ (4,262)  | \$ 478        |

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

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

Property and Casualty business is written through our multiple line agents and Credit Insurance Division agents. Evaluation of our property and casualty insurance operations is based on the total underwriting results (net premiums earned less incurred losses and loss expenses, policy acquisition costs and other underwriting expenses) and the ratios noted in the table below.

Property and Casualty segment results for the periods indicated were as follows (in thousands):

|                                                                  | <b>Three Months Ended<br/>September 30,</b> |                |                | <b>Nine Months Ended<br/>September 30,</b> |                |               |
|------------------------------------------------------------------|---------------------------------------------|----------------|----------------|--------------------------------------------|----------------|---------------|
|                                                                  | <b>2010</b>                                 | <b>2009</b>    | <b>Change</b>  | <b>2010</b>                                | <b>2009</b>    | <b>Change</b> |
| <b>Revenues:</b>                                                 |                                             |                |                |                                            |                |               |
| Net premiums written                                             | \$ 297,255                                  | \$ 303,609     | \$ (6,354)     | \$ 899,399                                 | \$ 907,085     | \$ (7,686)    |
| Net premiums earned                                              | \$ 297,703                                  | \$ 298,073     | \$ (370)       | \$ 871,672                                 | \$ 866,989     | \$ 4,683      |
| Net investment income                                            | 16,548                                      | 16,171         | 377            | 51,250                                     | 49,941         | 1,309         |
| Other income                                                     | 2,226                                       | 856            | 1,370          | 6,121                                      | 5,308          | 813           |
| <b>Total premiums and other revenues</b>                         | <b>316,477</b>                              | <b>315,100</b> | <b>1,377</b>   | <b>929,043</b>                             | <b>922,238</b> | <b>6,805</b>  |
| <b>Benefits and expenses:</b>                                    |                                             |                |                |                                            |                |               |
| Policy benefits                                                  | 208,917                                     | 222,196        | (13,279)       | 702,134                                    | 714,041        | (11,907)      |
| Commissions                                                      | 63,612                                      | 55,862         | 7,750          | 172,460                                    | 160,967        | 11,493        |
| Other operating costs and expenses                               | 30,758                                      | 33,788         | (3,030)        | 94,028                                     | 93,271         | 757           |
| Change in deferred policy acquisition costs <sup>(1)</sup>       | (1,294)                                     | (4,947)        | 3,653          | (4,112)                                    | (11,677)       | 7,565         |
| <b>Total benefits and expenses</b>                               | <b>301,993</b>                              | <b>306,899</b> | <b>(4,906)</b> | <b>964,510</b>                             | <b>956,602</b> | <b>7,908</b>  |
| <b>Income (loss) before other items and federal income taxes</b> |                                             |                |                |                                            |                |               |
|                                                                  | \$ 14,484                                   | \$ 8,201       | \$ 6,283       | \$ (35,467)                                | \$ (34,364)    | \$ (1,103)    |
| Loss ratio                                                       | 70.2%                                       | 74.5%          | (4.3)          | 80.6%                                      | 82.4%          | (1.8)         |
| Underwriting expense ratio                                       | 31.3                                        | 28.4           | 2.9            | 30.1                                       | 28.0           | 2.1           |
| Combined ratio                                                   | 101.5                                       | 102.9          | (1.4)          | 110.7                                      | 110.4          | 0.3           |
|                                                                  | 2.4%                                        | 7.7%           | (5.3)          | 11.1%                                      | 7.6%           | 3.5           |

Effect of net  
catastrophe losses on  
combined ratio

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

The Property and Casualty segment net income increased slightly in the three months ended September 30, 2010, while the net loss deteriorated slightly during the nine months ended September 30, 2010 compared to the same periods in 2009. The change in both periods was driven by a decrease in policy benefits, offset by an increase in commissions and change in deferred policy acquisition costs.

***Net Premiums Written and Earned***

Net premiums written decreased for the three months ended September 30, 2010 compared to 2009, due primarily to decreases in our credit related property insurance products partially offset by increases in our personal lines. The slight decrease during the nine months ended September 30, 2010 was a result of the third quarter decrease.

Net premiums earned were relatively flat in the three months ended September 30, 2010, compared to the same period in 2009, while there was a slight increase in the nine months ended period. The nine months increase is primarily a result of increases in our personal lines, partially offset by decreases in our credit related property insurance products and other commercial lines. These are discussed in further detail in the *Products* section.

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### ***Policy Benefits***

Policy benefits include loss and loss adjustment expenses incurred on property and casualty policies.

Policy benefits decreased during the three and nine months ended September 30, 2010 compared to the same period in 2009 as a result of the decreased net catastrophe experience during the three months ended September 30, 2010. For the nine months ended, the net catastrophe experience increased over prior year, but the benefit decreases in our credit related property products and personal lines outpaced the increase in catastrophe experience during the first six months of 2010 compared to 2009. The loss ratios for the three and nine months ended September 30, 2010 decreased slightly as compared to the same periods in 2009 due to the change in policy benefits noted above.

For the three months ended September 30, 2010, gross catastrophe losses decreased to \$4.6 million compared to \$18.1 million for the same period in 2009. Net catastrophe losses (after reinsurance) decreased to \$7.2 million from \$22.9 million.

For the nine months ended September 30, 2010, gross catastrophe losses increased to \$124.2 million compared to \$83.7 million for the same period in 2009. Net catastrophe losses increased to \$104.2 million from \$88.9 million as a result of twenty-eight catastrophes experienced in 2010 compared to twenty-six in 2009. The year-to-date increase was primarily incurred in the second quarter of 2010, when we experienced a \$23.9 million increase in net catastrophe losses compared to the same quarter in 2009 due to spring storm activity throughout our geographic coverage area. For the three and nine months ended September 30, 2010, net favorable prior-year loss and LAE development was \$20.9 million and \$65.0 million, respectively, compared to \$3.2 million unfavorable development and \$16.0 million favorable development for the same periods in 2009. This favorable development was driven by our commercial auto and commercial liability lines. The net and gross reserve calculations have shown favorable development as a result of loss emergence compared to what was implied by the loss development patterns used in the original estimation of losses.

### ***Commissions and Change in Deferred Policy Acquisition Costs***

Commissions increased significantly during the three and nine months ended September 30, 2010 compared to the same periods in 2009. This was primarily the result of an \$8.0 million expense for post termination compensation with some of our agents in addition to increases in our credit related property products due to a change in our product mix. The increase in expense as a result of the change in deferred policy acquisition costs for the three and nine months ended September 30, 2010, was primarily driven by the increase in commissions of our credit related property insurance products. A change in our deferral estimates during 2009 deferring less in some policies and more in others in order to improve our consistency among subsidiaries, added to this increase.

### ***Products***

Our Property and Casualty segment consists of three product lines: (i) Personal Lines products, which we market primarily to individuals, representing 61.8% of net premiums written, (ii) Commercial Lines products, which focus primarily on businesses engaged in agricultural and other targeted markets, representing 28.0% of net premiums written, and (iii) Credit related property insurance products which are marketed to financial institutions and retailers and represent 10.3% of net premiums written.

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Segment results by product line and for the periods indicated were as follows (in thousands, except percentages):

***Product Discussion    Personal Products***

|                                     | <b>Three Months Ended<br/>September 30,</b> |                   |                 | <b>Nine Months Ended<br/>September 30,</b> |                   |                  |
|-------------------------------------|---------------------------------------------|-------------------|-----------------|--------------------------------------------|-------------------|------------------|
|                                     | <b>2010</b>                                 | <b>2009</b>       | <b>Change</b>   | <b>2010</b>                                | <b>2009</b>       | <b>Change</b>    |
| <b>Net premiums written</b>         |                                             |                   |                 |                                            |                   |                  |
| Auto                                | \$ 120,238                                  | \$ 116,825        | \$ 3,413        | \$ 356,067                                 | \$ 345,774        | \$ 10,293        |
| Homeowner                           | 61,715                                      | 62,075            | (360)           | 168,854                                    | 165,821           | 3,033            |
| Other Personal                      | 9,916                                       | 10,119            | (203)           | 30,825                                     | 29,812            | 1,013            |
| <b>Total net premiums written</b>   | <b>191,869</b>                              | <b>189,019</b>    | <b>2,850</b>    | <b>555,746</b>                             | <b>541,407</b>    | <b>14,339</b>    |
| <b>Net premiums earned</b>          |                                             |                   |                 |                                            |                   |                  |
| Auto                                | 121,408                                     | 115,353           | 6,055           | 351,905                                    | 337,293           | 14,612           |
| Homeowner                           | 56,794                                      | 56,229            | 565             | 162,471                                    | 154,047           | 8,424            |
| Other Personal                      | 10,033                                      | 9,539             | 494             | 29,353                                     | 27,263            | 2,090            |
| <b>Total net premiums earned</b>    | <b>\$ 188,235</b>                           | <b>\$ 181,121</b> | <b>\$ 7,114</b> | <b>\$ 543,729</b>                          | <b>\$ 518,603</b> | <b>\$ 25,126</b> |
| <b>Loss ratio</b>                   |                                             |                   |                 |                                            |                   |                  |
| Auto                                | 76.0%                                       | 75.5%             | 0.5             | 75.5%                                      | 81.0%             | (5.5)            |
| Homeowner                           | 80.5                                        | 92.3              | (11.8)          | 107.8                                      | 116.9             | (9.1)            |
| Other Personal                      | 64.7                                        | 75.7              | (11.0)          | 61.4                                       | 57.7              | 3.7              |
| <b>Personal line loss ratio</b>     | <b>76.8</b>                                 | <b>80.7</b>       | <b>(3.9)</b>    | <b>84.4</b>                                | <b>90.5</b>       | <b>(6.1)</b>     |
| <b>Combined Ratio</b>               |                                             |                   |                 |                                            |                   |                  |
| Auto                                | 101.8                                       | 99.7              | 2.1             | 98.9                                       | 101.8             | (2.9)            |
| Homeowner                           | 110.2                                       | 114.2             | (4.0)           | 134.8                                      | 139.3             | (4.5)            |
| Other Personal                      | 76.0                                        | 65.8              | 10.2            | 70.2                                       | 64.6              | 5.6              |
| <b>Personal line combined ratio</b> | <b>102.9%</b>                               | <b>102.4%</b>     | <b>0.5</b>      | <b>108.0%</b>                              | <b>111.0%</b>     | <b>(3.0)</b>     |

*Personal Automobile:* Net written and earned premiums increased in our personal automobile line as a result of premium rate increases implemented during the second half of 2009. The increase in premium per policy is slightly offset by a minimal decline in the number of policies.

The loss ratio remained relatively flat for the three month period ending September 30, 2010 compared to the same period in 2009. During the nine months ended, the loss ratio decreased due to the combination of the increase in premiums, as well as a decrease in claims during 2010 compared to those we experienced in the same period in 2009. The combined ratio increased for the three month period ending September 30, 2010 compared to the same period in 2009 as a result of the increase in commissions noted previously. For the nine months ended, the ratio decreased 2.9%, with the decrease driven by the lower loss ratio.

*Homeowners:* Net premiums written and earned have remained relatively flat in the three months ended September 30, 2010 compared to the same period in 2009. The nine month premiums remain above 2009 levels due to rate increases across the entirety of this product line, as well as increases in policyholder-insured values as replacement and repair costs continue to increase. These increases were partially offset by a minimal decline in the number of policies from our risk management initiatives and the impact of rate increases.

The loss and combined ratios decreased during the three and nine months ended September 30, 2010 compared to the same periods in 2009 due to a significant decrease in catastrophe and non-catastrophe claims affecting this line, resulting in total decreases of \$6.1 million and \$4.9 million in policy benefits in the three and nine month periods, respectively. The decrease in the combined ratios was slightly offset by the increase to commissions noted previously.

*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 our homeowner and auto policies. Net premiums written and earned continued to increase in 2010 due to an increase in policy counts and an increase in the average premium per policy.

**Table of Contents*****Product Discussion Commercial Products***

Segment results by product for the periods indicated were as follows (in thousands, except percentages):

|                                       | <b>Three Months Ended<br/>September 30,</b> |                  |                   | <b>Nine Months Ended<br/>September 30,</b> |                   |                   |
|---------------------------------------|---------------------------------------------|------------------|-------------------|--------------------------------------------|-------------------|-------------------|
|                                       | <b>2010</b>                                 | <b>2009</b>      | <b>Change</b>     | <b>2010</b>                                | <b>2009</b>       | <b>Change</b>     |
| <b>Net premiums written</b>           |                                             |                  |                   |                                            |                   |                   |
| Agribusiness                          | \$ 27,287                                   | \$ 27,074        | \$ 213            | \$ 81,311                                  | \$ 79,293         | \$ 2,018          |
| Auto                                  | 18,839                                      | 19,770           | (931)             | 70,154                                     | 72,228            | (2,074)           |
| Other Commercial                      | 27,722                                      | 28,383           | (661)             | 99,922                                     | 105,132           | (5,210)           |
| <b>Total net premiums written</b>     | <b>73,848</b>                               | <b>75,227</b>    | <b>(1,379)</b>    | <b>251,387</b>                             | <b>256,653</b>    | <b>(5,266)</b>    |
| <b>Net premiums earned</b>            |                                             |                  |                   |                                            |                   |                   |
| Agribusiness                          | 26,917                                      | 26,729           | 188               | 79,534                                     | 79,322            | 212               |
| Auto                                  | 22,093                                      | 22,861           | (768)             | 65,045                                     | 68,717            | (3,672)           |
| Other Commercial                      | 30,357                                      | 31,474           | (1,117)           | 89,863                                     | 95,599            | (5,736)           |
| <b>Total net premiums earned</b>      | <b>\$ 79,367</b>                            | <b>\$ 81,064</b> | <b>\$ (1,697)</b> | <b>\$ 234,442</b>                          | <b>\$ 243,638</b> | <b>\$ (9,196)</b> |
| <b>Loss ratio</b>                     |                                             |                  |                   |                                            |                   |                   |
| Agribusiness                          | 79.3%                                       | 86.1%            | (6.8)             | 120.3%                                     | 95.3%             | 25.0              |
| Auto                                  | 73.7                                        | 72.7             | 1.0               | 63.2                                       | 73.3              | (10.1)            |
| Other Commercial                      | 61.4                                        | 72.8             | (11.4)            | 89.0                                       | 78.8              | 10.2              |
| <b>Commercial line loss ratio</b>     | <b>70.9</b>                                 | <b>77.2</b>      | <b>(6.3)</b>      | <b>92.5</b>                                | <b>82.6</b>       | <b>9.9</b>        |
| <b>Combined ratio</b>                 |                                             |                  |                   |                                            |                   |                   |
| Agribusiness                          | 117.0                                       | 122.4            | (5.4)             | 156.4                                      | 131.5             | 24.9              |
| Auto                                  | 96.5                                        | 93.6             | 2.9               | 87.1                                       | 96.1              | (9.0)             |
| Other Commercial                      | 90.2                                        | 100.8            | (10.6)            | 117.9                                      | 108.2             | 9.7               |
| <b>Commercial line combined ratio</b> | <b>101.1%</b>                               | <b>105.9%</b>    | <b>(4.8)</b>      | <b>122.4%</b>                              | <b>112.4%</b>     | <b>10.0</b>       |

*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 and earned remained flat in the three months ended September 30, 2010, while the nine month period increased slightly, compared to the same periods in 2009, as a result of rate increases.

The loss ratio decreased during the three months ended September 30, 2010, but increased significantly during the nine months ended September 30, 2010 as a result of catastrophes losses incurred during the first quarter of 2010. We expect variability in this line, which is sensitive to the frequency and severity of storm and weather related losses. The combined ratio changes were a direct result of the decreasing and increasing loss ratios for the three and nine month periods, respectively, as the underwriting expense ratio remained relatively flat.

*Commercial Automobile:* Net premium written and earned decreased slightly, as a result of a reduction of about 7.0% of our policies, offset by newly implemented rate increases.

The increases in the loss ratio and combined ratio during the three months ended September 30, 2010 compared to 2009 reflect the decrease in premiums. The ratio decreases during the nine month period reflect a \$9.3 million decrease in policy benefits as a result of favorable claim development compared to the prior year.

*Other Commercial:* Net written and earned premiums have continued a decreasing trend, as a result of the continued decline in our workers compensation product and small business coverages. Premiums for our workers compensation product have continued to decrease, as a result of a reduction in exposures and overall rate levels. Our small business premiums are also declining as a result of lower receipts for some of our client's businesses, as well as a lowering premium per policy as businesses reduce coverages and increase deductibles in an effort to reduce their costs.

The loss and combined ratios improved during the three months ended September 30, 2010 compared to 2009, but deteriorated during the nine month period. The nine month comparison for the loss and combined ratio have been steadily increasing due to the change in premiums noted above in addition to an increase in the severity of workers compensation claims as payrolls continue to contract. However, fewer claims were made during the third quarter of 2010, resulting in the quarter-to-date improvement compared to 2009.

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***Product Discussion Credit Related Property 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 decreased to \$31.5 million and \$92.3 million, from \$39.7 million and \$109.0 million for the three and nine months ended September 30, 2010 and 2009, respectively. Net premiums earned decreased to \$30.1 million and \$93.5 million, from \$35.9 million and \$104.7 million for the three and nine months ended September 30, 2010 and 2009, respectively. These decreases were primarily due to the current economic conditions. As our products are primarily sold when consumers make large purchases, we expect our products to reverse this downward trend once consumer spending begins to rebound.

The loss ratios decreased to 27.1% and 28.4%, from 37.5% and 41.7% during the three and nine month periods ending September 30, 2010 and 2009, respectively. These decreases were attributable to an overall decrease in benefits of our products as a result of lower frequency and severity of claims.

The combined ratios decreased to 94.1% and 96.7%, from 99.4% and 102.5% during the three and nine month periods ending September 30, 2010 and 2009, respectively. The decrease in the loss ratio noted above caused the decrease in the combined ratio, which was offset by higher underwriting expenses from rising commission expenses as a result of a change in our product mix.

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

Corporate and Other primarily includes the capital not allocated to support our insurance business segments. Our excess 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<br/>September 30,</b> |                  |                  | <b>Nine Months Ended<br/>September 30,</b> |                    |                   |
|------------------------------------------------------------------|---------------------------------------------|------------------|------------------|--------------------------------------------|--------------------|-------------------|
|                                                                  | <b>2010</b>                                 | <b>2009</b>      | <b>Change</b>    | <b>2010</b>                                | <b>2009</b>        | <b>Change</b>     |
| <b>Revenues:</b>                                                 |                                             |                  |                  |                                            |                    |                   |
| Net investment income                                            | \$ 26,180                                   | \$ 27,303        | \$ (1,123)       | \$ 71,025                                  | \$ 69,742          | \$ 1,283          |
| Gain/(loss) from investments, net                                | 18,626                                      | (935)            | 19,561           | 50,437                                     | (81,103)           | 131,540           |
| Other income                                                     | 437                                         | 849              | (412)            | 2,727                                      | 2,305              | 422               |
| <b>Total premiums and other revenues</b>                         | <b>45,243</b>                               | <b>27,217</b>    | <b>18,026</b>    | <b>124,189</b>                             | <b>(9,056)</b>     | <b>133,245</b>    |
| <b>Benefits and expenses:</b>                                    |                                             |                  |                  |                                            |                    |                   |
| Other operating costs and expenses                               | 8,958                                       | 13,317           | (4,359)          | 26,293                                     | 26,891             | (598)             |
| <b>Total benefits and expenses</b>                               | <b>8,958</b>                                | <b>13,317</b>    | <b>(4,359)</b>   | <b>26,293</b>                              | <b>26,891</b>      | <b>(598)</b>      |
| <b>Income (loss) before other items and federal income taxes</b> | <b>\$ 36,285</b>                            | <b>\$ 13,900</b> | <b>\$ 22,385</b> | <b>\$ 97,896</b>                           | <b>\$ (35,947)</b> | <b>\$ 133,843</b> |

Income (loss) before other items and federal income taxes increased for the three and nine month periods ending September 30, 2010 compared to the same periods in 2009. These increases were primarily due to the increase in gains from investments as a result of improved financial markets, which also led to a reduction in other-than-temporary impairments below those recorded during 2009. We recorded other-than-temporary impairments of \$3.5 million and \$6.3 million on our investment portfolio for the three and nine months ended September 30, 2010, respectively, compared to \$4.2 million and \$78.3 million during the comparable periods in 2009. These other-than-temporary impairments are recorded in the Gain/(loss) from investments, net line.

In accordance with our segment allocation process, all realized gains and losses, except those on derivatives, are allocated to the Corporate and Other segment. The Corporate and Other segment is compensated for the risk it assumes for realized losses through a monthly charge to the insurance segments that reduces the amount of investment income allocated to those segments. Since other-than-temporary impairments are recorded as realized losses they are, accordingly, allocated to the Corporate and Other segment.

**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 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 income securities. Funds are invested with the intent that income from the investments, plus proceeds from the maturities, will meet the ongoing cash flow needs of the Company. The Company historically has not been put in the position of having to liquidate invested assets in order to provide cash flow, however its investments consist primarily of highly liquid marketable debt securities available to meet our liquidity needs.

During September of 2010 the Company 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 the Company's working capital requirements. The combination of borrowings and outstanding letters of credit cannot exceed \$100 million at any time. As of September 30, 2010 and December 31, 2009 the outstanding letters of credit were \$36.3 million and \$36.2 million, respectively, and there were no borrowings on this facility to meet liquidity requirements.

**Table of Contents****Capital Resources**

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

|                                                                                                                      | <b>September 30,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|----------------------------------------------------------------------------------------------------------------------|-------------------------------|------------------------------|
| American National stockholders' equity, excluding accumulated other comprehensive income (loss), net of tax ( AOCI ) | \$ 3,391,666                  | \$ 3,342,805                 |
| AOCI                                                                                                                 | 217,463                       | 117,649                      |
| <b>Total American National stockholders' equity</b>                                                                  | <b>\$ 3,609,129</b>           | <b>\$ 3,460,454</b>          |

We have notes payable on 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 are required to consolidate into our results in accordance with accounting rules. The lenders for the notes payable have no recourse to 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 affiliate, which totaled \$32.4 million at September 30, 2010.

Total American National stockholders' equity increased primarily due to the \$108.5 million net income attributable to the Company during the period and \$99.8 million unrealized gains on marketable securities, offset by \$62.0 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. As of September 30, 2010, the levels of each of our insurance companies' surplus and risk-based capital exceeded the minimum risk-based capital ( RBC ) requirements of the National Association of Insurance Commissioners. As of September 30, 2010, on a stand-alone basis the surplus of American National Insurance Company, the parent company, increased from the level recorded at December 31, 2009.

**Contractual Obligations**

Our future cash payments associated with loss and loss adjustment expense reserves, 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, 2009. 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 which are discussed under Commitments and Contingencies in the footnotes to the consolidated financial statements above. We could be exposed to the liabilities of these loans using the cash value of the underlying insurance contracts. However, since the cash value of the life insurance policies always equals or exceeds the balance of the loans, management does not foresee any loss on the guarantees.

**Table of Contents****Investments*****General***

We manage our investment portfolio to optimize the return that is commensurate with sound and prudent underwriting practices and maintain a well-diversified portfolio. Our investment operations are governed by various regulatory authorities, including but not limited to, the Texas Department of Insurance. Investment activity, including the setting of investment policies and defining acceptable risk levels, is subject to review and approval of our Finance Committee, a committee made up of two members of the Board of Directors, senior investment professionals, and senior company officers. For additional information on the composition and responsibilities of the Finance Committee, see our 2009 Annual Report on Form 10-K filed with the SEC on March 12, 2010.

Our insurance and annuity products are primarily supported by investment grade bonds, collateralized mortgage obligations, and commercial mortgage loans. We purchase fixed-income security investments and designate them as either held-to-maturity or available-for-sale as necessary to match our estimated future cash flow needs. We make use of 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 income securities between held-to-maturity and available-for-sale securities and adjust the concentrations of various investments 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-income securities. Investments in individual residential mortgage loans have not historically been part of our investment portfolio, and we do not anticipate investing in them in the future. Our historically strong 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/reward analysis.

***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>September 30, 2010</b> |               | <b>December 31, 2009</b> |               |
|---------------------------------------------------------|---------------------------|---------------|--------------------------|---------------|
|                                                         | amount                    | percent       | amount                   | percent       |
| Bonds held-to-maturity, at amortized cost               | \$ 8,006,389              | 45.1%         | \$ 7,461,711             | 44.9%         |
| Bonds available-for-sale, at fair value                 | 4,349,356                 | 24.5          | 4,213,550                | 25.4          |
| Preferred stock, at fair value                          | 38,850                    | 0.2           | 35,717                   | 0.2           |
| Common stock, at fair value                             | 973,505                   | 5.5           | 934,754                  | 5.6           |
| Mortgage loans at amortized cost, net of allowance      | 2,429,663                 | 13.7          | 2,229,659                | 13.4          |
| Policy loans, at outstanding balance                    | 374,391                   | 2.1           | 364,354                  | 2.2           |
| Investment real estate, net of accumulated depreciation | 688,910                   | 3.9           | 635,110                  | 3.8           |
| Short-term investments                                  | 775,014                   | 4.4           | 636,823                  | 3.9           |
| Other invested assets                                   | 111,701                   | 0.6           | 94,442                   | 0.6           |
| <b>Total Invested Assets</b>                            | <b>\$ 17,747,779</b>      | <b>100.0%</b> | <b>\$ 16,606,120</b>     | <b>100.0%</b> |

Total invested assets increased as of September 30, 2010 compared to December 31, 2009 primarily as a reflection of new purchases to support fixed deferred annuity sales. Our short-term investments continue to increase due to lack of appropriate long-term opportunities. We are also increasing our investments in commercial mortgages as the right opportunities become available at the right price. The securities industry continues to take comfort in modest inflation and significant spread compression, as well as improved financial markets since the recent crisis. Trepidation still surrounds the damaged housing market, and we continue to actively manage our exposure to financial institutions.



**Table of Contents****Investments to Support Our Insurance Business**

**Bonds-** We allocate most of our fixed-income securities to support our insurance business. For a breakdown of these fixed maturity securities, see the Investments footnote to the consolidated financial statements.

At September 30, 2010, our fixed maturity securities had an estimated fair market value of \$13.0 billion, which was \$955.4 million (7.9%) above amortized cost. At December 31, 2009, our fixed maturity securities had an estimated fair market value of \$11.9 billion, which was \$322.3 million (2.8%) above amortized cost. The 9.7% increase in corporate bonds estimated fair value from \$9.9 billion as of December 31, 2009 to \$10.9 billion as of September 30, 2010, was the result of new purchases to support annuity sales as well as market value increases.

Fixed income securities estimated fair value, due in one year or less, increased \$247.5 million to \$605.9 million as of September 30, 2010 from \$358.4 million as of December 31, 2009.

The following table identifies the total bonds by credit quality as rated by Standard & Poor's (in thousands, except percentages):

|               | September 30, 2010   |                         |                       | December 31, 2009    |                         |                       |
|---------------|----------------------|-------------------------|-----------------------|----------------------|-------------------------|-----------------------|
|               | Amortized<br>Cost    | Estimated<br>Fair Value | % of<br>Fair<br>Value | Amortized<br>Cost    | Estimated<br>Fair Value | % of<br>Fair<br>Value |
| AAA           | \$ 1,282,651         | \$ 1,359,145            | 10.4%                 | \$ 1,357,021         | \$ 1,387,783            | 11.6%                 |
| AA+           | 219,509              | 234,992                 | 1.8                   | 186,461              | 192,972                 | 1.6                   |
| AA            | 350,424              | 374,070                 | 2.9                   | 230,921              | 241,035                 | 2.0                   |
| AA-           | 462,674              | 509,840                 | 3.9                   | 509,699              | 533,267                 | 4.5                   |
| A+            | 843,649              | 936,106                 | 7.2                   | 857,773              | 905,961                 | 7.6                   |
| A             | 1,808,639            | 1,970,601               | 15.1                  | 1,653,891            | 1,720,543               | 14.5                  |
| A-            | 1,767,231            | 1,942,134               | 14.9                  | 1,568,791            | 1,625,434               | 13.6                  |
| BBB+          | 1,275,437            | 1,406,411               | 10.8                  | 1,489,815            | 1,555,244               | 13.1                  |
| BBB           | 1,969,581            | 2,142,888               | 16.5                  | 1,875,529            | 1,951,146               | 16.4                  |
| BBB-          | 991,292              | 1,044,095               | 8.0                   | 922,280              | 921,969                 | 7.7                   |
| BB+ and below | 1,094,322            | 1,100,549               | 8.5                   | 945,574              | 884,672                 | 7.4                   |
| <b>Total</b>  | <b>\$ 12,065,409</b> | <b>\$ 13,020,831</b>    | <b>100.0%</b>         | <b>\$ 11,597,755</b> | <b>\$ 11,920,026</b>    | <b>100.0%</b>         |

Our exposure to below investment grade securities increased during the nine months ended September 30, 2010, as a result of credit downgrades and purchases of private placements which are not rated. At 8.5% of our portfolio, the exposure is acceptable to management. We have reached our portfolio target allocation for securities rated BBB+ and below and plan to maintain that target allocation.

Fixed income securities are discussed further within the Investments footnote to the consolidated financial statements.

**Mortgage Loans-** We invest in commercial mortgage loans that are diversified by property type and geography, see the Credit Risk Management footnote to the accompanying consolidated financial statements for further analysis. 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 as a component of fixed income investments that 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, net of allowances. Our mortgage loan portfolio was \$2.4 billion and \$2.2 billion at September 30, 2010 and December 31, 2009, respectively. Mortgage loans comprised 13.7% of total invested assets at September 30, 2010.

As of September 30, 2010 and December 31, 2009, our mortgage loans classified as delinquent, in foreclosure and restructured were immaterial as a percentage of the total mortgage loan portfolio. There was one mortgage loan which was foreclosed upon and transferred to real estate investments totaling \$2.0 million for the nine months ended

September 30, 2010, while a total of \$24.6 million were foreclosed upon and transferred during the twelve months ended December 31, 2009. There were two delinquent mortgage loans at September 30, 2010. There were also two such loans at December 31, 2009.

The average coupon yield on the principal funded for mortgage loans was 7.1% for the nine months ended September 30, 2010 and 7.5% for the twelve months ended December 31, 2009.

**Equity Securities-** As of September 30, 2010, we held \$1.0 billion, or 5.7% of our invested assets, in a well-diversified equity investment portfolio. Of these equity securities, 96.2% are invested in publicly traded (on a national U.S. stock exchange) common stock. The remaining 3.8% of the equity portfolio is invested in publicly traded preferred stock. As of December 31, 2009, \$970.5 million, or 5.8% of our invested assets were equity investments. Of these equity securities, 96.3% were invested in publicly traded common stock, and the remaining 3.7% were invested in publicly traded preferred stock. The increase in the fair value of our equity securities during the nine months ended September 30, 2010 reflects purchases and market value increases within the portfolio.

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

|                 |                   | <b>September 30, 2010</b> |                          |                     |
|-----------------|-------------------|---------------------------|--------------------------|---------------------|
|                 | <b>Cost</b>       | <b>Unrealized Gains</b>   | <b>Unrealized Losses</b> | <b>Fair Value</b>   |
| Common stock    | \$ 698,208        | \$ 287,207                | \$ (11,910)              | \$ 973,505          |
| Preferred stock | 33,359            | 7,033                     | (1,542)                  | 38,850              |
| <b>Total</b>    | <b>\$ 731,567</b> | <b>\$ 294,240</b>         | <b>\$ (13,452)</b>       | <b>\$ 1,012,355</b> |

|                 |                   | <b>December 31, 2009</b> |                          |                   |
|-----------------|-------------------|--------------------------|--------------------------|-------------------|
|                 | <b>Cost</b>       | <b>Unrealized Gains</b>  | <b>Unrealized Losses</b> | <b>Fair Value</b> |
| Common stock    | \$ 683,794        | \$ 259,256               | \$ (8,296)               | \$ 934,754        |
| Preferred stock | 35,359            | 5,269                    | (4,911)                  | 35,717            |
| <b>Total</b>    | <b>\$ 719,153</b> | <b>\$ 264,525</b>        | <b>\$ (13,207)</b>       | <b>\$ 970,471</b> |

Our equity portfolio is summarized within the Credit Risk Management footnote to the consolidated financial statements. The relative changes in sector weighting between the nine months ended September 30, 2010 and the year ended December 31, 2009 are the result of normal purchase and sale activity in concert with market movement. There has been no change in investment philosophy or diversification goals.

**Investment in Real Estate-** We invest in commercial real estate with positive cash flows or where appreciation in value is expected. Real estate is owned directly by our insurance companies, through non-insurance affiliates, or through joint ventures. The carrying value of real estate is stated at cost, less accumulated depreciation, and valuation impairments. Depreciation is provided over the estimated useful lives of the properties. The distribution across geographic regions and property types for real estate is summarized within the Credit Risk Management footnote to the accompanying consolidated financial statements.

**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 long-term investment opportunities available and our liquidity needs, including investment-funding commitments.

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

Net investment income and realized investments gains/(losses), before federal income taxes, for the three and nine months ended September 30, 2010 and 2009, respectively, are summarized within the Investments footnote to the consolidated financial statements.

Net investment income from those assets used to support our insurance products (bonds and mortgage loans) increased consistently over the period as assets increased because of net annuity sales 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 three payments past due and/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 on real estate is included in net investment income in the period received.

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### ***Other Invested Assets***

The derivative contracts (indexed options) used to back our equity-linked products are carried in this category, representing the largest amount of the assets in the category. These options are designed to mirror corresponding changes in our liability to policyholders. Refer to the *Results of Operations – Annuity* section for further discussion.

### ***Realized Gains and Losses***

Realized gains and losses and real estate investment income from sales in subsidiaries may fluctuate because they are the result of decisions to sell invested assets that depend on considerations of investment values, market opportunities, and tax consequences.

All of the realized gains and losses are allocated to the Corporate and Other segment. The risk of realized losses from fixed income securities used to support our products is charged to the insurance segments through a monthly default charge with the income from the charge allocated to the Corporate and Other segment to compensate it for any potential realized losses that would be recorded. The default charge rate is set as a percentage of the asset base that supports each of the insurance segments, with the rate set depending on the risk level of the asset involved.

### ***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, reflected a gain of \$99.6 million for the nine months ended September 30, 2010, and a gain of \$383.1 million for the twelve months ended December 31, 2009. See the

Investments footnote to the consolidated financial statements for further discussion of the changes in unrealized gains and losses.

### ***Fair Value Disclosures***

The fair value of individual invested assets is determined by the use of external pricing services, independent broker quotes, and internal valuation methodologies. See Note 6 to the Consolidated Financial Statements for further discussion of the calculation of fair value for our investments. Below is a summary of the valuation techniques we utilize to measure fair value of the major investment types. There have been no material changes to our fair value methodologies since the year ended December 31, 2009.

As of September 30, 2010, 100% of our common stock investments are considered Level 1 securities with fair values determinable from observable market prices.

We obtain publicly available prices from external pricing services for our bond investments. The typical inputs from pricing services include, but are not limited to, reported trades, bids, offers, issuer spreads, cash flow, and performance data. These inputs are usually market observable; however, when trading volumes are low or non-existent, the pricing services may adjust these values. The adjustments made to the quoted prices are based on recently reported trades for comparable securities. We perform a periodic analysis of the prices received from the third parties to verify that the price represents a reasonable estimate of fair value. When prices are obtained from external services, they are classified as Level 2.

Certain illiquid, non-market quoted debt securities are priced via independent broker quotes and internal valuation methodologies. The quotations received from the broker may use inputs that are difficult to corroborate with observable market data. Additionally, we only obtain non-binding quotations from the independent brokers. Internal pricing methodologies include inputs such as externally provided credit spreads, changes in interest rates and market liquidity. Due to the significant non-observable inputs, these prices determined by the use of independent broker pricing and internal valuation methodologies are classified as Level 3.

All mortgage loan investments are classified as Level 2. Mortgage loan valuation is evaluated for consistency with our knowledge of the current market environment using observable inputs where practical to ensure amounts are reflective of fair value.

### ***Other-Than-Temporary Impairments***

Debt securities accounted for under ASC 320-10 Investments – Debt and Equity Securities (formerly, Emerging Issues Task Force No. 99-20) may experience other-than-temporary impairment in future periods in the event an adverse change in cash flows is anticipated or probable. Other debt securities may experience other-than-temporary impairment in the future based on the probability that the issuer may not be able to make all contractual payments when due. Equity securities may experience other-than-temporary impairment in the future based on the prospects for

recovery in value in a reasonable period.

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In order to identify and evaluate investments which may be other-than-temporarily impaired we have various quarterly processes in place. For our securities investments, we review the entire portfolio of investments which have unrealized losses. We use various techniques to determine which securities need further review to determine if the impairment is other-than-temporary. The criteria include the amount by which our amortized cost exceeds the market value, the length of time the market value has been below our cost, any public information about the issuer that would indicate the security could be impaired and our intent and ability to hold the security until its value recovers. Furthermore, we review current ratings, rating downgrades and exposure to continued deterioration in the financial and credit markets. Other-than-temporary impairments are discussed further within the Investments footnote to the consolidated financial statements above.

**Bonds-** During the second quarter of 2009, we adopted new accounting guidance, which significantly modified the rules regarding other-than-temporary impairments on bonds (see the Summary of Significant Accounting Policies and Practices footnote for further information on our significant accounting policies and practices).

Each quarter, any bonds pricing below amortized cost are reviewed. Additionally, more detailed review is performed if any of the following conditions exist: a) fair value was more than 50% below our cost, b) fair value was 35% or more below our cost at the reporting date and had been below cost by some amount continuously for nine months, c) the issuer had been downgraded by two ratings or more by a national rating agency, or d) the issuer had widely publicized financial problems. Once a bond is determined to require additional review, it is subjected to a three-part test:

1. Do we intend to hold the bond until maturity?
2. Is it more-likely-than-not that we would have to sell the bond before maturity?
3. If it was determined that we had the ability and intent to hold the bond to maturity, then we would determine the present value of the future cash flows of the bond.

If the cash flows were equal to or greater than our amortized cost, then we concluded that we did not have an other-than-temporary impairment. If it was determined that we would sell the bond or be required to sell the bond, or if the present value of the cash flows was less than our amortized cost, then we determined that the bond was other-than-temporarily impaired. Once a bond was determined to be other-than-temporarily impaired, we used the present value of expected cash flows versus the market value to determine the amount of the credit loss versus the non-credit loss. The amount of credit loss was recorded as a realized loss in earnings, and the amount of non-credit loss was recorded as an unrealized loss as part of other comprehensive income.

**Equity-** All equity investments below cost were subjected to impairment review. Additionally, equity investments were subjected to further review if any of the following situations were observed: a) fair value was more than 50% below our cost, b) fair value was 25% or more below our cost at the reporting date and had been below cost by some amount continuously for nine months, or c) the issuer had widely publicized financial problems. Equity investments were evaluated individually to determine the reason for the decline in fair value and whether such decline was other-than-temporary. The individual determination included multiple factors including our ability and intent to hold the security, performance of the security against other securities in its sector, historical price/earnings ratios using forecast earnings, stock re-purchase programs, and other information specific to each issue.

**Real Estate and other Long-Lived Assets-** Our real estate and other long-lived investment assets are monitored on a continuous basis. We have developed specific criteria including but not limited to materiality, property condition, tenant creditworthiness, guarantees, and the effect of economic conditions to determine the likelihood of these investments requiring impairment adjustments.

If it is determined that impairment may be required, a valuation procedure is employed to determine the amount of the impairment. The valuation includes but is not limited to discounted future cash flows, and the market price of the investment. If the current valuation is less than the current carrying value of the investment, an impairment is recorded against the carrying amount of the investment.

**Mortgage Loans-** We maintain a review list in order to monitor our mortgage loan portfolio of potential problems. A loan's materiality, regulatory reports, loan statistics, and general economic conditions are the primary factors monitored to determine if a loan should be added to the review list. Loans on this list are systematically reviewed to determine if impairment is required.

If impairment is required on a loan, the next step is to determine the impairment amount. This estimate uses the present value of expected future cash flows, the fair value of the collateral property underlying the loan, or the current market price for the loan if it was sold. Once the impairment amount is calculated, an impairment allowance is established for the loan, which is applied against the loan asset when determining the balance to be reported in the consolidated statement of financial position.

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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 2009 Annual Report on Form 10-K filed with the SEC on March 12, 2010.

**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 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 Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of September 30, 2010. Based upon that evaluation and subject to the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2010, 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 September 30, 2010 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**

See our Litigation discussion in Part I, Item 1, Note 14 of Notes to the Consolidated Financial Statements.

**ITEM 1A. RISK FACTORS**

The following should be read in conjunction with and supplements the section titled Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2009. Such risks could materially affect our business, results of operations or financial condition, cause the trading price of our Common Stock to decline materially, or cause our actual results to differ materially from those expected or those expressed in any forward looking statements by or on behalf of us. These risks are not exclusive, and additional risks to which we are subject include, but are not limited to, the factors mentioned under Forward Looking Statements above and the risks of our business described elsewhere in this Quarterly Report on Form 10-Q.

***The enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act ( Dodd-Frank ) effects comprehensive changes to the regulation of financial services in the United States, and we do not yet know what the ultimate impact of this legislation and its related regulations will be on our business operations or on the insurance industry in general.***

The enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act ( Dodd-Frank ) effects comprehensive changes to the regulation of financial services in the United States, and we do not yet know what the ultimate impact of this legislation and its related regulations will be on our business operations or on the insurance industry in general.

Dodd-Frank provides for enhanced regulation of financial services through multiple initiatives including, without limitation, the creation of a Federal Insurance Office and several new federal oversight agencies, the establishment of federal regulatory authority over derivatives, the establishment of consolidated federal regulation and resolution authority over systemically important financial services firms, changes to the regulation of broker-dealers and investment advisers, changes to the regulation of reinsurance, changes in certain disclosure and corporate governance obligations, and the imposition of additional regulation over credit rating agencies. Certain provisions of Dodd-Frank are or may become applicable to us, our competitors, or certain entities with which we do business.

Dodd-Frank directs existing and newly-created government agencies and bodies to promulgate regulations to implement its provisions, a process anticipated to occur over the next few years. It also requires numerous studies, which could result in additional legislation or regulation applicable to the insurance industry and to us, our competitors or companies with which we do business. Dodd-Frank and its related regulations, along with any such additional legislation or regulation, could make it more expensive for us to conduct business or have a material adverse effect on the overall business climate as well as our financial condition and results of operations.

We cannot predict with certainty the requirements or specific applicability of the regulations ultimately adopted, nor can we predict with certainty how Dodd-Frank and such regulations will affect the financial markets generally or impact our business, financial strength ratings, results of operations or cash flows.

***A downgrade or a potential downgrade in our financial strength ratings could result in a loss of business and could adversely affect our financial condition and results of operations.***

We cannot predict what actions rating agencies may take, or what actions we may take in response to the actions of rating agencies, which could adversely affect our business. As with other companies in the financial services industry, our ratings could be downgraded at any time and without any notices by any NRSRO.

Downgrades in our financial strength ratings could have a material adverse effect on our financial condition and results of operations in many ways, including:

reducing new sales of insurance products, annuities, and investment products;

adversely affecting our relationships with our sales force and independent sales intermediaries;

materially increasing the number or amount of policy surrenders and withdrawals by policyholders and contract holders;

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requiring us to reduce prices for many of our products and services to remain competitive;  
adversely affecting our ability to obtain reinsurance at reasonable prices or at all; and  
adversely affecting our relationships with credit counterparties.

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On October 20, 2010 Standard & Poor's rating service lowered its counterparty credit and financial strength ratings on our core operating companies, from AA- to A+ with an outlook of negative.

Standard & Poor's rating action focused heavily on the property and casualty operations of the Company, which have been impacted by a number of large catastrophic events over the last several years. While the property and casualty operations have become a core operation of the Company in recent years, the life and annuity operations remain the key focus of American National, and those operations have had a substantial improvement in performance over recent periods.

**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

- |       |                                                                                                                                                                                                 |
|-------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1   | Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the registrant's Registration Statement on Form 10 filed with the Securities and Exchange Commission on April 10, 2009). |
| 3.2   | By-Laws of American National Insurance Company (incorporated by reference to Exhibit 3.2 of the Company's Current Report on Form 8-K filed with the SEC on May 5th, 2010).                      |
| 31.1* | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                             |
| 31.2* | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                             |
| 32.1* | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                                                                             |
| 32.2* | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                                                                             |

\* filed herewith

**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 and Chief  
Executive Officer

Date: November 5, 2010

By: /s/ Stephen E. Pavlicek  
Name: Stephen E. Pavlicek  
Title: Executive Vice President, Chief  
Financial Officer and  
Corporate Treasurer

Date: November 5, 2010