

AMERICAN NATIONAL INSURANCE CO /TX/

Form 10-Q

August 08, 2012

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2012

or

.. **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
Commission File No. 001- 34280

American National Insurance Company

(Exact name of registrant as specified in its charter)

Texas
(State or other jurisdiction of
incorporation or organization)

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

One Moody Plaza

Galveston, Texas 77550-7999

(Address of principal executive offices) (Zip Code)

(409) 763-4661

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of July 31, 2012, there were 26,836,664 shares of the registrant's voting common stock, \$1.00 par value per share, outstanding.

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AMERICAN NATIONAL INSURANCE COMPANY

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Table of Contents**PART I FINANCIAL INFORMATION**

ITEM 1. FINANCIAL STATEMENTS

AMERICAN NATIONAL INSURANCE COMPANY**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

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

	June 30, 2012	December 31, 2011 (As Adjusted)
ASSETS		
Fixed maturity, bonds held-to-maturity, at amortized cost (Fair Value \$9,903,566 and \$9,857,691)	\$ 9,167,922	\$ 9,251,972
Fixed maturity, bonds available-for-sale, at fair value (Amortized cost \$4,199,573 and \$4,135,610)	4,502,696	4,381,607
Equity securities, at fair value (Cost \$700,376 and \$710,679)	1,057,182	1,006,080
Mortgage loans on real estate, net of allowance	3,060,898	2,925,482
Policy loans	392,822	393,195
Investment real estate, net of accumulated depreciation of \$213,650 and \$202,180	490,305	470,222
Short-term investments	341,198	345,330
Other invested assets	120,141	109,514
Total investments	19,133,164	18,883,402
Cash and cash equivalents	150,746	102,114
Investments in unconsolidated affiliates	234,050	241,625
Accrued investment income	211,296	213,984
Reinsurance recoverables	388,808	405,033
Prepaid reinsurance premiums	64,730	68,785
Premiums due and other receivables	306,068	280,031
Deferred policy acquisition costs	1,293,295	1,320,693
Property and equipment, net	82,660	77,909
Current tax receivable	2,712	17,150
Other assets	137,161	131,403
Separate account assets	776,266	747,867
Total assets	\$ 22,780,956	\$ 22,489,996
LIABILITIES		
Future policy benefits:		
Life	\$ 2,627,688	\$ 2,599,224
Annuity	786,892	748,675
Accident and health	72,175	74,829
Policyholders' account balances	11,577,734	11,506,504
Policy and contract claims	1,358,332	1,340,651
Unearned premium reserve	816,624	797,398
Other policyholder funds	280,756	288,910
Liability for retirement benefits	251,635	257,602
Current portion of long-term notes payable	47,707	46,387

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Long-term notes payable	12,500	12,507
Deferred tax liabilities, net	49,426	21,851
Other liabilities	375,509	397,353
Separate account liabilities	776,266	747,867
Total liabilities	19,033,244	18,839,758
STOCKHOLDERS EQUITY		
Common stock, \$1.00 par value, - Authorized 50,000,000		
Issued 30,832,449 and 30,832,449,		
Outstanding 26,836,591 and 26,821,284 shares	30,832	30,832
Additional paid-in capital	7,914	
Accumulated other comprehensive income	224,263	159,403
Retained earnings	3,569,937	3,545,546
Treasury stock, at cost	(98,287)	(98,490)
Total American National stockholders equity	3,734,659	3,637,291
Noncontrolling interest	13,053	12,947
Total stockholders equity	3,747,712	3,650,238
Total liabilities and stockholders equity	\$ 22,780,956	\$ 22,489,996

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents**AMERICAN NATIONAL INSURANCE COMPANY****CONSOLIDATED STATEMENTS OF OPERATIONS**

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

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
		(As Adjusted)		(As Adjusted)
PREMIUMS AND OTHER REVENUE				
Premiums				
Life	\$ 70,699	\$ 69,474	\$ 137,150	\$ 135,860
Annuity	34,723	32,110	63,135	51,600
Accident and health	54,712	58,384	111,766	117,028
Property and casualty	268,431	275,848	541,600	567,162
Other policy revenues	49,016	46,379	97,063	95,510
Net investment income	240,563	250,172	496,259	489,244
Realized investments gains (losses)	10,139	22,926	19,947	44,957
Other-than-temporary impairments	(5,261)		(8,098)	
Other income	7,940	6,487	14,815	12,292
Total premiums and other revenues	730,962	761,780	1,473,637	1,513,653
BENEFITS, LOSSES AND EXPENSES				
Policyholder Benefits				
Life	76,799	79,854	160,622	156,541
Annuity	43,722	42,837	82,967	72,810
Claims incurred				
Accident and health	36,475	39,466	81,150	81,073
Property and casualty	244,966	254,431	432,518	469,942
Interest credited to policyholders' account balances	91,019	99,139	215,883	205,530
Commissions for acquiring and servicing policies	95,528	118,766	191,042	228,401
Other operating expenses	120,151	113,111	222,144	235,372
Change in deferred policy acquisition costs	3,662	(22,701)	5,300	(34,158)
Total benefits, losses and expenses	712,322	724,903	1,391,626	1,415,511
Income (loss) before federal income tax and equity in earnings/losses of unconsolidated affiliates	18,640	36,877	82,011	98,142
Less: Provision (benefit) for federal income taxes				
Current	16,197	13,199	23,484	27,517
Deferred	(18,581)	(8,807)	(8,885)	(6,740)
Total provision (benefit) for federal income taxes	(2,384)	4,392	14,599	20,777
Equity in earnings (losses) of unconsolidated affiliates, net of tax	314	(2,099)	(1,567)	(238)
Net income (loss)	21,338	30,386	65,845	77,127
Less: Net income (loss) attributable to noncontrolling interest, net of tax	832	1,146	123	359
Net income (loss) attributable to American National Insurance Company and Subsidiaries	\$ 20,506	\$ 29,240	\$ 65,722	\$ 76,768

**Amounts available to American National Insurance Company
common stockholders**

Earnings per share:

Basic	\$	0.77	\$	1.10	\$	2.46	\$	2.89
Diluted		0.76		1.09		2.45		2.88
Weighted average common shares outstanding		26,685,128		26,559,950		26,675,405		26,559,821
Weighted average common shares outstanding and dilutive potential common shares		26,854,595		26,706,145		26,848,258		26,701,024

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents**AMERICAN NATIONAL INSURANCE COMPANY****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

(Unaudited and in thousands)

	Three months ended June 30, 2012	2011 (As Adjusted)	Six months ended June 30, 2012	2011 (As Adjusted)
Net income (loss)	\$ 21,338	\$ 30,386	\$ 65,845	\$ 77,127
Other comprehensive income (loss), net of tax				
Change in net unrealized gain (loss) on securities	(16,794)	13,837	59,737	39,714
Foreign currency transaction and translation adjustments	178	34	330	193
Defined benefit plan adjustment	2,125	(123)	4,793	(188)
Other comprehensive income (loss)	(14,491)	13,748	64,860	39,719
Total comprehensive income (loss)	6,847	44,134	130,705	116,846
Less: comprehensive income attributable to noncontrolling interest	832	1,146	123	359
Total comprehensive income (loss) attributable to American National Insurance Company and Subsidiaries	\$ 6,015	\$ 42,988	\$ 130,582	\$ 116,487

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

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

	Six months ended June 30, 2012	2011 (As Adjusted)
Common Stock		
Balance at beginning and end of the period	\$ 30,832	\$ 30,832
Additional Paid-In Capital		
Balance as of January 1,		15,190
Issuance of treasury shares as restricted stock	(203)	(4)
Income tax effect from restricted stock arrangement	(534)	(14)
Amortization of restricted stock	8,651	2,146
Balance at end of period	7,914	17,318
Accumulated Other Comprehensive Income (Loss)		
Balance as of January 1,	159,403	225,212
Other comprehensive income (loss)	64,860	39,719
Cumulative effect of accounting change - deferred policy acquisition costs		604
Balance at end of the period	224,263	265,535
Retained Earnings		
Balance as of January 1,	3,545,546	3,459,911
Net income (loss) attributable to American National Insurance Company and Subsidiaries	65,722	76,768

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Cash dividends to common stockholders (\$1.54 per share)	(41,331)	(41,304)
Cumulative effect of accounting change - deferred policy acquisition costs		(19,195)
Balance at end of the period	3,569,937	3,476,180
Treasury Stock		
Balance as of January 1,	(98,490)	(98,494)
Issuance of treasury shares as restricted stock	203	4
Balance at end of the period	(98,287)	(98,490)
Noncontrolling Interest		
Balance as of January 1,	12,947	4,042
Contributions		26
Distributions	(17)	(12,016)
Gain (loss) attributable to noncontrolling interest	123	359
Balance at end of the period	13,053	(7,589)
Total Stockholders' Equity		
Balance at end of the period	\$ 3,747,712	\$ 3,683,786

See accompanying notes to the unaudited consolidated financial statements.

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

(Unaudited and in thousands)

	Six months ended June 30,	
	2012	2011
		(As Adjusted)
OPERATING ACTIVITIES		
Net income (loss)	\$ 65,845	\$ 77,127
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Realized investments (gains) losses	(19,947)	(44,957)
Other-than-temporary impairments	8,098	
Accretion (amortization) of discounts, premiums and loan origination fees	2,495	5,301
Net capitalized interest on policy loans and mortgage loans	(14,469)	(14,066)
Depreciation	18,555	20,653
Interest credited to policyholders' account balances	215,883	205,530
Charges to policyholders' account balances	(97,063)	(95,510)
Deferred federal income tax (benefit) expense	(8,885)	(6,740)
Deferral of policy acquisition costs	(197,789)	(234,421)
Amortization of deferred policy acquisition costs	203,089	200,263
Equity in (earnings) losses of unconsolidated affiliates	1,567	238
Changes in:		
Policyholder liabilities	88,363	156,478
Reinsurance recoverables	16,225	(79,199)
Premiums due and other receivables	(26,037)	(23,043)
Accrued investment income	2,688	(10,720)
Current tax receivable/payable	14,438	(7,422)
Liability for retirement benefits	1,407	983
Prepaid reinsurance premiums	4,055	105
Other, net	(29,680)	11,129
Net cash provided by (used in) operating activities	248,838	161,729
INVESTING ACTIVITIES		
Proceeds from sale/maturity/prepayment of:		
Bonds - held-to-maturity	703,534	423,820
Bonds - available-for-sale	218,876	243,805
Equity securities	26,135	57,865
Investment real estate		90,084
Mortgage loans	109,951	214,513
Policy loans	33,875	24,649
Other invested assets	19,946	20,861
Disposals of property and equipment	98	597
Distributions from unconsolidated affiliates	18,960	8,142
Payment for the purchase/origination of:		
Bonds - held-to-maturity	(610,789)	(1,043,532)
Bonds - available-for-sale	(285,136)	(365,393)
Equity securities	(15,807)	(27,043)
Investment real estate	(14,593)	(6,567)
Mortgage loans	(259,093)	(285,974)
Policy loans	(21,495)	(19,536)
Other invested assets	(22,418)	(19,928)
Additions to property and equipment	(12,218)	(8,245)

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Contributions to unconsolidated affiliates	(14,423)	(40,030)
Change in short-term investments	4,132	10,613
Other, net	7,995	(11,465)
Net cash provided by (used in) investing activities	(112,470)	(732,764)
FINANCING ACTIVITIES		
Policyholders' account deposits	608,843	1,311,544
Policyholders' account withdrawals	(656,544)	(720,846)
Change in notes payable	1,313	(1,704)
Dividends to stockholders	(41,331)	(41,304)
Proceeds from (payments to) noncontrolling interest	(17)	10
Net cash provided by (used in) financing activities	(87,736)	547,700
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	48,632	(23,335)
Beginning of the year	102,114	101,449
End of year	\$ 150,746	\$ 78,114

See accompanying notes to the unaudited consolidated financial statements.

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

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

The interim consolidated financial statements and notes herein are unaudited. These interim consolidated financial statements reflect all adjustments, which are in the opinion of management, considered necessary for the fair presentation of the consolidated statements of financial position, operations, comprehensive income (loss), changes in stockholders equity, and cash flows for the interim periods.

These interim consolidated financial statements and notes should be read in conjunction with the annual consolidated financial statements and notes thereto included in American National s Annual Report on Form 10-K as of and for the year ended December 31, 2011. The consolidated results of operations for the interim periods should not be considered indicative of results to be expected for the full year.

American National consolidates all entities that are wholly-owned and those in which American National owns less than 100% but controls, as well as any variable interest entities in which American National is the primary beneficiary. Investments in unconsolidated affiliates are accounted for using the equity method of accounting.

Certain amounts in prior years have been reclassified to conform to current year presentation.

The preparation of the consolidated financial statements in conformity with GAAP requires the use of estimates and assumptions that affect the reported consolidated financial statement balances. Actual results could differ from those estimates.

Effective January 1, 2012, American National adopted a new accounting standard that modified the accounting for deferred policy acquisition costs (DAC) associated with acquiring new and renewal insurance and annuity contracts. Previously, acquisition costs were deferred if the costs varied with and were related primarily to the acquisition of new and renewal insurance and annuity contracts. In accordance with the new standard of ASU No. 2010-26, DAC is limited to those costs that are related directly to the successful acquisition of insurance and annuity contracts, costs 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. In addition, advertising costs are included in DAC only if the capitalization criteria for direct-response advertising are met. Refer to Note 3 for discussion of the effects of this accounting change.

As of June 30, 2012 all other American National significant accounting policies and practices remain materially unchanged from those disclosed in Note 2, Summary of Significant Accounting Policies and Practices, of the Notes to the Consolidated Financial Statements included in American National s 2011 Annual Report on Form 10-K.

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

In October 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-26, Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts. 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 guidance also specifies that advertising costs should be deferred only if the capitalization criteria for direct-response advertising are met. ASU 2010-26 is effective for interim and annual periods, commencing after December 15, 2011. American National adopted this standard effective January 1, 2012, and applied the retrospective method of adoption to all prior periods presented in the consolidated financial statements. Accordingly, upon adoption, the DAC asset was reduced by approximately \$34,260,000 as a result of acquisition costs previously deferred that are no longer eligible for deferral under the new guidance. The after-tax cumulative effect adjustment to the opening balance of stockholders equity was approximately \$19,745,000.

In May 2011, the FASB issued ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in the U.S. GAAP and IFRSs. ASU 2011-04 clarifies the intent of the FASB about the application of existing fair value measurement and disclosure requirements such as: (1) the application of the highest and best use and valuation premise concepts; (2) a requirement specific to measuring the fair value of an instrument classified in a reporting entity s shareholders equity; and (3) a requirement to disclose unobservable inputs used in the fair value of an instrument categorized within Level 3 of the fair value hierarchy. The new guidance also prohibits the use of block premiums and discounts for all fair value measurement, regardless of hierarchy. In addition, ASU 2011-04 expands the disclosures about fair value measurements. ASU 2011-04 is effective for interim and annual periods, beginning after December 15, 2011. American National s adoption of this guidance on January 1, 2012 did not have a material effect on the consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income. ASU 2011-05 makes the presentation of other comprehensive income (OCI) more prominent by giving reporting entities two presentation options. Reporting entities can present the total net income and total OCI along with their respective components as one continuous statement or as two separate consecutive statements. The new guidance also eliminates the option to present OCI in the statement of changes in stockholders equity. In addition, the new guidance requires reporting entities to present reclassification adjustments from OCI to net income on the face of the financial statements. ASU 2011-05 is effective for interim and annual periods, beginning after December 15, 2011. American National s adoption of this guidance on January 1, 2012 did not have a material effect on its consolidated financial statements.

In September 2011, the FASB issued ASU No. 2011-08, Testing Goodwill for Impairment. ASU 2011-08 allows an assessment of qualitative factors to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying value as a basis to determining whether the two-step goodwill impairment test is necessary. ASU 2011-08 is effective for interim and annual periods beginning after December 15, 2011. American National s adoption of this guidance on January 1, 2012 did not have a material effect on its consolidated financial statements.

In December 2011, the FASB issued ASU No. 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05. The guidance defers the application of the reclassification adjustment provisions in ASU 2011-05. ASU 2011-12 is effective for interim and annual periods beginning after December 15, 2011. American National s adoption of this guidance on January 1, 2012 did not have a material effect on its consolidated financial statements.

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Future Adoption of New Accounting Standards

In July 2011, the FASB issued ASU No. 2011-06, Fees Paid to the Federal Government by Health Insurers. ASU 2011-06 addresses questions about how health insurers should recognize and classify in their income statements fees mandated by the Patient Protection and Affordable Care Act, which imposes an annual fee on health insurers for each calendar year beginning on or after January 1, 2014. The new guidance specifies that the liability for the fee should be estimated and recorded in full once the entity provides qualifying health insurance in the applicable calendar year. The corresponding deferred cost is then amortized to expense using a straight-line method of allocation unless another method better allocates the fee over the calendar year that it is payable. ASU 2011-06 is effective for calendar years beginning after December 31, 2013. American National's adoption of this guidance on January 1, 2014 is not expected to have a material effect on its consolidated financial statements.

In December 2011, the FASB issued ASU No. 2011-10, Derecognition of in Substance Real Estate. The new guidance clarifies that when a reporting entity ceases to have a controlling financial interest in a subsidiary that is in substance real estate because of a default on the subsidiary's nonrecourse debt secured by the real estate, the reporting entity should apply the guidance for real estate sales when evaluating the subsidiary for deconsolidation. ASU 2011-10 is effective for fiscal years, and interim periods within those years, beginning on or after June 15, 2012. American National's adoption of this guidance on January 1, 2013 is not expected to have a material effect on its consolidated financial statements.

In December 2011, the FASB issued ASU No. 2011-11, Disclosures about Offsetting Assets and Liabilities. The new guidance requires an entity to disclose both gross and net information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. ASU 2011-11 is effective for interim and annual periods beginning on or after January 1, 2013 and the new disclosure requirements should be applied retrospectively for all periods presented. American National's adoption of this guidance on January 1, 2013 is not expected to have a material effect on its consolidated financial statements.

Table of Contents**4. INVESTMENTS IN SECURITIES**

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

	Cost or Amortized Cost	Six months ended June 30, 2012		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Fixed maturity securities, bonds held-to-maturity				
U.S. treasury and other U.S. government corporations and agencies	\$ 10,558	\$ 120	\$	\$ 10,678
States of the U.S. and political subdivisions of the states	396,375	38,630	(40)	434,965
Foreign governments	29,057	4,858		33,915
Corporate debt securities	8,028,635	670,711	(9,387)	8,689,959
Residential mortgage-backed securities	628,211	51,083	(2,960)	676,334
Commercial mortgage-backed securities	31,341		(19,910)	11,431
Collateralized debt securities	5,395	350	(952)	4,793
Other debt securities	38,350	3,141		41,491
Total bonds held-to-maturity	9,167,922	768,893	(33,249)	9,903,566
Fixed maturity securities, bonds available-for-sale				
U.S. treasury and other U.S. government corporations and agencies	14,358	1,210	(3)	15,565
States of the U.S. and political subdivisions of the states	571,634	44,680	(168)	616,146
Foreign governments	5,000	2,396		7,396
Corporate debt securities	3,417,664	264,647	(21,898)	3,660,413
Residential mortgage-backed securities	160,483	10,432	(942)	169,973
Collateralized debt securities	16,348	1,584	(115)	17,817
Other debt securities	14,086	1,300		15,386
Total bonds available-for-sale	4,199,573	326,249	(23,126)	4,502,696
Total fixed maturity securities	13,367,495	1,095,142	(56,375)	14,406,262
Equity securities				
Common stock	673,686	361,590	(13,675)	1,021,601
Preferred stock	26,690	8,895	(4)	35,581
Total equity securities	700,376	370,485	(13,679)	1,057,182
Total investments in securities	\$ 14,067,871	\$ 1,465,627	\$ (70,054)	\$ 15,463,444

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	Cost or Amortized Cost	Year ended December 31, 2011		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Fixed maturity securities, bonds held-to-maturity				
U.S. treasury and other U.S. government corporations and agencies	\$ 13,704	\$ 193	\$	\$ 13,897
States of the U.S. and political subdivisions of the states	405,526	32,272	(6)	437,792
Foreign governments	29,044	4,978		34,022
Corporate debt securities	8,011,901	564,159	(25,316)	8,550,744
Residential mortgage-backed securities	714,659	50,774	(3,986)	761,447
Commercial mortgage-backed securities	31,341		(20,158)	11,183
Collateralized debt securities	7,134		(1,018)	6,116
Other debt securities	38,663	3,827		42,490
Total bonds held-to-maturity	9,251,972	656,203	(50,484)	9,857,691
Fixed maturity securities, bonds available-for-sale				
U.S. treasury and other U.S. government corporations and agencies	11,930	1,156		13,086
States of the U.S. and political subdivisions of the states	579,008	39,930	(90)	618,848
Foreign governments	5,000	2,435		7,435
Corporate debt securities	3,316,083	221,079	(32,016)	3,505,146
Residential mortgage-backed securities	191,832	11,898	(1,009)	202,721
Collateralized debt securities	17,636	1,611	(170)	19,077
Other debt securities	14,121	1,173		15,294
Total bonds available-for-sale	4,135,610	279,282	(33,285)	4,381,607
Total fixed maturity securities	13,387,582	935,485	(83,769)	14,239,298
Equity securities				
Common stock	679,724	305,269	(16,086)	968,907
Preferred stock	30,955	7,688	(1,470)	37,173
Total equity securities	710,679	312,957	(17,556)	1,006,080
Total investments in securities	\$ 14,098,261	\$ 1,248,442	\$ (101,325)	\$ 15,245,378

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

	June 30, 2012			
	Bonds Held-to-Maturity		Bonds Available-for-Sale	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 944,866	\$ 964,745	\$ 339,961	\$ 345,689
Due after one year through five years	3,015,376	3,253,358	1,735,317	1,859,897
Due after five years through ten years	4,379,652	4,783,535	1,677,288	1,807,512
Due after ten years	822,178	897,444	442,007	485,442
Without single maturity date	5,850	4,484	5,000	4,156
Total	\$ 9,167,922	\$ 9,903,566	\$ 4,199,573	\$ 4,502,696

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

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Proceeds from sales of available-for-sale securities	\$ 5,632	\$ 45,738	\$ 38,305	\$ 99,350
Gross realized gains	947	6,808	12,027	20,977
Gross realized losses	(11)	(31)	(170)	(840)

There were no securities transferred from held-to-maturity to available-for-sale during the six months ended June 30, 2012 and 2011.

Net unrealized gains (losses) on securities

The components of the net unrealized gains (losses) on securities during the periods indicated are shown below (in thousands):

	Six months ended June 30,	
	2012	2011
Bonds available-for-sale	\$ 57,126	\$ 61,855
Equity securities	61,405	24,473
Net unrealized gains (losses) on securities during the year	118,531	86,328
Adjustments for:		
Deferred policy acquisition costs	(22,098)	(21,221)
Participating policyholders' interest	(4,417)	(4,055)
Deferred federal income tax benefit (expense)	(32,279)	(21,338)
Net unrealized gains (losses) on securities, net of tax	\$ 59,737	\$ 39,714

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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 shown below (in thousands):

	Six months ended June 30, 2012					
	Less than 12 months		12 Months or more		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Fixed maturity securities, bonds held-to-maturity						
States of the U.S. and political subdivisions of the states	\$ 38	\$ 2,794	\$ 2	\$ 80	\$ 40	\$ 2,874
Corporate debt securities	4,849	258,102	4,538	29,035	9,387	287,137
Residential mortgage-backed securities	54	7,995	2,906	32,105	2,960	40,100
Commercial mortgage-backed securities			19,910	11,431	19,910	11,431
Collateralized debt securities			952	1,935	952	1,935
Total bonds held-to-maturity	4,941	268,891	28,308	74,586	33,249	343,477
Fixed maturity securities, bonds available-for-sale						
U.S. treasury and other U.S. government corporations and agencies	3	7,105			3	7,105
States of the U.S. and political subdivisions of the states	164	14,588	4	1,194	168	15,782
Corporate debt securities	2,583	121,721	19,315	88,976	21,898	210,697
Residential mortgage-backed securities	175	12,234	767	12,752	942	24,986
Collateralized debt securities	6	236	109	2,175	115	2,411
Total bonds available-for-sale	2,931	155,884	20,195	105,097	23,126	260,981
Total fixed maturity securities	7,872	424,775	48,503	179,683	56,375	604,458
Equity securities						
Common stock	13,675	99,684			13,675	99,684
Preferred stock	4	1,000			4	1,000
Total equity securities	13,679	100,684			13,679	100,684
Total investments in securities	\$ 21,551	\$ 525,459	\$ 48,503	\$ 179,683	\$ 70,054	\$ 705,142

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	Year ended December 31, 2011					
	Less than 12 months		12 Months or more		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Fixed maturity securities, bonds held-to-maturity						
States of the U.S. and political subdivisions of the states	\$	\$	\$ 6	\$ 264	\$ 6	\$ 264
Corporate debt securities	20,204	680,202	5,112	39,280	25,316	719,482
Residential mortgage-backed securities	227	19,398	3,759	32,653	3,986	52,051
Commercial mortgage-backed securities			20,158	11,183	20,158	11,183
Collateralized debt securities	8	1,605	1,010	4,511	1,018	6,116
Total bonds held-to-maturity	20,439	701,205	30,045	87,891	50,484	789,096
Fixed maturity securities, bonds available-for-sale						
States of the U.S. and political subdivisions of the states	10	762	80	1,971	90	2,733
Corporate debt securities	12,142	396,761	19,874	85,623	32,016	482,384
Residential mortgage-backed securities	202	25,943	807	9,047	1,009	34,990
Collateralized debt securities	6	704	164	2,770	170	3,474
Total bonds available-for-sale	12,360	424,170	20,925	99,411	33,285	523,581
Total fixed maturity securities	32,799	1,125,375	50,970	187,302	83,769	1,312,677
Equity securities						
Common stock	16,086	98,731			16,086	98,731
Preferred stock	1,470	6,481			1,470	6,481
Total equity securities	17,556	105,212			17,556	105,212
Total investments in securities	\$ 50,355	\$ 1,230,587	\$ 50,970	\$ 187,302	\$ 101,325	\$ 1,417,889

For all investment securities with an unrealized loss, including those in an unrealized loss position for 12 months or more, American National performs a quarterly analysis to determine if an other-than-temporary impairment (OTTI) loss should be recorded. As of June 30, 2012, the available-for-sale securities with unrealized losses were not deemed to be other-than-temporarily impaired. Even though the duration of the unrealized losses on some of the securities exceeds one year, American National has no intent to sell and it is not more-likely-than-not that American National will be required to sell these securities prior to recovery, and recovery is expected in a reasonable period of time.

Credit Risk Management

Management believes American National's bond portfolio is diversified and of investment grade. The bond portfolio distributed by credit quality rating, using both S&P and Moody's ratings, is shown below:

	June 30, 2012	December 31, 2011
AAA	7.2%	8.1%
AA	10.2	10.5
A	38.7	38.3
BBB	39.9	38.6
BB and below	4.0	4.5
Total	100.0%	100.0%

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

	June 30, 2012	December 31, 2011
Consumer goods	22.2%	21.5%
Financials	17.8	17.2
Information technology	17.4	16.9
Energy and utilities	15.6	17.3
Healthcare	11.8	11.7
Industrials	9.0	9.0
Communications	3.6	4.2
Materials	2.5	2.1
Other	0.1	0.1
Total	100.0%	100.0%

5. MORTGAGE LOANS

American National makes commercial mortgage loans in areas that offer the potential for property value appreciation. Generally, mortgage loans are secured by first liens on income-producing real estate. American National attempts to maintain a diversified portfolio of mortgage loans by considering the property-type as well as the geographic distribution of the property, which is the underlying mortgage collateral. Mortgage loans by property-type distribution are as follows:

	June 30, 2012	December 31, 2011
Office buildings	31.7%	30.2%
Industrial	25.1	24.6
Shopping centers	18.0	19.1
Hotels and motels	13.4	13.4
Other	11.8	12.7
Total	100.0%	100.0%

Mortgage loans by geographic distribution are as follows:

	June 30, 2012	December 31, 2011
South Atlantic	22.7%	22.9%
West South Central	22.6	23.1
East North Central	18.4	18.8
Pacific	11.8	11.4
Mountain	7.2	6.7
East South Central	6.7	5.7
Middle Atlantic	5.1	5.4
West North Central	2.7	2.9
New England	2.2	2.5
Other	0.6	0.6
Total	100.0%	100.0%

During the six months ended June 30, 2012 American National sold no loans. During the year ended December 31, 2011, American National sold one industrial loan with a recorded investment of \$27,532,000 and realized a gain of \$4,968,000. During the six months ended June 30,

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2012 American National foreclosed on three loans with a recorded investment of \$16,523,000. There were no foreclosures during the year ended December 31, 2011.

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The amounts of commercial mortgage loans placed on nonaccrual status and classified as non-performing are shown in the table below (in thousands):

	June 30, 2012	December 31, 2011
Commercial mortgages		
Office	\$	\$ 8,436
Retail	493	23,997
Total	\$ 493	\$ 32,433

The credit quality of the mortgage loan portfolio is assessed by evaluating the credit risk of each borrower. A loan is classified as performing or non-performing based on whether all of the contractual terms of the loan have been met.

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

				June 30, 2012		Total
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	
Commercial mortgages						Mortgage Loans
Office	\$	\$	\$ 6,213	\$ 6,213	\$ 969,941	\$ 976,154
Industrial					769,391	769,391
Retail			493	493	552,443	552,936
Other					774,783	774,783
Total	\$	\$	\$ 6,706	\$ 6,706	\$ 3,066,558	3,073,264
Allowance for loan losses						12,366
Mortgage loans on real estate, net of allowance						\$ 3,060,898

				December 31, 2011		Total
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	
Commercial mortgages						Mortgage Loans
Office	\$	\$	\$ 8,436	\$ 8,436	\$ 879,923	\$ 888,359
Industrial					721,704	721,704
Retail	13,140		10,857	23,997	537,665	561,662
Other					765,078	765,078
Total	\$ 13,140	\$	\$ 19,293	\$ 32,433	\$ 2,904,370	2,936,803
Allowance for loan losses						11,321
Mortgage loans on real estate, net of allowance						\$ 2,925,482

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The amounts shown above are net of unamortized discounts of \$8,633,000 and \$10,189,000 and unamortized origination fees of \$12,953,000 and \$12,683,000 at June 30, 2012 and December 31, 2011, respectively. No other unearned income is included in these amounts.

Allowance for Credit Losses

Loans not evaluated individually for collectibility are segregated by collateral property-type and location and allowance factors are applied. These factors are developed annually, and reviewed quarterly based on our historical loss experience adjusted for the expected trend in the rate of foreclosure losses. Allowance factors are higher for loans of certain property types and in certain regions based on loss experience or a blended historical loss factor.

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The allowance for credit losses and unpaid principal balance in commercial mortgage loans are shown in the table below (in thousands):

	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Total
Allowance for credit losses			
December 31, 2011	\$ 10,828	493	\$ 11,321
Write down		(2,277)	(2,277)
Change in allowance	1,045	2,277	3,322
June 30, 2012	\$ 11,873	\$ 493	\$ 12,366
Unpaid principal balance			
June 30, 2012	\$ 2,988,842	\$ 106,008	\$ 3,094,850
December 31, 2011	\$ 2,725,930	\$ 233,745	\$ 2,959,675

The detail of loans individually evaluated for impairment with and without an allowance recorded by collateral property-type is shown in the tables below (in thousands):

	Six months ended June 30, 2012				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With an allowance recorded					
Retail	\$	\$ 493	\$ 493	\$	\$
Without an allowance recorded					
Office	\$ 45,226	\$ 45,226	\$	\$ 45,358	\$ 1,482
Retail	14,949	14,949		15,224	446
Other	45,340	45,340		45,354	1,520
Total without an allowance recorded	\$ 105,515	\$ 105,515	\$	\$ 105,936	\$ 3,448

	Year ended December 31, 2011				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With an allowance recorded					
Retail	\$	\$ 493	\$ 493	\$	\$
Without an allowance recorded					
Office	\$ 48,833	\$ 48,833	\$	\$ 49,088	\$ 3,506
Industrial	57,261	57,261		57,514	3,628
Retail	15,477	15,477		15,535	1,514
Other	111,681	111,681		111,407	7,546
Total without an allowance recorded	\$ 233,252	\$ 233,252	\$	\$ 233,544	\$ 16,194

Troubled Debt Restructurings

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American National has a high quality, well performing, mortgage loan portfolio. For a very small portion of the portfolio, classified as troubled debt restructurings, American National has granted concessions related to the borrowers' ability to pay the loan. The types of concessions granted are generally, one of or a combination of, a delay in payment of principal or interest, a reduction of the contractual interest rate or an extension of the maturity date. American National considers the amount, timing and extent of concessions granted in determining any impairment or changes in the specific allowance for loan losses recorded in connection with a troubled debt restructuring. The carrying value after specific allowance, before and after modification in a troubled debt restructuring, may not change significantly, or may increase if the expected recovery is higher than the pre-modification recovery assessment.

At June 30, 2012 and December 31, 2011, three loans which were part of the mortgage loan portfolio had been modified in troubled debt restructurings. The outstanding recorded investment was \$45,366,000 both before and after the modification. There are no commitments to lend additional funds to debtors whose loans have been modified in troubled debt restructurings and there have been no defaults on modified loans during the preceding twelve months.

Table of Contents**6. INVESTMENT REAL ESTATE**

Investment real estate by property-type distribution is as follows:

	June 30, 2012	December 31, 2011
Shopping centers	42.4%	41.1%
Office buildings	22.8	22.0
Industrial	15.4	16.3
Hotels and motels	1.9	2.1
Other	17.5	18.5
Total	100.0%	100.0%

Investment real estate by geographic distribution is as follows:

	June 30, 2012	December 31, 2011
West South Central	63.4%	66.1%
South Atlantic	11.8	11.6
East North Central	6.8	5.2
Mountain	6.6	6.9
East South Central	5.7	5.2
West North Central	3.4	2.7
Pacific	2.3	2.3
Total	100.0%	100.0%

In the normal course of investment activities, American National and its wholly-owned subsidiaries enter into real estate partnership and joint venture agreements. Generally, opportunities are presented by a sponsor, with the significant activities being conducted on behalf of the sponsor. American National participates in the design of these entities, but in most cases, its involvement is limited to financing. Through analysis performed by American National, some of these partnerships and joint ventures have been determined to be variable interest entities (VIEs). In certain instances, in addition to an economic interest in the entity, American National holds the power to direct the most significant activities of the entity and is deemed the primary beneficiary or consolidator of the entity. The assets of the consolidated VIEs are restricted and must be used first to settle the liabilities of the VIE. Creditors or beneficial interest holders of these VIEs have no recourse to the general credit of American National, as American National's obligation is limited to the amount of its committed investment. Financial or other support was not provided to investees designated as VIEs in the form of liquidity arrangements, guarantees, or other commitments by third parties that may affect the fair value or risk of American National's variable interest in the investees designated as VIEs as of June 30, 2012 and December 31, 2011.

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The total assets and liabilities relating to VIEs in which American National is the primary beneficiary and which are consolidated in its financial statements for the periods indicated are as follows (in thousands):

	June 30, 2012	December 31, 2011
Investment real estate	\$ 158,795	\$ 154,878
Short-term investments	1,302	3,364
Cash and cash equivalents	2,919	5,777
Accrued investment income	2,139	2,299
Other receivables	12,017	11,816
Other assets	3,791	3,870
Total assets of consolidated VIEs	\$ 180,963	\$ 182,004
Notes payable	\$ 60,207	\$ 58,894
Other liabilities	3,506	5,354
Total liabilities of consolidated VIEs	\$ 63,713	\$ 64,248

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

	June 30, 2012	December 31, 2011
	Carrying Amount	Maximum Exposure to Loss
Investment in unconsolidated affiliates	\$ 70,073	\$ 85,509

7. 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 equity-indexed embedded derivative. These derivative instruments are not designated as accounting hedges. The following tables detail the volume, estimated fair value and the gains or losses on derivative instruments (in thousands):

Derivatives Not Designated as Hedging Instruments	Location in the Consolidated Statements of Financial Position	Number of Instruments	June 30, 2012		December 31, 2011		
			Notional Amounts	Estimated Fair Value	Number of Instruments	Notional Amounts	Estimated Fair Value
Equity-indexed options	Other invested assets	349	\$ 822,100	\$ 77,136	332	\$ 791,900	\$ 65,188
Equity-indexed annuity embedded derivative	Future policy benefits - Annuity	18,404	688,500	(72,194)	16,727	661,300	(63,275)

Derivatives Not Designated as	Location Reported in the Consolidated	Gains (Losses) Recognized in Income on Derivatives			
		Three months ended June 30,		Six months ended June 30,	
		2012	2011	2012	2011

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Hedging Instruments	Statements of Operations				
Equity-indexed options	Net investment income	\$ (8,148)	\$ (1,818)	\$ 11,499	\$ 5,297
Equity-indexed annuity embedded derivative	Interest credited to policyholders account balances	9,417	2,996	(9,068)	(3,608)

Table of Contents**8. NET INVESTMENT INCOME AND REALIZED INVESTMENT GAINS (LOSSES)**

Net investment income, before federal income taxes, is shown below (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Bonds	\$ 172,005	\$ 174,379	\$ 345,868	\$ 344,399
Equity securities	7,626	7,491	13,986	13,407
Mortgage loans	51,700	54,976	102,490	102,707
Real estate	31,775	31,850	48,992	54,575
Options	(8,148)	(1,818)	11,499	5,297
Other invested assets	12,401	10,040	21,466	20,314
	267,359	276,918	544,301	540,699
Investment expenses	(26,796)	(26,746)	(48,042)	(51,455)
Total	\$ 240,563	\$ 250,172	\$ 496,259	\$ 489,244

Realized investments gains (losses), before federal income taxes, are shown below (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Bonds	\$ 9,610	\$ 2,784	\$ 13,420	\$ 13,107
Equity securities	2,859	6,278	10,214	18,814
Mortgage loans	(2,233)	1,450	(3,322)	
Real estate		12,491	(252)	13,113
Other invested assets	(97)	(77)	(113)	(77)
Total	\$ 10,139	\$ 22,926	\$ 19,947	\$ 44,957

The OTTI, which are not included in the realized investments gains (losses) above, are shown below (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Equity securities	\$ (5,261)	\$	\$ (8,098)	\$

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

	June 30, 2012		December 31, 2011	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets				
Fixed maturity securities, bonds held-to-maturity				
U.S. treasury and other U.S. government corporations and agencies	\$ 10,558	\$ 10,678	\$ 13,704	\$ 13,897
States of the U.S. and political subdivisions of the states	396,375	434,965	405,526	437,792
Foreign governments	29,057	33,915	29,044	34,022
Corporate debt securities	8,028,635	8,689,959	8,011,901	8,550,744
Residential mortgage-backed securities	628,211	676,334	714,659	761,447
Commercial mortgage-backed securities	31,341	11,431	31,341	11,183
Collateralized debt securities	5,395	4,793	7,134	6,116
Other debt securities	38,350	41,491	38,663	42,490
Total bonds held-to-maturity	9,167,922	9,903,566	9,251,972	9,857,691
Fixed maturity securities, bonds available-for-sale				
U.S. treasury and other U.S. government corporations and agencies	15,565	15,565	13,086	13,086
States of the U.S. and political subdivisions of the states	616,146	616,146	618,848	618,848
Foreign governments	7,396	7,396	7,435	7,435
Corporate debt securities	3,660,413	3,660,413	3,505,146	3,505,146
Residential mortgage-backed securities	169,973	169,973	202,721	202,721
Collateralized debt securities	17,817	17,817	19,077	19,077
Other debt securities	15,386	15,386	15,294	15,294
Total bonds available-for-sale	4,502,696	4,502,696	4,381,607	4,381,607
Total fixed maturity securities	13,670,618	14,406,262	13,633,579	14,239,298
Equity securities				
Common stock	1,021,601	1,021,601	968,907	968,907
Preferred stock	35,581	35,581	37,173	37,173
Total equity securities	1,057,182	1,057,182	1,006,080	1,006,080
Options	77,136	77,136	65,188	65,188
Mortgage loans on real estate, net of allowance	3,060,898	3,290,881	2,925,482	3,178,205
Policy loans	392,822	392,822	393,195	393,195
Short-term investments	341,198	341,198	345,330	345,330
Separate account assets	776,266	776,266	747,867	747,867
Total financial assets	\$ 19,376,120	\$ 20,341,747	\$ 19,116,721	\$ 19,975,163
Financial liabilities				
Investment contracts	\$ 10,036,650	\$ 10,036,650	\$ 9,993,804	\$ 9,993,804
Embedded derivative liability for equity-indexed annuities	72,194	72,194	63,275	63,275
Notes payable	60,207	60,207	58,894	58,894
Separate account liabilities	776,266	776,266	747,867	747,867

Total financial liabilities	\$ 10,945,317	\$ 10,945,317	\$ 10,863,840	\$ 10,863,840
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Summary

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 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 financial instrument was classified into Level 1, 2, or 3 measurements.

Fixed Maturity Securities and Equity Options

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

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

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

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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 maturity securities provided by the pricing service are disclosed as Level 2 measurements.

Additionally, American National holds a small amount of fixed maturity securities that have characteristics that make them unsuitable for matrix pricing. For these fixed maturity securities, a quote from an independent 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 these securities are classified as Level 3 measurements.

For securities priced using a quote from an independent broker, such as the equity options and certain fixed maturity securities, American National uses a market-based fair value analysis to validate the reasonableness of prices received from an independent broker. Price variances above a certain threshold are analyzed further to determine if any pricing issue exists. This analysis is generally performed on a weekly basis, but no less frequently than on a monthly basis.

Equity Securities

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

Mortgage Loans

The fair value of mortgage loans is estimated using discounted cash flow analyses. Fair value is calculated on a loan by loan basis by applying a discount rate to expected cash flows from future installment and balloon payments. The discount rate takes into account general market trends and specific credit risk trends for the individual loan. Factors used to arrive at the discount rate include inputs from spreads based on U.S. Treasury notes and the loan's credit rating, region, property type, lien number, payment type and current status.

Embedded Derivative

The embedded derivative liability for equity-indexed annuities is measured at fair value. The embedded derivative liability is recalculated each reporting period using equity option pricing models. To validate the assumptions used to price the embedded derivative, American National measures and compares embedded derivative returns against the returns of equity options held to hedge the liability cash flows.

The significant unobservable input used to calculate the fair value of the embedded derivatives is equity option implied volatility. This volatility assumption is the range of implied volatilities that American National has determined market participants would use to price equity options that match the current derivative characteristics of our in-force equity-indexed annuities. Implied volatility can vary by term and strike price. An increase in implied volatility will result in an increase in the value of the equity-indexed annuity embedded derivatives, all other things being equal. At June 30, 2012, the implied volatility used to estimate embedded derivative value ranges from 15.1% to 32.3%.

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Other Financial Instruments

For other financial instruments discussed below, American National believes that their carrying value approximates fair value. This assumption is supported by the qualitative information discussed below. These financial instruments are classified as level 3 measurements.

Policy loans The carrying value of policy loans is equivalent to outstanding balance plus any accrued interest. Due to the collateralized nature of policy loans, unpredictable timing of repayments and the fact that it cannot be separated from the policy contract, American National believes that the carrying value of policy loans approximates fair value.

Investment contracts liability The carrying value of investment contracts liability is equivalent to the accrued account balance. The accrued account balance consists of deposits, net of withdrawals, plus or minus interest credited, fees and charges assessed and other adjustments. American National believes that the carrying value of investment contracts liability approximates fair value because the majority of these contracts interest rates reset to current rates offered at anniversary.

Notes payable Notes payable are carried at outstanding principal balance. The carrying value of the notes payable approximates fair value because the underlying interest rates approximate market rates at the balance sheet date.

Table of Contents**Quantitative Disclosures**

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

	Fair Value Measurement as of June 30, 2012 Using:			
	Total Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Fixed maturity securities, bonds held-to-maturity				
U.S. treasury and other U.S. government corporations and agencies	\$ 10,678	\$	\$ 10,678	\$
States of the U.S. and political subdivisions of the states	434,965		434,965	
Foreign governments	33,915		33,915	
Corporate debt securities	8,689,959		8,619,621	70,338
Residential mortgage-backed securities	676,334		676,331	3
Commercial mortgage-backed securities	11,431			11,431
Collateralized debt securities	4,793			4,793
Other debt securities	41,491		34,951	6,540
Total bonds held-to-maturity	9,903,566		9,810,461	93,105
Fixed maturity securities, bonds available-for-sale				
U.S. treasury and other U.S. government corporations and agencies	15,565		15,565	
States of the U.S. and political subdivisions of the states	616,146		613,621	2,525
Foreign governments	7,396		7,396	
Corporate debt securities	3,660,413		3,615,024	45,389
Residential mortgage-backed securities	169,973		169,966	7
Collateralized debt securities	17,817		17,817	
Other debt securities	15,386		15,386	
Total bonds available-for-sale	4,502,696		4,454,775	47,921
Total fixed maturity securities	14,406,262		14,265,236	141,026
Equity securities				
Common stock	1,021,601	1,021,601		
Preferred stock	35,581	35,581		
Total equity securities	1,057,182	1,057,182		
Options	77,136			77,136
Mortgage loans on real estate	3,290,881		3,290,881	
Policy loans	392,822			392,822
Short-term investments	341,198		341,198	
Separate account assets	776,266		776,266	

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Total financial assets	\$ 20,341,747	\$ 1,057,182	\$ 18,673,581	\$ 610,984
Financial liabilities				
Investment contracts	\$ 10,036,650	\$	\$	\$ 10,036,650
Embedded derivative liability for equity-indexed annuities	72,194			72,194
Notes payable	60,207			60,207
Separate account liabilities	776,266		776,266	
Total financial liabilities	\$ 10,945,317	\$	\$ 776,266	\$ 10,169,051

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	Fair Value Measurement as of December 31, 2011 Using:			
	Total Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Fixed maturity securities, bonds held-to-maturity				
U.S. treasury and other U.S. government corporations and agencies	\$ 13,897	\$	\$ 13,897	\$
States of the U.S. and political subdivisions of the states	437,792		437,792	
Foreign governments	34,022		34,022	
Corporate debt securities	8,550,744		8,492,957	57,787
Residential mortgage-backed securities	761,447		759,773	1,674
Commercial mortgage-backed securities	11,183			11,183
Collateralized debt securities	6,116			6,116
Other debt securities	42,490		35,147	7,343
Total bonds held-to-maturity	9,857,691		9,773,588	84,103
Fixed maturity securities, bonds available-for-sale				
U.S. treasury and other U.S. government corporations and agencies	13,086		13,086	
States of the U.S. and political subdivisions of the states	618,848		616,323	2,525
Foreign governments	7,435		7,435	
Corporate debt securities	3,505,146		3,492,113	13,033
Residential mortgage-backed securities	202,721		202,715	6
Collateralized debt securities	19,077		18,826	251
Other debt securities	15,294		15,294	
Total bonds available-for-sale	4,381,607		4,365,792	15,815
Total fixed maturity securities	14,239,298		14,139,380	99,918
Equity securities				
Common stock	968,907	968,907		
Preferred stock	37,173	37,173		
Total equity securities	1,006,080	1,006,080		
Options	65,188			65,188
Mortgage loans on real estate	3,178,205		3,178,205	
Policy loans	393,195			393,195
Short-term investments	345,330		345,330	
Separate account assets	747,867		747,867	
Total financial assets	\$ 19,975,163	\$ 1,006,080	\$ 18,410,782	\$ 558,301
Financial liabilities				
Investment contracts	\$ 9,993,804	\$	\$	\$ 9,993,804
Embedded derivative liability for equity-indexed annuities	63,275			63,275
Notes payable	58,894			58,894
Separate account liabilities	747,867		747,867	

Total financial liabilities	\$ 10,863,840	\$	\$ 747,867	\$ 10,115,973
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For financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the period, a reconciliation of the beginning and ending balances is shown below at estimated fair value (in thousands):

	Three months ended June 30				Six months ended June 30			
	Investment Securities	Equity-Indexed Options	Embedded Derivative Liability	Total	Investment Securities	Equity-Indexed Options	Embedded Derivative Liability	Total
Beginning balance, 2011	\$ 77,709	\$ 72,969	\$ (66,180)	\$ 84,498	\$ 90,477	\$ 66,716	\$ (59,644)	\$ 97,549
Total realized and unrealized investment gains/losses								
Included in other comprehensive income	428			428	(258)			(258)
Net fair value change included in realized gains/losses	17			17	168			168
Net gain (loss) for derivatives included in net investment income		(1,818)		(1,818)		5,297		5,297
Net change included in interest credited			2,996	2,996			(3,608)	(3,608)
Purchases, sales and settlements or maturities								
Purchases	(1)	5,216		5,215	12	8,876		8,888
Sales					(10,181)			(10,181)
Settlements or maturities	(1,262)	(4,842)		(6,104)	(3,332)	(9,364)		(12,696)
Premiums less benefits			(1,841)	(1,841)			(1,773)	(1,773)
Gross transfers into Level 3	(5)			(5)				
Ending balance, 2011	\$ 76,886	\$ 71,525	\$ (65,025)	\$ 83,386	\$ 76,886	\$ 71,525	\$ (65,025)	\$ 83,386
Beginning balance, 2012	\$ 100,917	\$ 84,706	\$ (78,654)	\$ 106,969	\$ 99,918	\$ 65,188	\$ (63,275)	\$ 101,831
Total realized and unrealized investment gains/losses								
Included in other comprehensive income	(1,580)			(1,580)	2,098			2,098
Net fair value change included in realized gains/losses	(1)			(1)	(18)			(18)
Net gain (loss) for derivatives included in net investment income		(9,628)		(9,628)		8,170		8,170
Net change included in interest credited			9,417	9,417			(9,068)	(9,068)
Purchases, sales and settlements or maturities								
Purchases	505	4,140		4,645	523	8,481		9,004
Sales	(379)			(379)	(2,881)			(2,881)
Settlements or maturities	(165)	(2,082)		(2,247)	(343)	(4,703)		(5,046)
Premiums less benefits			(2,957)	(2,957)			149	149
Gross transfers into Level 3	41,729			41,729	41,729			41,729
Ending balance, 2012	\$ 141,026	\$ 77,136	\$ (72,194)	\$ 145,968	\$ 141,026	\$ 77,136	\$ (72,194)	\$ 145,968

Within the net gain (loss) for derivatives included in net investment income were an unrealized gain of \$2,098,000 and an unrealized loss of \$12,613,000 relating to assets still held at June 30, 2012 and December 31, 2011, respectively.

The transfers into Level 3 were the result of existing securities no longer being priced by the third-party pricing service at the end of the period. American National's valuation of these securities involves judgment regarding assumptions market participants would use including quotes from independent brokers. The transfers out of Level 3 were securities being priced by a third-party service at the end of the period, using inputs that

are observable or derived from market data, which resulted in classification of these assets as Level 2.

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

Table of Contents**10. DEFERRED POLICY ACQUISITION COSTS**

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

	Life	Annuity	Accident & Health	Property & Casualty	Total
Balance at December 31, 2011 (As Adjusted)	\$ 651,579	\$ 463,030	\$ 55,100	\$ 150,984	\$ 1,320,693
Additions	40,315	36,617	5,471	115,386	197,789
Amortization	(36,342)	(43,424)	(9,100)	(114,223)	(203,089)
Effect of change in unrealized gains on available-for-sale securities	(3,296)	(18,802)			(22,098)
Net change	677	(25,609)	(3,629)	1,163	(27,398)
Balance at June 30, 2012	\$ 652,256	\$ 437,421	\$ 51,471	\$ 152,147	\$ 1,293,295

Commissions comprise the majority of the additions to DAC during the period. Effective January 1, 2012, American National retrospectively adopted a new accounting standard that modified the accounting for DAC. Refer to Notes 2 and 3 for additional discussion. All amounts for the value of business acquired resulting from the acquisition of life insurance portfolios have been accounted for in accordance with the relevant accounting literature and are immaterial in all periods presented.

11. LIABILITY FOR UNPAID CLAIMS AND CLAIM ADJUSTMENT EXPENSES

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

Activities in the liability for unpaid claims and CAE (claims) included in policy and contract claims in the consolidated statements of financial position are shown below (in thousands):

	2012	2011
Unpaid claims balance, beginning	\$ 1,180,259	\$ 1,210,126
Less reinsurance recoverables	235,174	222,635
Net beginning balance	945,085	987,491
Incurred related to:		
Current	553,846	603,646
Prior years	(37,244)	(48,483)
Total incurred claims	516,602	555,163
Paid claims related to:		
Current	268,889	333,886
Prior years	220,479	223,244

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Total paid claims	489,368	557,130
Net balance	972,319	985,524
Plus reinsurance recoverables	233,344	285,887
Unpaid claims balance, ending	\$ 1,205,663	\$ 1,271,411

The potential uncertainty caused by volatility in loss development profiles is adjusted 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 favorable loss emergence compared to what was implied by the loss development patterns used in the original estimation of losses in prior years. Estimates for ultimate incurred claims and CAE attributable to insured events of prior years decreased by approximately \$37,244,000 during the first six months of 2012 and \$48,483,000 during the same period in 2011.

Table of Contents**12. NOTES PAYABLE**

American National's real estate holding subsidiaries are partners in certain joint ventures determined to be VIEs that are consolidated in American National's consolidated financial statements. The real estate owned through the respective ventures secures notes payable, and American National's liability for these notes is limited to the amount of its investment in the respective ventures, which totaled \$17,950,000 and \$17,959,000 at June 30, 2012 and December 31, 2011, respectively. At June 30, 2012, the current portion and the long-term portion of the notes payable to third-party lenders associated with these consolidated VIEs were \$47,707,000 and \$12,500,000, respectively. At December 31, 2011, the current portion and long-term portion of the notes payable to third-party lenders associated with these consolidated VIEs were \$46,387,000 and \$12,507,000, respectively. The average interest rate on the current portion of the notes payable was 2.86% during the six months ended June 30, 2012. The long-term portion of the notes payable have interest rates equivalent to adjusted LIBOR plus 1.00% and 2.50% margins. The average interest rate on the long-term portion of the notes payable was 4.63% and 3.15% during the six months ended June 30, 2012 and 2011, respectively. The long-term notes payable will mature in 2016 and 2049.

13. FEDERAL INCOME TAXES

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

	Three months ended June 30, 2012		June 30, 2011		Six months ended June 30, 2012		June 30, 2011	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
			(As Adjusted)				(As Adjusted)	
Income tax expense on pre-tax income	\$ 6,524	35.0 %	\$ 12,907	35.0 %	\$ 28,704	35.0 %	\$ 34,350	35.0 %
Tax-exempt investment income	(1,837)	(9.9)	(2,024)	(5.5)	(3,742)	(4.6)	(4,067)	(4.1)
Dividend exclusion	(1,483)	(8.0)	(1,440)	(3.9)	(2,952)	(3.6)	(2,704)	(2.8)
Miscellaneous tax credits, net	(2,352)	(12.6)	(2,129)	(5.8)	(4,463)	(5.4)	(4,129)	(4.2)
Other items, net	(3,236)	(17.3)	(2,922)	(7.9)	(2,948)	(3.6)	(2,673)	(2.7)
Total	\$ (2,384)	(12.8) %	\$ 4,392	11.9 %	\$ 14,599	17.8 %	\$ 20,777	21.2 %

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

	June 30, 2012	December 31, 2011 (As Adjusted)
DEFERRED TAX ASSETS:		
Investments, principally due to impairment losses	\$ 86,736	\$ 87,518
Investment in real estate and other invested assets principally due to investment valuation allowances	6,886	8,620
Policyholder funds, principally due to policy reserve discount	234,512	235,827
Policyholder funds, principally due to unearned premium reserve	32,512	31,230
Non-qualified pension	28,377	28,503
Participating policyholders' surplus	34,448	33,677
Pension	61,527	63,597
Commissions and other expenses	7,217	8,165
Tax carryforwards	36,654	32,220
Other assets	7,001	79
Gross deferred tax assets	535,870	529,436
DEFERRED TAX LIABILITIES:		

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Available-for-sale securities, principally due to net unrealized gains	(230,621)	(189,194)
Investment in bonds, principally due to accrual of discount on bonds	(12,935)	(11,774)
Deferred policy acquisition costs, due to difference between GAAP and tax amortization methods	(341,740)	(350,319)
Gross deferred tax liabilities	(585,296)	(551,287)
Total net deferred tax liability	\$ (49,426)	\$ (21,851)

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Management believes that a sufficient level of taxable income will be achieved to utilize the deferred tax assets in the consolidated federal tax return; therefore, no valuation allowance was recorded as of June 30, 2012 and December 31, 2011. However, if not utilized beforehand, approximately \$36,654,000 in ordinary loss tax carryforwards will expire at the end of tax year 2032.

American National recognizes, when applicable, interest and penalties related to uncertain tax positions. Interest and penalties are included in the Other operating expenses line in the consolidated statements of operations. No interest expense was incurred for the six months ended June 30, 2012 and for the year ended December 31, 2011. In addition, no provision for penalties was established for uncertain tax positions. Management does not believe that there are any uncertain tax benefits that could be recognized within the next twelve months that would decrease American National's effective tax rate.

The statute of limitations for the examination of federal income tax returns by the Internal Revenue Service (IRS) for years 2006 to 2010 either has 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.

A total of \$7,599,000 and \$34,441,000 was paid to the IRS during the six months ended June 30, 2012 and 2011, respectively.

14. CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The changes in the accumulated balances of each component of other comprehensive income (loss), and the related tax effects thereon, are shown below (in thousands):

	Net Unrealized Gains/(Losses) on Securities	Defined Benefit Pension Plan Adjustments	Foreign Currency Transaction and Translation Adjustments	Accumulated Other Comprehensive Income
Balance at December 31, 2010	\$ 290,489	\$ (65,533)	\$ 256	\$ 225,212
Unrealized holding gains (losses) arising during the period (net of tax \$37,399)	69,455			69,455
Reclassification adjustment for (gains) losses realized in net income/loss (net of tax \$7,214)	(13,312)			(13,312)
Unrealized adjustment to deferred policy acquisition costs (net of tax benefit \$7,428)	(13,793)			(13,793)
Unrealized (gains) losses on investments attributable to participating policyholders interest (net of tax \$1,419)	(2,636)			(2,636)
Cumulative effect of accounting change - deferred policy acquisition costs (net of tax \$325)	604			604
Amortization of prior service cost and actuarial (gain) loss included in net periodic pension cost (net of tax \$101)		(188)		(188)
Foreign exchange adjustment (net of tax \$104)			193	193
Balance at June 30, 2011	\$ 330,807	\$ (65,721)	\$ 449	\$ 265,535
Balance at December 31, 2011	\$ 274,837	\$ (115,485)	\$ 51	\$ 159,403
	81,202			81,202

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Unrealized holding gains (losses) arising during the period (net of tax \$43,724)				
Reclassification adjustment for (gains) losses realized in net income/loss (net of tax \$2,297)	(4,098)			(4,098)
Unrealized adjustment to deferred policy acquisition costs (net of tax \$7,602)	(14,496)			(14,496)
Unrealized (gains) losses on investments attributable to participating policyholders interest (net of tax \$1,546)	(2,871)			(2,871)
Amortization of prior service cost and actuarial (gain) loss included in net periodic pension cost (net of tax \$2,581)		4,793		4,793
Foreign exchange adjustment (net of tax \$178)			330	330
Balance at June 30, 2012	\$ 334,574	\$ (110,692)	\$ 381	\$ 224,263

Table of Contents**15. STOCKHOLDERS EQUITY AND NONCONTROLLING INTERESTS**

American National has one class of common stock with a par value of \$1.00 per share and 50,000,000 authorized shares. The amounts outstanding at the dates indicated are shown below:

	June 30, 2012	December 31, 2011
Common stock		
Shares issued	30,832,449	30,832,449
Treasury shares	(3,995,858)	(4,011,165)
Outstanding shares	26,836,591	26,821,284
Restricted shares	(261,334)	(261,334)
Unrestricted outstanding shares	26,575,257	26,559,950

Stock-based compensation

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

RS Awards entitle the participant to full dividend and voting rights. Unvested shares are restricted as to disposition, and are subject to forfeiture under certain circumstances. Compensation expense is recognized over the vesting period. The restrictions on these awards lapse after 10 years, and feature a graded vesting schedule in the case of the retirement of an award holder. Restricted stock has been granted, with a total of 340,334 shares granted at an exercise price of zero, of which 261,334 shares are unvested. The compensation expense recorded for the three and six months ended June 30, 2012 was \$669,000 and \$1,339,000, respectively. The compensation expense recorded for the three and six months ended June 30, 2011 was \$670,000 and \$1,333,000, respectively.

The SARs give the holder the right to cash compensation based on the difference between the price of a share of stock on grant date and the price on the exercise date. The SARs vest at a rate of 20% per year for 5 years and expire 5 years after the vesting period. American National uses the Black-Scholes option pricing model to calculate the fair value and compensation expense for SARs. The fair value of the SARs was \$7,000 and \$10,000 at June 30, 2012 and December 31, 2011, respectively. A credit to compensation expense was recorded totaling \$1,000 and \$3,000 for the three and six months ended June 30, 2012, respectively. Compensation income was recorded totaling \$0 and \$4,000 for the three and six months ended June 30, 2011, respectively.

RSUs are awarded as part of American National's incentive compensation plan. In 2011, RSUs were also awarded as part of the Board of Directors compensation. The RSUs are converted to American National's common stock on a one-for-one basis, generally after a two-year cliff or three-year graded vesting requirement, depending on the terms of the grant. These awards result in compensation expense to American National over the vesting period or a shorter period as a result of retirement provisions. Compensation expense was recorded totaling \$5,819,000 and \$7,312,000 for the three and six months ended June 30, 2012, respectively, which includes expenses related to the retirement provisions. Compensation expense was recorded totaling \$523,000 and \$813,000 for the three and six months ended June 30, 2011, respectively.

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

	SAR Shares	SAR Weighted- Average Grant Date Fair Value	RS Shares	RS Weighted- Average Grant Date Fair Value	RS Units	RSU Weighted- Average Grant Date Fair Value
Outstanding at December 31, 2011	126,769	\$ 110.08	261,334	\$ 102.98	69,566	\$ 83.56
Granted					75,355	71.69
Exercised	(200)				(17,297)	94.56
Forfeited	(3,309)	114.04			(399)	74.85
Expired	(10,542)	104.08				
Outstanding at June 30, 2012	112,718	\$ 110.59	261,334	\$ 102.98	127,225	\$ 75.06

The weighted-average contractual remaining life for the 112,718 SAR shares outstanding as of June 30, 2012, is 1.4 years. The weighted-average exercise price, which is the same with the weighted-average grant date fair value above, for these shares, is \$110.59 per share. Of the shares outstanding, 95,934 are exercisable at a weighted-average exercise price of \$110.50 per share.

The weighted-average contractual remaining life for the 261,334 RS shares outstanding as of June 30, 2012, is 4.9 years. The weighted-average price at the date of grant for these shares is \$102.98 per share. None of the shares outstanding were exercisable.

The weighted-average contractual remaining life for the 127,225 RSUs authorized as of June 30, 2012, is 2.2 years. The weighted-average price at the date of grant for these units is \$75.06 per share. None of the authorized units were exercisable.

Earnings (loss) per share

Basic earnings (losses) per share were calculated using a weighted-average number of shares outstanding. The Restricted Stock resulted in diluted earnings per share as follows:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
		(As Adjusted)		(As Adjusted)
Weighted average shares outstanding	26,685,128	26,559,950	26,675,405	26,559,821
Incremental shares from restricted stock	169,467	146,195	172,853	141,203
Total shares for diluted calculations	26,854,595	26,706,145	26,848,258	26,701,024
Net income (loss) attributable to American National Insurance Company and Subsidiaries	\$ 20,506,000	\$ 29,240,000	\$ 65,722,000	\$ 76,768,000
Basic earnings (loss) per share	\$ 0.77	\$ 1.10	\$ 2.46	\$ 2.89
Diluted earnings (loss) per share	0.76	1.09	2.45	2.88

Dividends

American National Insurance Company's payment of dividends to stockholders is restricted by statutory regulations. The restrictions require life insurance companies to maintain minimum amounts of capital and surplus, and in the absence of special approval, limit the payment of dividends to the greater of statutory net gain from operations on an annual, non-cumulative basis, or 10% of statutory surplus. Additionally, insurance companies are not permitted to distribute the excess of stockholders' equity, as determined on a GAAP basis over that determined on a statutory basis. At June 30, 2012 and December 31, 2011, American National Insurance Company's statutory capital and surplus was \$2,116,214,000 and \$2,000,551,000, respectively.

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The same restrictions on amounts that can transfer in the form of dividends, loans, or advances to the parent company apply to American National's insurance subsidiaries. Dividends received by the parent company from its insurance subsidiaries amounted to zero for the six months ended June 30, 2012 and 2011.

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At June 30, 2012, approximately \$1,469,022,000 of American National's consolidated stockholders' equity represents net assets of its insurance subsidiaries, compared to approximately \$1,436,489,000 at December 31, 2011. Any transfer of these net assets to American National Insurance Company 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. County Mutual has a management agreement that effectively gives complete control of County Mutual to American National. As a result, County Mutual is included in the consolidated financial statements of American National. The interests that the policyholders of County Mutual have in the financial position of County Mutual are reflected as noncontrolling interest totaling \$6,750,000 at June 30, 2012 and December 31, 2011.

American National's wholly-owned subsidiary, ANTAC, Inc., is a partner in various joint ventures. ANTAC exercises significant control or ownership of certain of these joint ventures, resulting in their consolidation into the American National's 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 \$6,303,000 and \$6,197,000 at June 30, 2012 and December 31, 2011, respectively.

16. SEGMENT INFORMATION

American National is engaged principally in the insurance business. Management organizes the business into five operating segments which are discussed in Note 18, Segment Information, of the notes to the consolidated financial statements in our 2011 Annual Report on Form 10-K filed with the SEC on March 6, 2012:

The Life segment markets whole, term, universal, indexed and variable life insurance on a national basis primarily through career and multiple-line agents, as well as through direct marketing channels.

The Annuity segment offers fixed, indexed, and variable annuity products. These products are primarily sold through independent agents, brokers, and financial institutions, along with multiple-line and career agents.

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

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

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

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

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

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

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

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

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
		(As Adjusted)		(As Adjusted)
Income (loss) from continuing operations before federal income taxes, and equity in earnings/losses of unconsolidated affiliates:				
Life	\$ 19,258	\$ 10,947	\$ 26,813	\$ 30,295
Annuity	23,882	26,216	47,614	31,649
Health	6,260	5,061	4,810	8,049
Property and casualty	(36,409)	(43,088)	(11,848)	(30,831)
Corporate and other	5,649	37,741	14,622	58,980
Total	\$ 18,640	\$ 36,877	\$ 82,011	\$ 98,142

17. COMMITMENTS AND CONTINGENCIES**Commitments**

In the ordinary course of operations, American National had commitments outstanding at June 30, 2012, to purchase, expand or improve real estate, to fund mortgage loans, and to purchase other invested assets aggregating to \$219,809,000, of which \$175,719,000 is expected to be funded in 2012. The remaining balance of \$44,090,000 will be funded in 2013 and beyond. As of June 30, 2012, all of the mortgage loan commitments have fixed interest rates.

In September 2011, American National renewed a previous \$100,000,000 short-term variable rate borrowing facility containing a \$55,000,000 sub feature for the issuance of letters of credit. Borrowings under the facility are at the discretion of the lender and would be used only for funding American National's working capital requirements. The combination of borrowings and outstanding letters of credit cannot exceed \$100,000,000 at any time. As of June 30, 2012 and December 31, 2011, the outstanding letters of credit were \$31,039,000 and \$31,716,000, respectively, and there were no borrowings on this facility to meet liquidity requirements. This facility expires on September 30, 2012. American National expects it will be renewed on substantially equivalent terms upon expiration.

Guarantees

In the normal course of business, American National has guaranteed bank loans for customers of a third-party marketing operation. The bank loans are used to fund premium payments on life insurance policies issued by American National. The loans are secured by the cash values of the life insurance policies. If the customer were to default on the bank loan, American National would be obligated to pay off the loans. As the cash values of the life insurance policies always equals or exceeds the balance of the loans, management does not foresee any loss on these guarantees. The total amount of the guarantees outstanding as of June 30, 2012, was approximately \$206,513,000, while the total cash values of the related life insurance policies was approximately \$211,360,000.

Litigation

American National and certain subsidiaries are defendants in various 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. We have provided accruals for these items to the extent we deem the losses probable and reasonably estimable. 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 results.

18. RELATED PARTY TRANSACTIONS

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

Related Party	Financial Statement Line Impacted	Dollar Amount of Transactions Six months ended June 30,		Amount due to/(from) American National	
		2012	2011	June 30, 2012	December 31, 2011
Gal-Tex Hotel Corporation	Mortgage loans on real estate	\$ 264	\$ 488	\$ 9,433	\$ 9,957
Gal-Tex Hotel Corporation	Net investment income	174	390	57	60
Greer, Herz and Adams, LLP	Other operating costs and expenses	3,760	2,026	(333)	(198)

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. The Moody Foundation and the Libbie Shearn Moody Trust also own approximately 22.9% and 37.1%, respectively, of American National. American National held a first mortgage loan issued to Gal-Tex secured by hotel property in San Antonio, Texas. This loan was originated in 1999, had a balance of \$9,433,000 as of June 30, 2012, 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.

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

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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 six months ended June 30, 2012 and 2011 of American National Insurance Company and its subsidiaries (referred to in this document as "we", "our", "us", or the "Company"). This information should be read in conjunction with our consolidated financial statements included in Item 1, Financial Statements (unaudited), of this Form 10-Q.

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Forward-Looking Statements

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

general economic conditions and financial factors, including the performance and fluctuations of fixed income, equity, real estate, credit capital and other financial markets;

differences between actual experience regarding mortality, morbidity, persistency, surrenders, investment returns, and our pricing assumptions establishing liabilities and reserves or for other purposes;

the effect of increased claims activity from natural or man-made catastrophes, pandemic disease, or other events resulting in catastrophic loss of life or property;

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;

inherent uncertainties in the determination of investment allowances and impairments and in the determination of the valuation allowance on the deferred income tax asset;

investment losses and defaults;

competition in our product lines;

attraction and retention of qualified employees and agents;

ineffectiveness of risk management policies and procedures in identifying, monitoring and managing risks;

the availability, affordability and adequacy of reinsurance protection;

the effects of emerging claim and coverage issues;

the cyclical nature of the insurance business;

the effects of inflation on claim payments in our property and casualty and health lines;

interest rate fluctuations;

changes in our experiences related to deferred policy acquisition costs;

the ability and willingness of counterparties to our reinsurance arrangements and derivative instruments to pay balances due to us;

rating agencies' actions;

domestic or international military actions;

the effects of extensive government regulation of the insurance industry;

changes in tax and securities law;

changes in statutory or U.S. generally accepted accounting principles (GAAP), practices or policies;

regulatory or legislative changes or developments;

the effects of unanticipated events on our disaster recovery and business continuity planning;

failures or limitations of our computer, data security and administration systems;

risks of employee error or misconduct;

the introduction of alternative healthcare solutions; and

changes in assumptions for retirement expense.

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We describe these risks and uncertainties in greater detail in Item IA, Risk Factors, in our 2011 Annual Report on Form 10-K filed with the SEC on March 6, 2012. It is not our corporate policy to make specific projections relating to future earnings, and we do not endorse any projections regarding future performance made by others. Additionally, we do not publicly update or revise forward-looking statements based on the outcome of various foreseeable or unforeseeable events.

Overview

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

General Trends

There were no material changes to the general trends we are experiencing, as discussed in the MD&A included in our 2011 Annual Report on Form 10-K filed with the SEC on March 6, 2012.

Critical Accounting Estimates

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

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 loss 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 vary from those reported in the consolidated financial statements.

For a discussion of our critical accounting estimates, see the MD&A in our 2011 Annual Report on Form 10-K filed with the SEC on March 6, 2012. Effective January 1, 2012, we retrospectively adopted a new accounting policy on the capitalization of deferred policy acquisition costs (DAC). Upon adoption of this change in accounting policy, prior period amounts have been adjusted and are indicated As Adjusted where applicable. Refer to Note 2, Summary of Significant Accounting Policies and Practices, of the Notes to the Unaudited Consolidated Financial Statements for additional information. There were no other material changes in accounting policies since December 31, 2011.

Recently Issued Accounting Pronouncements

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

Table of Contents**Consolidated Results of Operations**

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

	Three months ended June 30,			Six months ended June 30,		
	2012	2011	Change	2012	2011	Change
	(As Adjusted)			(As Adjusted)		
Premiums and other revenues						
Premiums	\$ 428,565	\$ 435,816	\$ (7,251)	\$ 853,651	\$ 871,650	\$ (17,999)
Other policy revenues	49,016	46,379	2,637	97,063	95,510	1,553
Net investment income	240,563	250,172	(9,609)	496,259	489,244	7,015
Realized investments gains (losses), net	4,878	22,926	(18,048)	11,849	44,957	(33,108)
Other income	7,940	6,487	1,453	14,815	12,292	2,523
Total premiums and other revenues	730,962	761,780	(30,818)	1,473,637	1,513,653	(40,016)
Benefits, losses and expenses						
Policyholder benefits	120,521	122,691	(2,170)	243,589	229,351	14,238
Claims incurred	281,441	293,897	(12,456)	513,668	551,015	(37,347)
Interest credited to policyholders' account balances	91,019	99,139	(8,120)	215,883	205,530	10,353
Commissions for acquiring and servicing policies	95,528	118,766	(23,238)	191,042	228,401	(37,359)
Other operating expenses	120,151	113,111	7,040	222,144	235,372	(13,228)
Change in deferred policy acquisition costs ⁽¹⁾	3,662	(22,701)	26,363	5,300	(34,158)	39,458
Total benefits and expenses	712,322	724,903	(12,581)	1,391,626	1,415,511	(23,885)
Income (loss) before other items and federal income taxes	\$ 18,640	\$ 36,877	\$ (18,237)	\$ 82,011	\$ 98,142	\$ (16,131)

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

Consolidated earnings decreased during the three and six months ending June 30, 2012 compared to the same periods in 2011 primarily as a result of decreases in realized investments gains. The decrease for the six months ended June 30, 2012 was partially offset by an increase in our annuity segment profitability from lower expenses and in our property and casualty segment from lower claims incurred.

In the Consolidated Results of Operations above and in the segment discussions that follow, certain amounts in the prior year have been reclassified to conform to the current year presentation. Included in these reclassifications is the effect of the retrospective adoption of a new accounting standard relating to DAC, which decreased reported income before other items and federal income taxes for the three and six months ended June 30, 2011 by \$1.2 million and \$2.7 million, respectively.

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

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

	Three months ended June 30,			Six months ended June 30,		
	2012	2011	Change	2012	2011	Change
		(As Adjusted)			(As Adjusted)	
Premiums and other revenues:						
Premiums	\$ 70,699	\$ 69,474	\$ 1,225	\$ 137,150	\$ 135,860	\$ 1,290
Other policy revenues	45,711	42,068	3,643	90,363	86,911	3,452
Net investment income	59,380	60,411	(1,031)	118,285	119,493	(1,208)
Other income	802	898	(96)	1,552	1,698	(146)
Total premiums and other revenues	176,592	172,851	3,741	347,350	343,962	3,388
Benefits, losses and expenses:						
Policyholder benefits	76,799	79,854	(3,055)	160,622	156,541	4,081
Interest credited to policyholders' account balances	14,063	15,080	(1,017)	28,984	30,136	(1,152)
Commissions for acquiring and servicing policies	25,042	22,921	2,121	46,431	43,783	2,648
Other operating expenses	44,180	46,176	(1,996)	88,473	86,610	1,863
Change in deferred policy acquisition costs ⁽¹⁾	(2,750)	(2,127)	(623)	(3,973)	(3,403)	(570)
Total benefits and expenses	157,334	161,904	(4,570)	320,537	313,667	6,870
Income before other items and federal income taxes	\$ 19,258	\$ 10,947	\$ 8,311	\$ 26,813	\$ 30,295	\$ (3,482)

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

Earnings increased for the three months ended June 30, 2012, primarily due to an increase in other policy revenues coupled with a decrease in policyholder benefits. Earnings decreased for the six months ended June 30, 2012, primarily due to increases in policyholder benefits during the first quarter which more than offset the decrease in policyholder benefits in the second quarter. Commissions for acquiring and servicing policies during the six-month period also increased partially offset by an increase in other policy revenues.

Premiums and other revenues

Revenues from traditional life insurance products include scheduled premium payments from policyholders on whole life and term life products. These premiums are in exchange for financial protection from a specific insurable event, such as death or disability. The change in these premiums is impacted by new sales during the period and the persistency of in-force policies. Premiums increased slightly during the three and six months ended June 30, 2012 compared to the same periods in 2011.

Other policy revenues include mortality charges, earned policy service fees and surrender charges on interest-sensitive life insurance policies. The increases during the three and six months ended June 30, 2012 were primarily driven by increases in mortality charges and related fees due to growth in our universal life block of business.

Benefits, losses and expenses

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Benefits decreased for the three months ended June 30, 2012 primarily resulting from lower mortality costs net of reinsurance. During the six months ended June 30, 2012 benefits increased primarily due to higher net mortality costs during the first quarter which more than offset the lower mortality costs in the second quarter. Each of these changes is considered part of normal volatility associated with the business.

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Commissions increased for the three and six months ended June 30, 2012 primarily due to increases in new business.

Other operating expenses during 2011 benefitted from a reduction of an accrual for litigation contingencies during 2011. Without this reduction, other operating expenses would have decreased slightly for the three and six months ended June 30, 2012.

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

	Three months ended June 30,			Six months ended June 30,		
	2012	2011 (As Adjusted)	Change	2012	2011 (As Adjusted)	Change
Acquisition cost capitalized	\$ 22,640	\$ 18,686	\$ 3,954	\$ 40,315	\$ 37,543	\$ 2,772
Amortization of DAC	(19,890)	(16,559)	(3,331)	(36,342)	(34,140)	(2,202)
Change in deferred policy acquisition costs (1)	\$ 2,750	\$ 2,127	\$ 623	\$ 3,973	\$ 3,403	\$ 570

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

Acquisition costs capitalized increased slightly during the three and six months ended June 30, 2012 compared to the same periods in 2011 primarily as a result of a small increase in commissions.

Policy In-Force Information

The following table summarizes changes in the Life segment's insurance in-force amounts (in thousands):

	Six months ended June 30,		Change
	2012	2011	
Life insurance in-force:			
Traditional life	\$ 46,968,459	\$ 46,519,820	\$ 448,639
Interest-sensitive life	23,790,770	23,685,084	105,686
Total life insurance in-force	\$ 70,759,229	\$ 70,204,904	\$ 554,325

The following table summarizes changes in the Life segment's number of policies in-force:

	Six months ended June 30,		Change
	2012	2011	
Number of policies in-force			
Traditional life	2,163,246	2,234,613	(71,367)
Interest-sensitive life	181,581	176,775	4,806
Total number of policies	2,344,827	2,411,388	(66,561)

Our new business activity during the first six months of 2012 was comprised of fewer, but larger face-value policies.

Table of Contents**Annuity**

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

	Three months ended June 30,			Six months ended June 30,		
	2012	2011 (As Adjusted)	Change	2012	2011 (As Adjusted)	Change
Premiums and other revenues:						
Premiums	\$ 34,723	\$ 32,110	\$ 2,613	\$ 63,135	\$ 51,600	\$ 11,535
Other policy revenues	3,305	4,311	(1,006)	6,700	8,599	(1,899)
Net investment income	138,460	144,439	(5,979)	304,697	292,324	12,373
Other income	52	(43)	95	93	121	(28)
Total premiums and other revenues	176,540	180,817	(4,277)	374,625	352,644	21,981
Benefits, losses and expenses:						
Policyholder benefits	43,722	42,837	885	82,967	72,810	10,157
Interest credited to policyholders' account balances	76,956	84,059	(7,103)	186,899	175,394	11,505
Commissions for acquiring and servicing policies	15,880	29,576	(13,696)	29,771	59,549	(29,778)
Other operating expenses	12,812	13,485	(673)	20,567	41,016	(20,449)
Change in deferred policy acquisition costs	3,288	(15,356)	18,644	6,807	(27,774)	34,581
Total benefits, losses and expenses	152,658	154,601	(1,943)	327,011	320,995	6,016
Income before other items and federal income taxes	\$ 23,882	\$ 26,216	\$ (2,334)	\$ 47,614	\$ 31,649	\$ 15,965

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

Earnings were relatively flat for the three months ended June 30, 2012 compared to 2011. Earnings increased for the six months ended June 30, 2012 compared to 2011 primarily due to a decrease in other operating expenses. Other operating expenses were higher during 2011 primarily as a result of the settlement of litigation in 2011 for \$12.0 million.

Premiums and other revenues

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

	Three months ended June 30,			Six months ended June 30,		
	2012	2011	Change	2012	2011	Change
Fixed deferred annuity	\$ 170,270	\$ 483,259	\$ (312,989)	\$ 333,517	\$ 1,031,605	\$ (698,088)
Single premium immediate annuity	57,915	42,959	14,956	103,926	76,653	27,273
Equity-indexed deferred annuity	35,545	48,797	(13,252)	58,043	82,607	(24,564)
Variable deferred annuity	24,936	19,835	5,101	51,318	46,114	5,204
Total	288,666	594,850	(306,184)	546,804	1,236,979	(690,175)
Less: policy deposits	253,943	562,740	(308,797)	483,669	1,185,379	(701,710)
Total earned premiums	\$ 34,723	\$ 32,110	\$ 2,613	\$ 63,135	\$ 51,600	\$ 11,535

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

	Six months ended June 30,	
	2012	2011
Fixed deferred and equity-indexed annuity		
Account value, beginning of period	\$ 9,824,416	\$ 9,006,692
Net inflows	252,601	964,434
Surrenders	(397,144)	(459,683)
Fees	(4,347)	(6,109)
Interest credited	184,652	175,929
Account value, end of period	\$ 9,860,178	\$ 9,681,263
Single premium immediate annuity		
Reserve, beginning of period	\$ 978,722	\$ 903,126
Net inflows	32,979	19,400
Interest and mortality	21,071	21,284
Reserve, end of period	\$ 1,032,772	\$ 943,810
Variable deferred annuity		
Account value, beginning of period	\$ 380,129	\$ 415,757
Net inflows	48,955	43,411
Surrenders	(62,174)	(60,562)
Fees	(2,329)	(2,463)
Change in market value and other	23,223	16,171
Account value, end of period	\$ 387,804	\$ 412,314

Fixed deferred annuity net inflows decreased significantly for the six months ended June 30, 2012. We are managing these products to lower sales during 2012, thereby mitigating risks associated with investing in the persistently low interest rate environment.

Equity-indexed annuities allow policyholders to participate in equity returns while also having certain downside protection from the guaranteed minimum returns defined in the product. Deposits for this product decreased during the six months ended June 30, 2012. This decrease was primarily attributed to lower indexed crediting terms resulting from lower fixed investment yields in 2012.

Single premium immediate annuities (SPIA) increased for the six months ended June 30, 2012. This was driven primarily by new retirees entering the market for guaranteed monthly payouts on a portion of their retirement dollars.

Net investment income decreased for the three months ended June 30, 2012 compared to 2011 primarily as a result of \$8.1 million realized losses from marking our option portfolio to fair value during the second quarter. Net investment income increased for the six-month period primarily due to an increase in the assets attributable to annuity account balances.

Benefits, losses and expenses

Policyholder benefits consist of annuity payments and reserve increases for SPIA contracts. Benefits increased for the six months ended June 30, 2012 compared to 2011 due to an increase in reserves associated with SPIA production.

Commissions decreased for the three and six months ended June 30, 2012 compared to 2011 primarily due to reduced annuity production during the periods.

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Other operating expenses decreased during the six months ended June 30, 2012 compared to 2011 primarily as a result of a litigation accrual related to the settlement of certain litigation during 2011. Additionally, a decrease in producer compensation linked to annuity production reduced other operating expenses further.

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

	Three months ended June 30,			Six months ended June 30,		
	2012	2011 (As Adjusted)	Change	2012	2011 (As Adjusted)	Change
Acquisition cost capitalized	\$ 19,049	\$ 34,927	\$ (15,878)	\$ 36,617	\$ 69,948	\$ (33,331)
Amortization of DAC	(22,337)	(19,571)	(2,766)	(43,424)	(42,174)	(1,250)
Change in deferred policy acquisition costs (1)	\$ (3,288)	\$ 15,356	\$ (18,644)	\$ (6,807)	\$ 27,774	\$ (34,581)

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

The decrease in acquisition costs capitalized during the three and six months ended June 30, 2012 compared to 2011 was the result of lower commissions incurred with the decrease in annuity production.

An important measure of the Annuity segment is amortization of DAC as a percentage of gross profits. The amortization of DAC as a percentage of gross profits for the six months ended June 30, 2012 and 2011 was 39.0%, and 40.4%, respectively. The slight improvement in the ratio was primarily driven by a decrease in surrenders during the six months ended June 30, 2012 compared to 2011.

Options and derivatives

Shown below is an analysis of the impact to net investment income of the option return, along with the impact to interest credited of the equity-indexed annuity embedded derivative (in thousands):

	Three months ended June 30,			Six months ended June 30,		
	2012	2011	Change	2012	2011	Change
Net investment income						
Without option return	\$ 146,608	\$ 146,257	\$ 351	\$ 293,198	\$ 287,027	\$ 6,171
Option return	(8,148)	(1,818)	(6,330)	11,499	5,297	6,202
Interest credited to policy account balances						
Without embedded derivative	86,373	87,055	(682)	177,831	171,786	6,045
Equity-indexed annuity embedded derivative	(9,417)	(2,996)	(6,421)	9,068	3,608	5,460

Net investment income without option return, as well as the related interest credited without equity-indexed return, increased during the three and six months ended June 30, 2012 compared to 2011. The increases were primarily due to increases in aggregate annuity account values.

The option return, as well as the related equity-indexed-annuity embedded derivative return, during the three and six months ended June 30, 2012 changed as a result of the change in the S&P 500 Index during the respective periods. These option returns correlate to the (3.3)% and 8.3% three and six month changes for the periods ending June 30, 2012 for the S&P 500 Index, compared to (0.4)% and 5.0% for the same periods ended June 30, 2011, respectively.

Table of Contents**Health**

The Health segment primarily focuses on supplemental and limited benefit coverage products including Medicare Supplement insurance as well as hospital surgical and cancer policies. For the first six months of 2012, premium volume was concentrated in our Medicare Supplement (42.6%) and group (17.4%) lines. Our other health products include credit accident and health policies, stop loss, and dental coverages. Health products are distributed through our network of independent agents and Managing General Underwriters (MGU). Health segment results for the periods indicated were as follows (in thousands):

	Three months ended June 30,			Six months ended June 30,		
	2012	2011	Change	2012	2011	Change
	(As Adjusted)			(As Adjusted)		
Premiums and other revenues:						
Premiums	\$ 54,712	\$ 58,384	\$ (3,672)	\$ 111,766	\$ 117,028	\$ (5,262)
Net investment income	2,960	3,425	(465)	5,934	6,841	(907)
Other income	4,034	3,603	431	7,860	6,520	1,340
Total premiums and other revenues	61,706	65,412	(3,706)	125,560	130,389	(4,829)
Benefits, losses and expenses:						
Claims incurred	36,475	39,466	(2,991)	81,150	81,073	77
Commissions for acquiring and servicing policies	6,657	7,100	(443)	12,916	13,566	(650)
Other operating expenses	11,237	12,419	(1,182)	23,055	23,994	(939)
Change in deferred policy acquisition costs	1,077	1,366	(289)	3,629	3,707	(78)
Total benefits and expenses	55,446	60,351	(4,905)	120,750	122,340	(1,590)
Income (loss) before other items and federal income taxes	\$ 6,260	\$ 5,061	\$ 1,199	\$ 4,810	\$ 8,049	\$ (3,239)

Earnings increased for the three months ended June 30, 2012, driven primarily by a decrease in claims and operating expenses, partially offset by a decrease in premiums. Earnings decreased for the six months ended June 30, 2012, driven primarily by a decrease in premiums.

Premiums and other revenues

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

	Three months ended June 30,				Six months ended June 30,			
	2012		2011		2012		2011	
	dollars	percentage	dollars	percentage	dollars	percentage	dollars	percentage
Medicare Supplement	\$ 24,107	44.1%	\$ 25,231	43.2%	\$ 47,622	42.6%	\$ 51,331	43.9%
Group	8,633	15.8	8,619	14.8	19,470	17.4	15,715	13.4
Medical expense	9,482	17.3	11,955	20.4	19,527	17.5	25,239	21.6
MGU	4,385	8.0	3,485	6.0	8,610	7.7	6,473	5.5
Credit accident and health	4,117	7.5	5,015	8.6	8,647	7.7	10,157	8.7
All other	3,988	7.3	4,079	7.0	7,890	7.1	8,113	6.9
Total	\$ 54,712	100.0%	\$ 58,384	100.0%	\$ 111,766	100.0%	\$ 117,028	100.0%

Earned premiums decreased during the three and six months ended June 30, 2012, primarily as a result of the run-off of the closed block of our medical expense insurance plans, which will continue decreasing, and also due to Medicare Supplement sales declines due to aggressive pricing by a large competitor. These decreases were partially offset by an increase in sales of our group and MGU lines.

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

	2012		June 30, 2011	
	number	percentage	number	percentage
Medicare Supplement Group	41,430	6.8%	43,783	7.0%
Medical expense	20,060	3.3	19,935	3.2
MGU	7,230	1.3	9,040	1.5
Credit accident and health	174,517	29.0	119,264	19.1
All other	251,959	41.8	283,533	45.6
Total	602,434	100.0%	622,328	100.0%

Our total in-force policies decreased during the six months ended June 30, 2012 compared to 2011. The increase in the MGU and group lines were more than offset by decreases in the credit accident and health, Medicare Supplement, medical expense and other lines.

Benefits, losses and expenses

Claims incurred decreased during the three months ended June 30, 2012 compared to the same period in 2011, while claims incurred during the six months ended June 30, 2012 were substantially unchanged. The three month decrease was primarily due to decreases in claims in our medical expense insurance plans and Medicare Supplement line. Somewhat offsetting this decrease were increases in claims in our MGU line due to an increase in the size of the MGU block of business.

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

	Three months ended June 30,			Six months ended June 30,		
	2012	2011	Change	2012	2011	Change
		(As Adjusted)			(As Adjusted)	
Acquisition cost capitalized	\$ 2,937	\$ 3,703	\$ (766)	\$ 5,471	\$ 6,702	\$ (1,231)
Amortization of DAC	(4,014)	(5,069)	1,055	(9,100)	(10,409)	1,309
Change in deferred policy acquisition costs (1)	\$ (1,077)	\$ (1,366)	\$ 289	\$ (3,629)	\$ (3,707)	\$ 78

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

Table of Contents**Property and Casualty**

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

	Three months ended June 30,			Six months ended June 30,		
	2012	2011	Change	2012	2011	Change
	(As Adjusted)			(As Adjusted)		
Premiums and other revenues:						
Net premiums written	\$ 278,777	\$ 294,526	\$ (15,749)	\$ 560,026	\$ 584,787	\$ (24,761)
Net premiums earned	268,431	275,848	(7,417)	541,600	567,162	(25,562)
Net investment income	17,781	18,312	(531)	35,480	36,378	(898)
Other income	1,737	922	815	3,446	2,278	1,168
Total premiums and other revenues	287,949	295,082	(7,133)	580,526	605,818	(25,292)
Benefits, losses and expenses:						
Claims incurred	244,966	254,431	(9,465)	432,518	469,942	(37,424)
Commissions for acquiring and servicing policies	47,949	59,169	(11,220)	101,924	111,503	(9,579)
Other operating expenses	29,396	31,154	(1,758)	59,095	61,892	(2,797)
Change in deferred policy acquisition costs ⁽¹⁾	2,047	(6,584)	8,631	(1,163)	(6,688)	5,525
Total benefits and expenses	324,358	338,170	(13,812)	592,374	636,649	(44,275)
Income before other items and federal income taxes	\$ (36,409)	\$ (43,088)	\$ 6,679	\$ (11,848)	\$ (30,831)	\$ 18,983
Loss and claim adjustment expense ratio	91.3%	92.2%	(0.9)	79.9%	82.9%	(3.0)
Underwriting expense ratio	29.6	30.4	(0.8)	29.5	29.4	0.1
Combined ratio	120.9%	122.6%	(1.7)	109.4%	112.3%	(2.9)
Impact of catastrophe events on combined ratio	24.2	27.0	(2.8)	14.3	18.2	(3.9)
Combined ratio without impact of catastrophe events	96.7%	95.6%	1.1	95.1%	94.1%	1.0
Gross catastrophe losses	\$ 67,771	\$ 152,918	\$ (85,147)	\$ 81,741	\$ 189,954	\$ (108,213)
Net catastrophe losses	63,765	62,802	963	77,002	90,830	(13,828)

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

The Property and Casualty segment results improved during the three and six months ended June 30, 2012, primarily due to a significant decrease in claims incurred and to a lesser extent a reduction in operating expenses.

Premiums and other revenues

Net premiums written and earned decreased during the three and six months ended June 30, 2012 primarily as a result of decreases in policies in force due to risk mitigation actions and a reduction in new business sales.

Benefits, losses and expenses

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Claims incurred decreased during the three and six months ended June 30, 2012 as a result of a decrease in catastrophic related losses during the six-month period. The loss ratio improved as a result of improved rate adequacy and this favorable experience. Commissions decreased primarily due to a shift from commission to non-commission products in our Credit Insurance Division.

Gross catastrophe losses decreased for the three and six months ended June 30, 2012 compared to the same periods in 2011. Net catastrophe losses also decreased for the six month period from the same period in 2011. Net catastrophe losses were relatively flat for the three month period.

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There were three significant catastrophe losses in June 2012, a wind storm in the mid-Atlantic region, a Colorado hail event, and Colorado wildfires. These events accounted for over 44.8% of the gross and net year-to-date catastrophe losses. April 2011 recorded more tornadoes than any month in U.S. history. One of these tornadoes impacted primarily Alabama in late April, while another impacted primarily Joplin, Missouri in May. These two storms alone accounted for \$119.6 million in gross catastrophe losses and \$28.6 million in net catastrophe losses.

The combined ratio, excluding net catastrophe losses, increased slightly for the three and six months ending June 30, 2012, compared with the same periods in 2011, which is primarily driven by an increase in 2012 claim severity.

For the three and six months ended June 30, 2012, the net favorable prior year loss and CAE development was \$9.4 million and \$26.2 million, compared to \$2.5 million and \$27.9 million favorable development for the three and six months ended June 30, 2011. This favorable development is primarily in our workers compensation, personal auto liability and commercial liability lines, which are demonstrating better than expected loss emergence compared to what was implied by our historical development patterns.

Products

Our Property and Casualty segment consists of three product lines: (i) Personal Lines, which we market primarily to individuals, represent 59.1% of net premiums written, (ii) Commercial Lines, which focus primarily on businesses engaged in agricultural and other targeted markets, represent 31.5% of net premiums written, and (iii) Credit-related property insurance products which are marketed to financial institutions and retailers and represent 9.4% of net premiums written. We frequently sell both personal and commercial lines products to the same individuals.

Personal Lines

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

	Three months ended June 30,		Change	Six months ended June 30,		Change
	2012	2011		2012	2011	
Net premiums written						
Auto	\$ 103,672	\$ 110,962	\$ (7,290)	\$ 212,011	\$ 228,410	\$ (16,399)
Homeowner	54,903	52,077	2,826	100,165	100,001	164
Other Personal	9,282	8,731	551	18,647	18,024	623
Total net premiums written	\$ 167,857	\$ 171,770	\$ (3,913)	\$ 330,823	\$ 346,435	\$ (15,612)
Net premiums earned						
Auto	\$ 105,585	\$ 117,269	\$ (11,684)	\$ 212,787	\$ 234,812	\$ (22,025)
Homeowner	49,974	48,026	1,948	102,157	103,500	(1,343)
Other Personal	8,723	8,550	173	17,665	17,855	(190)
Total net premiums earned	\$ 164,282	\$ 173,845	\$ (9,563)	\$ 332,609	\$ 356,167	\$ (23,558)
Loss ratio						
Auto	82.5%	78.3%	4.2	76.8%	72.9%	3.9
Homeowner	163.8	188.8	(25.0)	122.9	138.9	(16.0)
Other Personal	66.0	88.6	(22.6)	50.2	83.5	(33.3)
Personal lines loss ratio	106.3%	109.3%	(3.0)	89.5%	92.6%	(3.1)
Combined Ratio						
Auto	104.0%	99.9%	4.1	97.9%	94.2%	3.7
Homeowner	188.8	217.2	(28.4)	147.3	165.4	(18.1)
Other Personal	89.5	97.6	(8.1)	73.3	90.5	(17.2)
Personal lines combined ratio	129.0%	132.2%	(3.2)	111.8%	114.7%	(2.9)

Personal Automobile: Net premiums written and earned decreased in our personal automobile line during the three and six months ended June 30, 2012. This was primarily due to a decline in policies in-force resulting from a combination of the decreases in cross-sold personal auto with homeowner policies in-force noted below and lower new business sales.

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Homeowners: Net premiums written and earned increased during the three months ended June 30, 2012 compared to 2011 due to lower reinsurance reinstatement premiums. Net premiums written remained relatively flat for the six month period while the net premiums earned decreased primarily due to fewer policies in-force. The decrease in homeowner policies in-force was primarily driven by improved rate adequacy and our catastrophe risk mitigation actions.

The loss and combined ratios improved during the three and six months ended June 30, 2012 due primarily to improved catastrophe experience and improved rate adequacy.

Other Personal: This product line is comprised primarily of watercraft, rental-owner and umbrella coverages for individuals seeking to protect their personal property not covered within their homeowner and auto policies. Net premiums written and earned remained substantially unchanged during the three and six months ended June 30, 2012. The loss and combined ratios improved during the three and six months ended June 30, 2012. As this is currently our smallest line of business in our Personal Products line, minor fluctuations in results can more easily cause volatility in these ratios.

Commercial Lines

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

	Three months ended June 30,			Six months ended June 30,		
	2012	2011	Change	2012	2011	Change
Net premiums written						
Other Commercial	\$ 39,105	\$ 38,312	\$ 793	\$ 76,080	\$ 74,170	\$ 1,910
Agribusiness	28,143	25,755	2,388	52,623	50,056	2,567
Auto	23,186	24,221	(1,035)	47,576	50,159	(2,583)
Total net premiums written	\$ 90,434	\$ 88,288	\$ 2,146	\$ 176,279	\$ 174,385	\$ 1,894
Net premiums earned						
Other Commercial	\$ 30,946	\$ 29,789	\$ 1,157	\$ 61,211	\$ 59,763	\$ 1,448
Agribusiness	26,139	23,671	2,468	52,219	49,807	2,412
Auto	20,029	20,739	(710)	39,853	42,873	(3,020)
Total net premiums earned	\$ 77,114	\$ 74,199	\$ 2,915	\$ 153,283	\$ 152,443	\$ 840
Loss ratio						
Other Commercial	75.2%	52.2%	23.0	82.5%	57.6%	24.9
Agribusiness	120.6	137.0	(16.4)	93.2	143.9	(50.7)
Auto	54.4	54.2	0.2	62.5	54.5	8.0
Commercial lines loss ratio	85.2%	79.8%	5.4	81.0%	84.9%	(3.9)
Combined ratio						
Other Commercial	103.9%	81.5%	22.4	111.4%	86.4%	25.0
Agribusiness	157.9	177.4	(19.5)	129.3	181.0	(51.7)
Auto	77.0	77.2	(0.2)	86.0	77.6	8.4
Commercial lines combined ratio	115.2%	110.9%	4.3	110.9%	114.8%	(3.9)

Other Commercial: The loss and combined ratios increased during the three and six months ended June 30, 2012, primarily as a result of an increase in the frequency and severity of workers' compensation claims.

Agribusiness Product: Our agribusiness product allows policyholders to customize and combine their coverage for residences and household contents, farm buildings and building contents, personal property and liability. Net premiums written and earned increased during the three and

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six months ended June 30, 2012, primarily as a result of lower reinsurance reinstatement premiums.

The loss and combined ratios improved significantly during the three and six months ended June 30, 2012, primarily as the result of a reduction in net catastrophe losses during the six month period.

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Commercial Automobile: Net premiums written and earned decreased during the three and six months ended June 30, 2012 compared to 2011 primarily as a result of lower new business writings in our small commercial business as well as improved selective underwritings.

Credit Products

Credit-related property products for the periods indicated were as follows (in thousands, except percentages):

	Three months ended June 30,			Six months ended June 30,		
	2012	2011	Change	2012	2011	Change
Net premiums written	\$ 20,486	\$ 34,468	\$ (13,982)	\$ 52,924	\$ 63,967	\$ (11,043)
Net premiums earned	27,035	27,804	(769)	55,708	58,552	(2,844)
Loss ratio	17.1%	18.5%	(1.4)	19.0%	18.4%	0.6
Combined ratio	79.2	93.1	(13.9)	88.1	91.5	(3.4)

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 and earned decreased for the three and six months ended June 30, 2012 compared to 2011. The primary driver for the decrease in premiums is the continued shift from the shorter duration Collateral Protection products, to the longer duration GAP products. Shorter duration products generally earn the entire premium within 12 months of the effective date, while longer duration products may take up to 84 months before they are fully earned. The loss ratios remained substantially unchanged. The combined ratio improved significantly during the three-month period due to the shift from commission insurance products to non-commission GAP waiver products.

Table of Contents**Corporate and Other**

Our Corporate and Other segment primarily includes the capital not allocated to support our insurance business segments. Our corporate investments include publicly traded equities, real estate, commercial mortgage loans, high-yield bonds, venture capital partnerships, mineral interests and tax-advantaged instruments. Corporate and Other segment financial results for the periods indicated were as follows (in thousands):

	Three months ended June 30,			Six months ended June 30,		
	2012	2011	Change	2012	2011	Change
Premiums and other revenues:						
Net investment income	\$ 21,982	\$ 23,585	\$ (1,603)	\$ 31,863	\$ 34,208	\$ (2,345)
Realized investments gains, net	4,878	22,926	(18,048)	11,849	44,957	(33,108)
Other Income	1,315	1,107	208	1,864	1,675	189
Total premiums and other revenues	28,175	47,618	(19,443)	45,576	80,840	(35,264)
Benefits, losses and expenses:						
Other operating expenses	22,526	9,877	12,649	30,954	21,860	9,094
Total benefits, losses and expenses	22,526	9,877	12,649	30,954	21,860	9,094
Income before other items and federal income taxes	\$ 5,649	\$ 37,741	\$ (32,092)	\$ 14,622	\$ 58,980	\$ (44,358)

Earnings for the three and six months ended June 30, 2012 decreased compared to the same periods in 2011 substantially due to the decrease in realized gains, most notably as a result of a \$13.1 million gain in 2011 from the sale of investment real estate with no such sales in 2012. During 2012 we also recorded other-than-temporary impairments related to equity investments of \$5.3 million and \$8.1 million for the three and six months ended June 30, 2012, respectively. Additionally, other operating costs increased in both periods as a result of an increase in expenses for our share-based compensation under the stock and incentive plan.

Investments**General**

We manage our investment portfolio to optimize the rate of return that is commensurate with sound and prudent underwriting practices and to maintain a well-diversified portfolio. Our investment operations are governed by various regulatory authorities, primarily the state insurance departments where we or our insurance subsidiaries are domiciled. Investment activities, including the setting of investment policies and defining acceptable risk levels, are subject to review and approval by our Board of Directors, which is assisted by our Finance Committee.

Our insurance and annuity products are primarily supported by investment-grade bonds, and to a lesser extent collateralized mortgage obligations and commercial mortgage loans. We purchase fixed maturity securities and designate them as either held-to-maturity or available-for-sale as necessary to manage our estimated future cash flow needs. We also monitor the composition of our fixed maturity securities between held-to-maturity and available-for-sale securities and adjust the mix within the portfolio as investments mature or with the purchase of new investments.

We invest in commercial mortgage loans when the yield and credit risk compare favorably with fixed maturity securities, which are primarily investment-grade bonds. Investments in individual residential mortgage loans have not been part of our investment portfolio, and we do not anticipate investing in them in the future. We invest in real estate and equity securities based on a risk and reward analysis where we believe there are opportunities for enhanced returns.

Table of Contents**Composition of Invested Assets**

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

	June 30, 2012		December 31, 2011	
	Amount	Percent	Amount	Percent
Bonds held-to-maturity, at amortized cost	\$ 9,167,922	47.9%	\$ 9,251,972	49.0%
Bonds available-for-sale, at fair value	4,502,696	23.5	4,381,607	23.2
Equity securities, at fair value	1,057,182	5.5	1,006,080	5.3
Mortgage loans on real estate, net of allowance	3,060,898	16.0	2,925,482	15.5
Policy loans	392,822	2.1	393,195	2.1
Investment real estate, net of accumulated depreciation	490,305	2.6	470,222	2.5
Short-term investments	341,198	1.8	345,330	1.8
Other invested assets	120,141	0.6	109,514	0.6
Total Investments	\$ 19,133,164	100.0%	\$ 18,883,402	100.0%

Each of the components of our invested assets is described further in the Notes to the Unaudited Consolidated Financial Statements. Additionally, Note 2, Summary of Significant Accounting Policies and Practices, of the Notes to the Consolidated Financial Statements within our Annual Report on Form 10-K for the year ended December 31, 2011 filed with the SEC on March 6, 2012 contains a detailed description of the Company's methodology for evaluating other-than-temporary impairment losses on its investments.

Investments to Support Our Insurance Business

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

At June 30, 2012, our fixed maturity securities had an estimated fair market value of \$14.4 billion, which was \$1.0 billion, or 7.8%, above amortized cost. At December 31, 2011, our fixed maturity securities had an estimated fair value of \$14.2 billion, which was \$851.7 million, or 6.4%, above amortized cost.

Fixed maturity securities' estimated fair value, due in one year or less, increased to \$1.3 billion as of June 30, 2012 from \$961.2 million as of December 31, 2011, primarily as a result of approaching maturity dates of long-term bonds.

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

	June 30, 2012			December 31, 2011		
	Amortized Cost	Estimated Fair Value	% of Fair Value	Amortized Cost	Estimated Fair Value	% of Fair Value
AAA	\$ 949,754	\$ 1,030,760	7.2%	\$ 1,074,744	\$ 1,153,696	8.1%
AA	1,357,841	1,473,816	10.2	1,391,092	1,490,600	10.5
A	5,104,537	5,579,019	38.7	5,058,242	5,448,851	38.3
BBB	5,375,065	5,743,950	39.9	5,204,214	5,499,958	38.6
BB and below	580,298	578,717	4.0	659,290	646,193	4.5
Total	\$ 13,367,495	\$ 14,406,262	100.0%	\$ 13,387,582	\$ 14,239,298	100.0%

The slight shifts in our credit quality diversification, including exposure to below investment grade securities, at June 30, 2012 compared to December 31, 2011, was primarily the result of purchases of AAA through BBB bonds, and maturities of bonds rated AAA through BB and below as we continue to manage a diverse portfolio. At 4.0% of our total bond portfolio, the exposure to below investment grade securities is

acceptable to management, and we expect this portion of our bond portfolio to decrease as these bonds approach maturity.

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

The weighted average coupon yield on the principal funded for mortgage loans was 5.7% and 6.0% for the six months ended June 30, 2012 and year ended December 31, 2011, respectively. It is likely that the weighted average coupon yield on funded mortgage loans will decline as loans mature and new loans are originated with lower rates in the current interest rate environment.

Equity Securities- As of June 30, 2012, our equity securities were invested 96.6% in publicly traded (on a national U.S. stock exchange) common stock and 3.4% was invested in publicly traded preferred stock. As of December 31, 2011, 96.3% of our equity securities 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 first six months of 2012 primarily reflects market value increases within the portfolio.

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

	Cost	Six months ended June 30, 2012		Fair Value
		Unrealized Gains	Unrealized Losses	
Common stock	\$ 673,686	\$ 361,590	\$ (13,675)	\$ 1,021,601
Preferred stock	26,690	8,895	(4)	35,581
Total	\$ 700,376	\$ 370,485	\$ (13,679)	\$ 1,057,182

	Cost	Year ended December 31, 2011		Fair Value
		Unrealized Gains	Unrealized Losses	
Common stock	\$ 679,724	\$ 305,269	\$ (16,086)	\$ 968,907
Preferred stock	30,955	7,688	(1,470)	37,173
Total	\$ 710,679	\$ 312,957	\$ (17,556)	\$ 1,006,080

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

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

Policy Loans- For certain life insurance products, we allow policyholders to borrow funds using their policy's cash value as collateral. The maximum amount of the policy loan depends upon the policy's surrender value and the number of years since policy origination. As of June 30, 2012 we had \$392.8 million in policy loans with a loan to surrender value of 59.4%, and at December 31, 2011, we had \$393.2 million in policy loans with a loan to surrender value of 59.2%. Interest rates on policy loans primarily range from 3.0 % to 12.0% per annum. Policy loans may be repaid at any time by the policyholder and have priority to any claims on the policy. If the policyholder fails to repay the policy loan, funds are withdrawn from the policy's benefits.

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Net Investment Income

Net investment income from bonds and mortgage loans used to support our insurance products increased \$1.3 million over the period as assets increased with annuity sales and growth in policyholder's account balances. Net investment income in other asset classes (equities, real estate, options and other) increased \$5.7 million primarily 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. Accretion of discounts is recorded using the effective yield method. Interest income, accretion of discounts and prepayment fees are reported in net investment income. Interest income earned on impaired loans is accrued on the principal amount of the loan based on the loan's contractual interest rate. However, interest ceases to be accrued for loans on which interest is generally more than 90 days past due or when the collection of interest is not considered probable. Loans in foreclosure are placed on non-accrual status. Interest received on non-accrual status mortgage loans is included in net investment income in the period received.

Unrealized Gains and Losses

The net change in unrealized gains (losses) on available-for-sale securities, as presented in the stockholders' equity section of the consolidated statements of financial position, was an increase of \$59.7 million for the six months ended June 30, 2012. Total unrealized gains and losses of available-for-sale securities at June 30, 2012 and December 31, 2011 were \$659.9 million and \$541.4 million, respectively.

Liquidity

Our liquidity requirements have been and are expected to continue to be met by funds from operations, resulting from premiums received from our customers. The primary use of cash has been and is expected to continue to be policy benefits and claims incurred during the regular course of business. 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. Our contractual obligations are not expected to have a significant impact to cash flow from operations.

There are no known trends or uncertainties regarding product pricing, changes in product lines or rising costs, which would have a significant impact to cash flows from operations. Continued low-interest rate environments are expected to require higher than historical contributions to our defined benefit plans in the near future. Management does not expect these demands to have a significant impact to our cash flows from operations. Additionally, we have paid dividends to stockholders for over 100 consecutive years and expect to continue this trend. No significant capital expenditures are expected in the near future.

Further information regarding additional sources or uses of cash is described in Note 17, Commitments and Contingencies, of the Notes to the Unaudited Consolidated Financial Statements.

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 maturity securities and commercial mortgages. Funds are invested with the intent that income from the investments and proceeds from the maturities will meet our ongoing cash flow needs. We historically have not had to liquidate invested assets in order to cover cash flow needs; however, our portfolio of highly liquid available-for-sale fixed maturity and equity securities are available to meet future liquidity needs as necessary.

Table of Contents**Capital Resources**

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

	June 30, 2012	December 31, 2011
American National stockholders' equity, excluding accumulated other comprehensive income (loss), net of tax (AOCI)	\$ 3,510,396	\$ 3,477,888
AOCI	224,263	159,403
Total American National stockholders' equity	\$ 3,734,659	\$ 3,637,291

We have notes payable in our consolidated statements of financial position that are not part of our capital resources. These notes payable represent amounts borrowed by real estate joint ventures that we consolidate into our financial statements. The lenders for the notes payable have no recourse against us in the event of default by the joint ventures. Therefore, the only amount of liability we have for these notes payable is limited to our investment in the respective venture, which totaled \$18.0 million at June 30, 2012 and December 31, 2011. We believe the quality of the underlying real estate would provide high quality collateral for additional borrowing by the real estate joint ventures.

Total stockholders' equity in the first six months of 2012 increased primarily due to the \$65.7 million net income earned during the period and \$59.7 million unrealized gains on available-for-sale securities, offset by \$41.3 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. Risk-based capital (RBC) is a minimum capital requirement calculated using formulas and instructions from the National Association of Insurance Commissioners (NAIC). State laws specify regulatory actions if an insurer's ratio of statutory surplus to RBC, a measure of an insurer's solvency, falls below certain levels. The RBC formula for life companies establishes minimum capital requirements for asset, interest rate, market, insurance and business risks. The RBC formula for property and casualty companies establishes minimum capital requirements for asset and underwriting risks including reserve risk.

The achievement of long-term growth will require growth in American National Insurance Company and our insurance subsidiaries' statutory capital. Our subsidiaries may obtain additional statutory capital through various sources, such as retained statutory earnings or equity contributions from us. As of December 31, 2011, the levels of our and our insurance subsidiaries' capital exceeded the NAIC's minimum RBC requirements.

Contractual Obligations

Our future cash payments associated with claims and claims adjustment expenses, life, annuity and disability obligations, contractual obligations pursuant to operating leases for office space and equipment, and notes payable have not materially changed since December 31, 2011. We expect to have the capacity to repay or refinance these obligations as they come due.

Off-Balance Sheet Arrangements

We have off-balance sheet arrangements relating to third-party marketing operation bank loans discussed within Note 17, Commitments and Contingencies, of the Notes to the Unaudited Consolidated Financial Statements. We could be exposed to a liability for these loans, which are supported by the cash value of the underlying insurance contracts. However, since the cash value of the life insurance policies is designed to always equal or exceed the balance of the loans, management does not foresee any loss related to these arrangements.

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Related-Party Transactions

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

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our market risks have not changed materially from those disclosed in our 2011 Annual Report on Form 10-K filed with the SEC on March 6, 2012.

ITEM 4. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act)) that are designed to ensure that information required to be disclosed in the Company's reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Corporate Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. The Company's management, with the participation of the Company's Chief Executive Officer and Corporate Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of June 30, 2012. Based upon that evaluation and subject to the foregoing, the Company's Chief Executive Officer and Corporate Chief Financial Officer concluded that, as of June 30, 2012, 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 June 30, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Information required for Item 1 is incorporated by reference to the discussion under the heading "Litigation" in Note 17, Commitments and Contingencies, of the Notes to the Unaudited Consolidated Financial Statements.

ITEM 1A. RISK FACTORS

There have been no material changes with respect to the risk factors as previously disclosed in our 2011 Annual Report on Form 10-K filed with the SEC on March 6, 2012.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

Exhibit Number	Basic Documents
3.1	Articles of Incorporation (incorporated by reference to Exhibit No. 3.1 to the registrant's Registration Statement on Form 10-12B filed April 10, 2009)
3.2	Bylaws (incorporated by reference to Exhibit No. 3.2 to the registrant's Current Report on Form 8-K filed May 2, 2012)
31.1	Certification of the principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the principal executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following financial information from American National Insurance Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2012 formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Statements of Financial Position (unaudited) at June 30, 2012 and December 31, 2011; (ii) Consolidated Statements of Operations (unaudited) for the three and six months ended June 30, 2012 and 2011; (iii) Consolidated Statements of Comprehensive Income (loss) (unaudited) for the three and six months ended June 30, 2012 and 2011; (iv) Consolidated Statements of Changes in Stockholders' Equity (unaudited) for the three and six months ended June 30, 2012 and 2011; (v) Consolidated Statements of Cash Flows (unaudited) for the three and six months ended June 30, 2012 and 2011, and (vi) related Notes to the Unaudited Consolidated Financial Statements.

SIGNATURES

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

By: /s/ Robert L. Moody
Name: Robert L. Moody

Title: *Chairman of the Board & Chief Executive Officer*

By: /s/ John J. Dunn, Jr.
Name: John J. Dunn, Jr.,

Title: *Corporate Chief Financial Officer*

Date: August 7, 2012