

AMERICAN NATIONAL INSURANCE CO /TX/

Form 10-Q

November 06, 2009

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

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the quarterly period ended September 30, 2009**  
**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**  
**Commission file number: 001-34280**  
**AMERICAN NATIONAL INSURANCE COMPANY**  
*(Exact name of registrant as specified in its charter)*

**Texas**  
*(State or other jurisdiction of  
incorporation or organization)*

**74-0484030**  
*(I.R.S. employer  
identification number)*

**One Moody Plaza**  
**Galveston, Texas**  
*(Address of principal executive offices)*

**77550-7999**  
*(Zip code)*

**(409) 763-4661**

*(Registrant's telephone number, including area code)*

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

As of October 30, 2009, the registrant had 26,820,166 shares of common stock, \$1.00 par value per share, outstanding.

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

| <b>(Unaudited and in thousands, except for per share data)</b>   | <b>Three Months Ended</b> |                | <b>Nine Months Ended</b> |                  |
|--|---------------------------|----------------|--------------------------|------------------|
|  | <b>September 30,</b>      |                | <b>September 30,</b>     |                  |
|  | <b>2009</b>               | <b>2008</b>    | <b>2009</b>              | <b>2008</b>      |
| <b>PREMIUMS AND OTHER REVENUE</b>  |                           |                |                          |                  |
| Premiums:  |                           |                |                          |                  |
| Life   | \$ 76,320                 | \$ 75,569      | \$ 211,638               | \$ 222,583       |
| Annuity  | 58,284                    | 18,843         | 149,141                  | 90,489           |
| Accident and health  | 74,428                    | 72,688         | 224,001                  | 217,765          |
| Property and casualty  | 298,073                   | 292,747        | 866,989                  | 885,941          |
| Other policy revenues  | 45,292                    | 45,049         | 133,740                  | 130,494          |
| Net investment income  | 222,266                   | 209,269        | 630,126                  | 612,725          |
| Realized investments gains (losses)  | 3,252                     | 3,243          | (4,809)                  | 20,374           |
| Other-than-temporary impairments   | (4,187)                   | (205,228)      | (78,335)                 | (232,277)        |
| Other income   | 6,619                     | 9,913          | 27,643                   | 29,641           |
| <b>Total revenues</b>  | <b>780,347</b>            | <b>522,093</b> | <b>2,160,134</b>         | <b>1,977,735</b> |
| <b>BENEFITS, LOSSES AND EXPENSES</b>   |                           |                |                          |                  |
| Policy Benefits:   |                           |                |                          |                  |
| Life   | 75,865                    | 69,786         | 222,131                  | 215,653          |
| Annuity  | 63,776                    | 25,433         | 170,584                  | 111,137          |
| Accident and health  | 57,217                    | 51,531         | 178,983                  | 166,581          |
| Property and casualty  | 222,196                   | 223,311        | 714,041                  | 720,430          |
| Interest credited to policy account balances   | 98,252                    | 80,036         | 275,554                  | 223,125          |
| Commissions for acquiring and servicing policies   | 114,144                   | 111,724        | 341,734                  | 369,312          |
| Other operating costs and expenses   | 128,181                   | 145,434        | 359,721                  | 396,148          |
| Increase in deferred policy acquisition costs  | (14,351)                  | (1,624)        | (48,380)                 | (70,972)         |
| <b>Total benefits, losses and expenses</b>   | <b>745,280</b>            | <b>705,631</b> | <b>2,214,368</b>         | <b>2,131,414</b> |
| <b>Income (loss) from continuing operations before federal income tax, and equity in earnings of unconsolidated affiliates</b> |                           |                |                          |                  |
|  | 35,067                    | (183,538)      | (54,234)                 | (153,679)        |
| Provision (benefit) for federal income taxes:  |                           |                |                          |                  |
| Current  | 4,564                     | 6,849          | (20,541)                 | (10,429)         |
| Deferred   | (1,335)                   | (68,807)       | (18,029)                 | (52,336)         |
| Total provision (benefit) for federal income taxes   | 3,229                     | (61,958)       | (38,570)                 | (62,765)         |
| Equity in earnings (losses) of unconsolidated affiliates, net of tax   | 2,110                     | (1,530)        | (3,007)                  | 6,466            |

|   |                  |                     |                    |                    |
|---|------------------|---------------------|--------------------|--------------------|
| Income (loss) from continuing operations  | 33,948           | (123,110)           | (18,671)           | (84,448)           |
| Loss from discontinued operations   |                  | (604)               |                    | (3,050)            |
| Net income (loss)   | 33,948           | (123,714)           | (18,671)           | (87,498)           |
| Less: Net income attributable to noncontrolling interest                                      | 1,248            | 1,319               | 679                | 1,445              |
| <b>Net income (loss) attributable to American National Insurance Company and Subsidiaries</b> | <b>\$ 32,700</b> | <b>\$ (125,033)</b> | <b>\$ (19,350)</b> | <b>\$ (88,943)</b> |

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

Earnings (loss) per share:

|         |         |           |           |           |
|---------|---------|-----------|-----------|-----------|
| Basic   | \$ 1.23 | \$ (4.72) | \$ (0.73) | \$ (3.36) |
| Diluted | \$ 1.23 | \$ (4.69) | \$ (0.73) | \$ (3.34) |

|   |            |            |            |            |
|---|------------|------------|------------|------------|
| Unrestricted common shares outstanding                                      | 26,558,832 | 26,479,832 | 26,558,832 | 26,479,832 |
| Unrestricted common shares outstanding and dilutive potential common shares | 26,601,368 | 26,631,908 | 26,601,368 | 26,631,908 |

*See accompanying notes to consolidated financial statements.*

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**AMERICAN NATIONAL INSURANCE COMPANY**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**(Unaudited and in thousands)**

|  | <b>September 30,<br/>2009</b> | <b>December 31,<br/>2008</b> |
|--|-------------------------------|------------------------------|
| <b>ASSETS</b>  |                               |                              |
| Investments, other than investments in unconsolidated affiliates                   |                               |                              |
| Fixed Securities:  |                               |                              |
| Bonds held-to-maturity   | \$ 7,287,406                  | \$ 6,681,837                 |
| Bonds available-for-sale   | 4,188,674                     | 3,820,837                    |
| Preferred stocks   | 30,555                        | 48,822                       |
| Equity securities:   |                               |                              |
| Common stocks  | 991,835                       | 853,530                      |
| Mortgage loans on real estate, net of allowance                                    | 2,096,286                     | 1,877,053                    |
| Policy loans   | 360,596                       | 354,398                      |
| Investment real estate, net of accumulated depreciation of \$204,333 and \$191,435 | 590,233                       | 528,905                      |
| Short-term investments   | 650,482                       | 295,170                      |
| Other invested assets  | 93,859                        | 85,151                       |
| <b>Total investments</b>   | <b>16,289,926</b>             | <b>14,545,703</b>            |
| Cash   | 93,367                        | 66,096                       |
| Investments in unconsolidated affiliates   | 153,910                       | 154,309                      |
| Accrued investment income  | 185,874                       | 184,801                      |
| Reinsurance ceded receivables  | 405,971                       | 482,846                      |
| Prepaid reinsurance premiums   | 56,540                        | 61,433                       |
| Premiums due and other receivables   | 299,657                       | 325,019                      |
| Deferred policy acquisition costs  | 1,337,152                     | 1,482,664                    |
| Property and equipment, net  | 90,617                        | 92,458                       |
| Current federal income taxes   | 19,287                        | 68,327                       |
| Deferred federal income taxes  | 2,190                         | 195,508                      |
| Other assets   | 153,150                       | 159,254                      |
| Separate account assets  | 683,796                       | 561,021                      |
| <b>Total assets</b>  | <b>\$ 19,771,437</b>          | <b>\$ 18,379,439</b>         |
| <b>LIABILITIES</b>   |                               |                              |
| Policyholder funds   |                               |                              |
| Future policy benefits:  |                               |                              |
| Life   | \$ 2,474,064                  | \$ 2,436,001                 |
| Annuity  | 738,825                       | 664,136                      |
| Accident and health  | 96,604                        | 96,548                       |
| Policy account balances  | 9,248,747                     | 8,295,527                    |
| Policy and contract claims   | 1,294,141                     | 1,401,960                    |
| Participating policyholder share   | 161,540                       | 149,970                      |
| Other policyholder funds   | 954,057                       | 959,134                      |

|   |               |               |
|---|---------------|---------------|
| <b>Total policyholder liabilities</b>   | 14,967,978    | 14,003,276    |
| Liability for Retirement Benefits   | 187,436       | 184,124       |
| Notes payable   | 122,294       | 111,922       |
| Other liabilities   | 363,151       | 376,863       |
| Separate account liabilities  | 683,796       | 561,021       |
| <b>Total liabilities</b>  | 16,324,655    | 15,237,206    |
| <b>STOCKHOLDERS EQUITY</b>  |               |               |
| Common stock, \$1.00 par value, Authorized 50,000,000 Issued 30,832,449,<br>Outstanding 26,820,166 shares | 30,832        | 30,832        |
| Additional paid-in capital  | 11,306        | 7,552         |
| Accumulated other comprehensive income (loss)   | 108,830       | (221,148)     |
| Retained earnings   | 3,384,168     | 3,414,946     |
| Treasury stock, at cost   | (98,505)      | (98,326)      |
| Total American National stockholders equity   | 3,436,631     | 3,133,856     |
| Noncontrolling interest   | 10,151        | 8,377         |
| <b>Total equity</b>   | 3,446,782     | 3,142,233     |
| <b>Total liabilities and equity</b>   | \$ 19,771,437 | \$ 18,379,439 |

*See accompanying notes to consolidated financial statements.*



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**AMERICAN NATIONAL INSURANCE COMPANY**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
(Unaudited and in thousands, except for per share data)

|  |  | Nine Months Ended September<br>30, |              |
|--|--|------------------------------------|--------------|
|  |  | 2009                               | 2008         |
| <b>Common Stock</b>                                  | Balance at beginning and end of the period                           | \$ 30,832                          | \$ 30,832    |
| <b>Additional Paid-In Capital</b>                    | Balance at beginning of the year                                     | 7,552                              | 6,080        |
|  | Net issuance of treasury shares as restricted stock                  | 179                                | (1,139)      |
|  | Tax benefit on excess restricted stock                               | 439                                |              |
|  | Amortization of restricted stock                                     | 3,136                              | 1,854        |
|  | Balance as of September 30,  | \$ 11,306                          | \$ 6,795     |
| <b>Accumulated Other Comprehensive Income (Loss)</b> | Balance at beginning of the year                                     | (221,148)                          | 145,972      |
|  | Change in unrealized gains (losses) on marketable securities, net    | 377,196                            | (212,633)    |
|  | Cumulative adjustment for accounting change                          |                                    |              |
|  | Other-than-temporary impairments on debt securities                  | (50,411)                           |              |
|  | Foreign exchange adjustments   | 539                                | (191)        |
|  | Minimum pension liability adjustment                                 | 2,654                              | (572)        |
|  | Balance as of September 30,  | \$ 108,830                         | \$ (67,424)  |
| <b>Retained Earnings</b>                             | Balance at beginning of the year                                     | 3,414,946                          | 3,653,365    |
|  | Net loss   | (19,350)                           | (88,943)     |
|  | Cash dividends to common stockholders (\$0.77, and \$0.77 per share) | (61,839)                           | (61,962)     |
|  | Cumulative adjustment for accounting change                          |                                    |              |
|  | Other-than-temporary impairments on debt securities                  | 50,411                             |              |
|  | Balance as of September 30,  | \$ 3,384,168                       | \$ 3,502,460 |
| <b>Treasury Stock</b>                                | Balance at beginning of the year                                     | (98,326)                           | (99,465)     |
|  | Net issuance of restricted stock                                     | (179)                              | 1,139        |
|  | Balance as of September 30,  | \$ (98,505)                        | \$ (98,326)  |

|                                |  |              |              |
|--------------------------------|--|--------------|--------------|
| <b>Noncontrolling Interest</b> | Balance at beginning of the year             | 8,377        | 4,539        |
|                                | Contributions                                | 817          | 1,989        |
|                                | Distributions                                | (87)         | (393)        |
|                                | Gain attributable to noncontrolling interest | 1,044        | 2,223        |
|                                | Balance as of September 30,                  | \$ 10,151    | \$ 8,358     |
| <b>Total Equity</b>            | Balance as of September 30,                  | \$ 3,446,782 | \$ 3,382,695 |

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

| (Unaudited and in thousands)  | Nine Months Ended September 30, |                     |
|---|---------------------------------|---------------------|
|   | 2009                            | 2008                |
| Net loss  | \$ (19,350)                     | \$ (88,943)         |
| Other comprehensive income (loss), net of tax   |                                 |                     |
| Change in unrealized gains (losses) on marketable securities, net   | 377,196                         | (212,633)           |
| Foreign exchange adjustments  | 539                             | (191)               |
| Minimum pension liability adjustment  | 2,654                           | (572)               |
| <b>Total other comprehensive income (loss)</b>  | <b>\$ 380,389</b>               | <b>\$ (213,396)</b> |
| <b>Total comprehensive income (loss) attributable to American National Insurance Company and Subsidiaries</b> | <b>\$ 361,039</b>               | <b>\$ (302,339)</b> |

*See accompanying notes to consolidated financial statements.*

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

|  | <b>Nine Months Ended September</b> |             |
|--|------------------------------------|-------------|
|  | <b>30,</b>                         |             |
|  | <b>2009</b>                        | <b>2008</b> |
| <b>OPERATING ACTIVITIES</b>  |                                    |             |
| Net loss   | \$ (19,350)                        | \$ (88,943) |
| Adjustments to reconcile net income/(loss) to net cash provided by operating activities: |                                    |             |
| Realized losses on investments   | 83,144                             | 211,903     |
| Amortization of discounts and premiums on bonds  | 12,010                             | 12,195      |
| Capitalized interest on policy loans and mortgage loans                                  | (20,705)                           | (1,273)     |
| Depreciation   | 26,774                             | 24,274      |
| Interest credited to policy account balances   | 275,554                            | 223,125     |
| Charges to policy account balances   | (129,201)                          | (126,650)   |
| Deferred federal income tax expense  | 18,029                             | 52,336      |
| Deferral of policy acquisition costs   | (351,349)                          | (388,079)   |
| Amortization of deferred policy acquisition costs  | 302,969                            | 317,140     |
| Equity in earnings (losses) of unconsolidated affiliates                                 | (4,627)                            | 9,947       |
| Changes in:  |                                    |             |
| Policyholder funds liabilities   | 10,355                             | 347,794     |
| Reinsurance ceded receivables  | 76,875                             | (101,438)   |
| Premiums due and other receivables   | 25,362                             | (57,970)    |
| Accrued investment income  | (1,073)                            | (4,861)     |
| Current federal income tax liability   | 49,040                             | (23,852)    |
| Liability for retirement benefits  | 3,312                              | 872         |
| Prepaid reinsurance premiums   | 4,893                              | (151,314)   |
| Other, net   | (7,080)                            | (11,308)    |
| Net cash provided by operating activities  | 354,932                            | 243,898     |
| <b>INVESTING ACTIVITIES</b>  |                                    |             |
| Proceeds from sales of:  |                                    |             |
| Bonds available-for-sale   | 33,411                             | 6,132       |
| Common stocks  | 60,908                             | 65,669      |
| Real estate  | 4,837                              | 6,151       |
| Other invested assets  |                                    | 4,288       |
| Proceeds from maturities of:   |                                    |             |
| Bonds available-for-sale   | 218,595                            | 249,227     |
| Bonds held-to-maturity   | 510,477                            | 464,574     |
| Principal payments received on:  |                                    |             |
| Mortgage loans   | 94,670                             | 124,705     |
| Policy loans   | 34,215                             | 6,418       |
| Purchases of investments:  |                                    |             |
| Bonds available-for-sale   | (67,584)                           | (721,590)   |
| Bonds held-to-maturity   | (1,128,081)                        | (642,888)   |

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|  |               |                  |
|--|---------------|------------------|
| Common stocks  | (20,517)      | (197,932)        |
| Real estate  | (80,461)      | (67,701)         |
| Mortgage loans   | (344,470)     | (470,906)        |
| Policy loans   | (22,804)      | (12,172)         |
| Other invested assets  | (10,590)      | (21,941)         |
| Net decrease (increase) in short-term investments                  | (355,312)     | 442,943          |
| Net decrease (increase) in investment in unconsolidated affiliates | 399           | (32,386)         |
| Net increase in property and equipment                             | (10,803)      | (14,017)         |
| Net cash used in investing activities                              | (1,083,110)   | (811,426)        |
| <b>FINANCING ACTIVITIES</b>  |               |                  |
| Policyholders deposits to policy account balances                  | 1,771,406     | 1,563,123        |
| Policyholders withdrawals from policy account balances             | (964,490)     | (1,029,218)      |
| Increase (decrease) in notes payable                               | 10,372        | (7,457)          |
| Dividends to stockholders  | (61,839)      | (61,962)         |
| Net cash provided by financing activities                          | 755,449       | 464,486          |
| <b>NET INCREASE (DECREASE) IN CASH</b>                             | <b>27,271</b> | <b>(103,042)</b> |
| Cash:  |               |                  |
| Beginning of the year  | 66,096        | 134,069          |
| Balance as of September 30,  | \$ 93,367     | \$ 31,027        |

*See accompanying notes to consolidated financial statements.*

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**1. NATURE OF OPERATIONS**

American National Insurance Company and its consolidated subsidiaries (collectively American National ) operate primarily in the insurance industry. Operating on a multiple product line basis, American National offers a broad line of insurance coverage, including individual and group life, health, and annuities; personal lines property and casualty; and credit insurance. In addition, through non-insurance subsidiaries, American National offers mutual funds and invests in 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, independent third-party marketing organizations, home service, credit, and direct sales to the public.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

These consolidated financial statements have been prepared in conformity with (i) U.S. generally accepted accounting principles ( GAAP ) for interim financial information; and (ii) the rules and regulations of the U.S. Securities and Exchange Commission ( SEC ) for Form 10-Q. In addition to GAAP accounting literature, specific SEC regulation is also applied to the financial statements issued by insurance companies.

The consolidated financial statements and notes for the three and nine months ended September 30, 2009 are unaudited. These financial statements reflect all adjustments which are, in the opinion of management, considered necessary for the fair presentation of the financial position, statements of income and cash flows for the interim periods. In preparing the accompanying financial statements, we have evaluated subsequent events following September 30, 2009 through the financial statements filing date of November 6, 2009. These financial statements and notes should be read in conjunction with American National s Annual Consolidated Financial Statements and related notes incorporated within the amended Form 10 Registration Statement filed with the SEC on July 1, 2009.

All significant inter-company accounts and transactions have been eliminated in consolidation. Investments in unconsolidated affiliates are shown at cost plus equity in undistributed earnings since the dates of acquisition.

American National s prior life insurance business in Mexico, which is reported as discontinued operations, did not have a material impact on revenue for the three and nine months ended September 30, 2009.

Certain reclassifications have been made to prior period amounts to conform to the current period presentation.

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

Other-than-temporary impairment of investment securities;

Deferred acquisition costs;

Reserves;

Reinsurance recoverable;

Pension and postretirement benefit plans;

Litigation contingencies; and

Federal income taxes.

As of September 30, 2009, American National s significant accounting policies and practices remain materially unchanged from those disclosed in Note 2 of its 2008 Annual Consolidated Financial Statements incorporated within the amended Form 10 Registration Statement filed with the SEC on July 1, 2009 with the exception of the other-than-temporary impairment ( OTTI ) of debt securities accounting policy.

American National s accounting policy on OTTI of debt securities was significantly modified due to the April 2009 issuance of new accounting guidance. Under the new policy, an OTTI has occurred for a debt security in an unrealized

loss position when American National either (a) has the intent to sell the debt security or (b) it is more likely than not that it will be required to sell the debt security before its anticipated recovery of its amortized costs basis. If either criterion is met, OTTI is recognized in earnings in the amount of the amortized cost basis of the debt security in excess of its fair value, as of the impairment measurement date.

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For all debt securities in unrealized loss positions which American National does not intend to sell and for which it is not more likely than not that it will be required to sell before its anticipated recovery, American National assesses whether the amortized cost basis of the debt security will be recovered by comparing the net present value of cash flows expected to be collected from the debt security with its amortized cost basis. Management estimates cash flows expected to be collected from the debt security using information based on its historical experience as well as using market observable data, such as industry analyst reports and forecasts, sector credit ratings and other data relevant to the collectability of a security. The net present value of cash flows expected to be collected from the debt security is calculated by discounting management's best estimate of cash flows expected to be collected on the debt security at the effective interest rate implicit in the debt security when acquired. If the net present value of the cash flows expected to be collected from the debt security is less than the amortized cost basis of the debt security, an OTTI has occurred in the form of a credit loss. The credit loss is recognized in earnings in the amount of excess amortized cost over the net present value of the cash flows expected to be collected from the debt security. If the fair value of the debt security is in excess of its net present value of the cash flows expected to be collected from the debt security at the impairment measurement date, a non-credit loss exists which is recorded in other comprehensive income (loss) in the amount of the fair value of the debt security in excess of the net present value of the cash flows expected to be collected from the debt security.

After the recognition of an OTTI, the debt security is accounted for as if it had been purchased on the measurement date of the OTTI, with an amortized cost basis equal to its previous amortized cost basis less the related OTTI recognized in earnings. The new amortized cost basis of an impaired security is not adjusted for subsequent increases in estimated fair value. Should there be a significant increase in the estimate of cash flows expected to be collected from a previously impaired debt security, the increase would be accounted for prospectively by accreting it as interest income over the remaining life of the debt security.

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

In June 2009, the FASB issued accounting guidance contained within Accounting Standards Codification (ASC) 105 GAAP (formerly Statement of Financial Accounting Standards (SFAS) No. 168, The FASB ASC and the Hierarchy of GAAP—a replacement of FASB Statement No. 162), (ASC 105). This guidance within ASC 105 establishes the FASB ASC as the source of authoritative accounting principles recognized by the FASB to be applied by non-governmental entities in the preparation of financial statements in conformity with GAAP in the United States, superseding existing FASB, American Institute of Certified Public Accountants (AICPA), Emerging Issues Task Force (EITF), and related accounting literature. This guidance is effective for financial statements issued for interim and annual periods ending after September 15, 2009. This guidance was adopted on September 30, 2009 and did not have an impact on American National's consolidated financial statements, other than changes in references from former accounting standards to ASC references.

**Future Adoption of New Accounting Standards**

In September 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-12, Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent), (ASU 2009-12) which amends ASC Topic 820, Fair Value Measurements and Disclosure (Topic 820). ASU 2009-12 provides additional guidance on using the net asset value per share, provided by an investee, when estimating the fair value of an alternate investment that does not have a readily determinable fair value and enhances the disclosures concerning these investments. Examples of alternate investments, within the scope of ASU 2009-12, include investments in hedge funds and private equity, real estate, and venture capital partnerships. ASU 2009-12 is effective for interim and annual periods ending after December 15, 2009. American National is currently evaluating the impact of adopting ASU 2009-12 on its consolidated financial statements.

In August 2009, the FASB issued ASU No. 2009-05, Measuring Liabilities at Fair Value, (ASU 2009-05) which amends ASC Topic 820. ASU 2009-05 provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following methods: 1) a valuation technique that uses a) the quoted price of the identical liability when traded as an asset or b) quoted prices for similar liabilities or similar liabilities when traded as assets and/or 2) a

valuation technique that is consistent with the principles of Topic 820 (e.g. an income approach or market approach). ASU 2009-05 also clarifies that when estimating the fair value of a liability, a reporting entity is not required to adjust to include inputs relating to the existence of transfer restrictions on that liability. ASU 2009-05 is effective for interim and annual periods beginning after September 30, 2009. American National is currently evaluating the impact of adopting ASU 2009-05 on its consolidated financial statements.



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In June 2009, the FASB issued accounting guidance contained within ASC 810, Consolidations, which pertains to the consolidation of variable interest entities (formerly SFAS No. 167, Amendments to FASB Interpretation No. 46R ), ( ASC 810 ). This guidance within ASC 810 requires an analysis to be performed to determine whether a variable interest gives the entity a controlling financial interest in a variable interest entity. This standard requires an ongoing reassessment and eliminates the quantitative approach previously required for determining whether an entity is the primary beneficiary. This standard is effective for fiscal years beginning after November 15, 2009. Accordingly, American National will adopt this standard in fiscal year 2010 and is currently evaluating the impact of its adoption on its consolidated financial statements.

In June 2009, the FASB issued accounting guidance contained within ASC 860, Transfers and Servicing (formerly SFAS No. 166, Accounting for Transfers of Financial Assets ) ( ASC 860 ). This guidance within ASC 860 requires enhanced disclosure about transfers of financial assets when companies have continuing exposure to the risk related to transferred financial assets. It eliminates the concept of a qualifying special purpose entity and changes the requirements for derecognizing financial assets. This standard is effective for fiscal years beginning after November 15, 2009. Accordingly, American National will adopt this standard in fiscal year 2010 and is currently evaluating the impact of its adoption on its consolidated financial statements.

In December 2008, the FASB issued accounting guidance contained within ASC 715 Pension - Disclosure (formerly FSP FAS No. 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets), ( ASC 715 ). The guidance within ASC 715 aims to enhance the transparency surrounding the types of assets and associated risks in an employer s defined benefit pension or other postretirement plan. This standard requires an employer to disclose information about the valuation of plan assets similar to that required under Topic 820. This standard is effective for fiscal years ending after December 15, 2009. Accordingly, American National will provide the required disclosure in its fiscal year 2009 consolidated financial statements.

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

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

| <b>September 30, 2009</b>   | <b>Amortized<br/>Cost</b> | <b>Gross<br/>Unrealized<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Estimated Fair<br/>Value</b> |
|---|---------------------------|---------------------------------------|--|---------------------------------|
|   |                           | <b>(in thousands)</b>                 |  |                                 |
| Debt securities   |                           |                                       |  |                                 |
| Bonds held-to-maturity:   |                           |                                       |  |                                 |
| U.S. treasury and other U.S. government corporations and agencies | \$ 21,265                 | \$ 248                                | \$                                     | \$ 21,513                       |
| States of the U.S. and political subdivisions of the states       | 236,080                   | 11,304                                | (401)                                  | 246,983                         |
| Foreign governments   | 28,991                    | 3,699                                 |  | 32,690                          |
| Corporate debt securities   | 6,209,663                 | 323,663                               | (119,536)                              | 6,413,790                       |
| Residential mortgage backed securities                            | 704,014                   | 27,592                                | (21,718)                               | 709,888                         |
| Commercial mortgage backed securities                             | 32,867                    |                                       | (24,643)                               | 8,224                           |
| Collateralized debt securities                                    | 9,752                     | 63                                    | (905)                                  | 8,910                           |
| Other debt securities   | 44,774                    | 2,505                                 | (28)                                   | 47,251                          |
| <b>Total bonds held-to-maturity</b>                               | <b>\$ 7,287,406</b>       | <b>\$ 369,074</b>                     | <b>\$ (167,231)</b>                    | <b>\$ 7,489,249</b>             |
| Bonds available-for-sale:   |                           |                                       |  |                                 |
| U.S. treasury and other U.S. government corporations and agencies | 3,444                     | 603                                   |  | 4,047                           |
| States of the U.S. and political subdivisions of the states       | 576,818                   | 30,550                                | (362)                                  | 607,006                         |
| Foreign governments   | 5,000                     | 1,395                                 |  | 6,395                           |
| Corporate debt securities   | 3,166,894                 | 109,863                               | (99,919)                               | 3,176,838                       |
| Residential mortgage backed securities                            | 364,766                   | 9,690                                 | (7,181)                                | 367,275                         |
| Collateralized debt securities                                    | 23,891                    | 1,034                                 | (2,242)                                | 22,683                          |
| Other debt securities   | 4,202                     | 228                                   |  | 4,430                           |
| <b>Total bonds available-for-sale</b>                             | <b>\$ 4,145,015</b>       | <b>\$ 153,363</b>                     | <b>\$ (109,704)</b>                    | <b>\$ 4,188,674</b>             |
| <b>Total debt securities</b>                                      | <b>\$ 11,432,421</b>      | <b>\$ 522,437</b>                     | <b>\$ (276,935)</b>                    | <b>\$ 11,677,923</b>            |
| Marketable equity securities                                      |                           |                                       |  |                                 |
| Common stock:   |                           |                                       |  |                                 |
| Consumer goods  | 147,411                   | 51,225                                | (3,097)                                | 195,539                         |
| Energy and utilities  | 90,664                    | 46,139                                | (2,358)                                | 134,445                         |
| Finance   | 106,662                   | 53,065                                | (797)                                  | 158,930                         |
| Healthcare  | 86,905                    | 27,804                                | (2,404)                                | 112,305                         |
| Industrials   | 60,935                    | 25,651                                | (287)                                  | 86,299                          |

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|   |                      |                   |                     |                      |
|---|----------------------|-------------------|---------------------|----------------------|
| Information technology                    | 109,558              | 39,421            | (874)               | 148,105              |
| Materials                                 | 19,073               | 7,102             | (197)               | 25,978               |
| Telecommunication services                | 34,812               | 6,689             | (947)               | 40,554               |
| Mutual funds                              | 83,692               | 6,065             | (77)                | 89,680               |
| <b>Total common stock</b>                 | <b>\$ 739,712</b>    | <b>\$ 263,161</b> | <b>\$ (11,038)</b>  | <b>\$ 991,835</b>    |
| Preferred stock                           | 30,359               | 5,528             | (5,332)             | 30,555               |
| <b>Total marketable equity securities</b> | <b>\$ 770,071</b>    | <b>\$ 268,689</b> | <b>\$ (16,370)</b>  | <b>\$ 1,022,390</b>  |
| <b>Total investments in securities</b>    | <b>\$ 12,202,492</b> | <b>\$ 791,126</b> | <b>\$ (293,305)</b> | <b>\$ 12,700,313</b> |

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| <b>December 31, 2008</b>  | <b>Amortized<br/>Cost</b> | <b>Gross<br/>Unrealized<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Estimated<br/>Fair<br/>Value</b> |
|---|---------------------------|---------------------------------------|--|-------------------------------------|
|   |                           | <b>(in thousands)</b>                 |  |                                     |
| Debt securities   |                           |                                       |  |                                     |
| Bonds held-to-maturity:   |                           |                                       |  |                                     |
| U.S. treasury and other U.S. government corporations and agencies | \$ 11,484                 | \$ 346                                | \$                                     | \$ 11,830                           |
| States of the U.S. and political subdivisions of the states       | 155,420                   | 4,485                                 | (1,611)                                | 158,294                             |
| Foreign governments   | 28,975                    | 3,481                                 |  | 32,456                              |
| Corporate debt securities   | 5,602,250                 | 48,963                                | (532,544)                              | 5,118,669                           |
| Residential mortgage backed securities                            | 735,025                   | 13,557                                | (39,288)                               | 709,294                             |
| Commercial mortgage backed securities                             | 32,110                    |                                       | (24,368)                               | 7,742                               |
| Collateralized debt securities                                    | 39,768                    | 330                                   | (5,274)                                | 34,824                              |
| Other debt securities   | 76,805                    | 81                                    | (1,292)                                | 75,594                              |
| <b>Total bonds held-to-maturity</b>                               | <b>\$ 6,681,837</b>       | <b>\$ 71,243</b>                      | <b>\$ (604,377)</b>                    | <b>\$ 6,148,703</b>                 |
| Bonds available-for-sale:   |                           |                                       |  |                                     |
| U.S. treasury and other U.S. government corporations and agencies | 3,462                     | 900                                   |  | 4,362                               |
| States of the U.S. and political subdivisions of the states       | 591,405                   | 6,281                                 | (19,477)                               | 578,209                             |
| Foreign governments   | 5,000                     | 2,332                                 |  | 7,332                               |
| Corporate debt securities   | 3,195,355                 | 29,053                                | (441,400)                              | 2,783,008                           |
| Residential mortgage backed securities                            | 427,460                   | 4,355                                 | (14,618)                               | 417,197                             |
| Collateralized debt securities                                    | 25,649                    | 133                                   | (4,710)                                | 21,072                              |
| Other debt securities   | 11,229                    |                                       | (1,572)                                | 9,657                               |
| <b>Total bonds available-for-sale</b>                             | <b>\$ 4,259,560</b>       | <b>\$ 43,054</b>                      | <b>\$ (481,777)</b>                    | <b>\$ 3,820,837</b>                 |
| <b>Total debt securities</b>                                      | <b>\$ 10,941,397</b>      | <b>\$ 114,297</b>                     | <b>\$ (1,086,154)</b>                  | <b>\$ 9,969,540</b>                 |
| Marketable equity securities                                      |                           |                                       |  |                                     |
| Common stock:   |                           |                                       |  |                                     |
| Consumer goods  | 159,068                   | 23,558                                | (15,093)                               | 167,533                             |
| Energy and utilities  | 97,103                    | 25,105                                | (8,889)                                | 113,319                             |
| Finance   | 128,866                   | 17,824                                | (13,048)                               | 133,642                             |
| Healthcare  | 94,807                    | 21,076                                | (6,380)                                | 109,503                             |
| Industrials   | 72,360                    | 10,786                                | (9,618)                                | 73,528                              |
| Information technology  | 111,976                   | 7,910                                 | (15,207)                               | 104,679                             |
| Materials   | 30,725                    | 1,685                                 | (6,886)                                | 25,524                              |
| Telecommunication services  | 39,171                    | 5,359                                 | (3,840)                                | 40,690                              |

|   |               |            |                |               |
|---|---------------|------------|----------------|---------------|
| Mutual funds                              | 86,832        | 2,389      | (4,109)        | 85,112        |
| <b>Total common stock</b>                 | \$ 820,908    | \$ 115,692 | \$ (83,070)    | \$ 853,530    |
| Preferred stock                           | 60,718        | 3,609      | (15,505)       | 48,822        |
| <b>Total marketable equity securities</b> | \$ 881,626    | \$ 119,301 | \$ (98,575)    | \$ 902,352    |
| <b>Total investments in securities</b>    | \$ 11,823,023 | \$ 233,598 | \$ (1,184,729) | \$ 10,871,892 |

The net unrealized losses were primarily related to corporate bonds concentrated within the financial services sector. These net unrealized losses were primarily company specific and due to current credit market conditions.

**Table of Contents****Debt Securities**

The amortized cost and estimated fair value, by contractual maturity, of debt securities at September 30, 2009, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

|  | <b>Bonds Held-to-Maturity</b> |                             | <b>Bonds Available-for-Sale</b> |                             |
|--|-------------------------------|-----------------------------|---------------------------------|-----------------------------|
|  | <b>Amortized Cost</b>         | <b>Estimated Fair Value</b> | <b>Amortized Cost</b>           | <b>Estimated Fair Value</b> |
|  | (in thousands)                |                             |                                 |                             |
| Due in one year or less                | \$ 133,071                    | \$ 133,236                  | \$ 134,379                      | \$ 135,270                  |
| Due after one year through five years  | 3,344,401                     | 3,459,035                   | 1,871,955                       | 1,886,901                   |
| Due after five years through ten years | 3,077,303                     | 3,156,312                   | 1,514,999                       | 1,531,206                   |
| Due after ten years                    | 726,780                       | 736,040                     | 613,406                         | 627,008                     |
|  | \$ 7,281,555                  | \$ 7,484,623                | \$ 4,134,739                    | \$ 4,180,385                |
| Without single maturity date           | 5,851                         | 4,626                       | 10,276                          | 8,289                       |
| <b>Total</b>                           | \$ 7,287,406                  | \$ 7,489,249                | \$ 4,145,015                    | \$ 4,188,674                |

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

For the nine months ended September 30, 2008, securities with an amortized cost of \$91,418,000 were transferred from held-to-maturity to available-for-sale due to evidence of a significant deterioration in the issuers creditworthiness. An unrealized loss of \$67,383,000 was established at the time of transfer.

**Derivative Instruments**

American National purchases derivative contracts that serve as economic hedges against fluctuations in the equity markets to which equity indexed annuity products are exposed. Equity indexed annuities include a fixed host annuity contract and an embedded equity derivative. These derivative instruments are not accounted for as hedging under accounting rules. The following table details the gain or loss on derivatives related to equity indexed annuities:

|   | Location of Gain (Loss) Recognized in Income on Derivatives | <b>Amount of Gain (Loss) Recognized in Income on Derivatives</b> |             |  |             |
|---|---|--|-------------|--|-------------|
|   |   | <b>Three Months Ended September 30,</b>                          |             | <b>Nine Months Ended September 30,</b> |             |
|   |   | <b>2009</b>  | <b>2008</b> | <b>2009</b>                            | <b>2008</b> |
| Derivatives Not Designated as Hedging Instruments |   | (in thousands)   |             |  |             |
| Equity index options                              | Investment income   | \$ 6,103   | \$ (4,005)  | \$ 4,002                               | \$ (16,741) |

|  |                                    |            |          |            |           |
|--|------------------------------------|------------|----------|------------|-----------|
| Equity index annuity embedded derivative | Interest credited to policyholders | \$ (5,970) | \$ 2,624 | \$ (6,708) | \$ 16,942 |
|--|------------------------------------|------------|----------|------------|-----------|

**Table of Contents****Unrealized Gains and Losses on Securities**

Unrealized gains (losses) on marketable equity securities and bonds available-for-sale, reported in accumulated other comprehensive income (loss), are net of deferred tax liabilities of \$97,521,000 and deferred tax assets of \$16,538,000 for the periods ended September 30, 2009 and 2008 respectively.

The change in the net unrealized gains (losses) on securities for the nine months ended September 30, 2009 and 2008 are summarized as follows:

|   | <b>2009</b>           | <b>2008</b>         |
|---|-----------------------|---------------------|
|   | <b>(in thousands)</b> |                     |
| Bonds available-for-sale  | \$ 482,382            | \$ (244,446)        |
| Preferred stocks  | 12,092                | (8,141)             |
| Common stocks   | 219,501               | (178,680)           |
| Amortization of deferred policy acquisition costs   | (193,892)             | 94,476              |
|   | 520,083               | (336,791)           |
| Provision (benefit) for federal income taxes  | 181,497               | (117,789)           |
|   | \$ 338,586            | \$ (219,002)        |
| Change in unrealized gains (losses) of investments attributable to participating policyholders interest | (11,801)              | 6,369               |
| One time adjustment for the Recognition and Presentation of Other-Than-Temporary Impairments            | 50,411                |                     |
| <b>Total</b>  | <b>\$ 377,196</b>     | <b>\$ (212,633)</b> |



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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, as of September 30, 2009 and December 31, 2008, are summarized as follows:

| <b>September 30, 2009</b>                                   | <b>Less than 12 months</b> |                   | <b>12 Months or more</b> |                     | <b>Total</b>             |                     |
|---|----------------------------|-------------------|--------------------------|---------------------|--------------------------|---------------------|
|   | <b>Unrealized Losses</b>   | <b>Fair Value</b> | <b>Unrealized Losses</b> | <b>Fair Value</b>   | <b>Unrealized Losses</b> | <b>Fair Value</b>   |
|   |                            |                   | <b>(in thousands)</b>    |                     |                          |                     |
| Debt securities   |                            |                   |                          |                     |                          |                     |
| Bonds held-to-maturity:                                     |                            |                   |                          |                     |                          |                     |
| States of the U.S. and political subdivisions of the states | \$ 32                      | \$ 4,689          | \$ 369                   | \$ 5,960            | \$ 401                   | \$ 10,649           |
| Corporate debt securities                                   | 2,979                      | 174,016           | 116,557                  | 1,095,713           | 119,536                  | 1,269,729           |
| Residential mortgage backed securities                      | 350                        | 22,132            | 21,368                   | 185,732             | 21,718                   | 207,864             |
| Commercial mortgage backed securities                       |                            |                   | 24,643                   | 8,223               | 24,643                   | 8,223               |
| Collateralized debt securities                              | 905                        | 5,289             |                          |                     | 905                      | 5,289               |
| Other debt securities                                       | 28                         | 3,432             |                          |                     | 28                       | 3,432               |
| <b>Total bonds held-to-maturity</b>                         | <b>\$ 4,294</b>            | <b>\$ 209,558</b> | <b>\$ 162,937</b>        | <b>\$ 1,295,628</b> | <b>\$ 167,231</b>        | <b>\$ 1,505,186</b> |
| Bonds available-for-sale:                                   |                            |                   |                          |                     |                          |                     |
| States of the U.S. and political subdivisions of the states | 5                          | 2,624             | 357                      | 27,895              | 362                      | 30,519              |
| Corporate debt securities                                   | 14,444                     | 170,558           | 85,475                   | 729,580             | 99,919                   | 900,138             |
| Residential mortgage backed securities                      | 1,717                      | 29,393            | 5,464                    | 37,414              | 7,181                    | 66,807              |
| Collateralized debt securities                              | 388                        | 2,550             | 1,854                    | 7,882               | 2,242                    | 10,432              |
| <b>Total bonds available-for-sale</b>                       | <b>\$ 16,554</b>           | <b>\$ 205,125</b> | <b>\$ 93,150</b>         | <b>\$ 802,771</b>   | <b>\$ 109,704</b>        | <b>\$ 1,007,896</b> |
| <b>Total debt securities</b>                                | <b>\$ 20,848</b>           | <b>\$ 414,683</b> | <b>\$ 256,087</b>        | <b>\$ 2,098,399</b> | <b>\$ 276,935</b>        | <b>\$ 2,513,082</b> |
| Marketable equity securities                                |                            |                   |                          |                     |                          |                     |
| Common stock:   |                            |                   |                          |                     |                          |                     |
| Consumer goods  | 920                        | 10,899            | 2,177                    | 18,545              | 3,097                    | 29,444              |
| Energy and utilities  | 1,252                      | 10,117            | 1,106                    | 7,088               | 2,358                    | 17,205              |
| Finance   | 722                        | 15,178            | 75                       | 923                 | 797                      | 16,101              |
| Healthcare  | 1,303                      | 20,480            | 1,101                    | 6,274               | 2,404                    | 26,754              |
| Industrials   | 26                         | 778               | 261                      | 6,882               | 287                      | 7,660               |
| Information technology                                      | 822                        | 8,886             | 52                       | 3,516               | 874                      | 12,402              |
| Materials   | 159                        | 3,495             | 38                       | 580                 | 197                      | 4,075               |
| Telecommunications services                                 | 600                        | 4,858             | 347                      | 3,883               | 947                      | 8,741               |
| Mutual funds  | 64                         | 2,909             | 13                       | 271                 | 77                       | 3,180               |

|   |           |            |            |              |            |              |
|---|-----------|------------|------------|--------------|------------|--------------|
| <b>Total common stock</b>                 | \$ 5,868  | \$ 77,600  | \$ 5,170   | \$ 47,962    | \$ 11,038  | \$ 125,562   |
| Preferred stock                           | 217       | 4,948      | 5,115      | 14,985       | 5,332      | 19,933       |
| <b>Total marketable equity securities</b> | \$ 6,085  | \$ 82,548  | \$ 10,285  | \$ 62,947    | \$ 16,370  | \$ 145,495   |
| <b>Total investments in securities</b>    | \$ 26,933 | \$ 497,231 | \$ 266,372 | \$ 2,161,346 | \$ 293,305 | \$ 2,658,577 |

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| December 31, 2008   | Less than 12 months  |                     | 12 Months or more    |                     | Total                |                     |
|---|----------------------|---------------------|----------------------|---------------------|----------------------|---------------------|
|   | Unrealized<br>Losses | Fair<br>Value       | Unrealized<br>Losses | Fair<br>Value       | Unrealized<br>Losses | Fair<br>Value       |
| (in thousands)  |                      |                     |                      |                     |                      |                     |
| Debt securities   |                      |                     |                      |                     |                      |                     |
| Bonds held-to-maturity:                                     |                      |                     |                      |                     |                      |                     |
| States of the U.S. and political subdivisions of the states |                      |                     |                      |                     |                      |                     |
|   | \$ 1,571             | \$ 21,104           | \$ 40                | \$ 383              | \$ 1,611             | \$ 21,487           |
| Corporate debt securities                                   | 280,110              | 2,685,787           | 252,434              | 928,186             | 532,544              | 3,613,973           |
| Residential mortgage backed securities                      | 31,471               | 186,404             | 7,817                | 50,425              | 39,288               | 236,829             |
| Commercial mortgage backed securities                       | 24,368               | 7,742               |                      |                     | 24,368               | 7,742               |
| Collateralized debt securities                              | 613                  | 4,785               | 4,661                | 23,844              | 5,274                | 28,629              |
| Other debt securities                                       | 1,292                | 9,566               |                      |                     | 1,292                | 9,566               |
| <b>Total bonds held-to-maturity</b>                         | <b>\$ 339,425</b>    | <b>\$ 2,915,388</b> | <b>\$ 264,952</b>    | <b>\$ 1,002,838</b> | <b>\$ 604,377</b>    | <b>\$ 3,918,226</b> |
| Bonds available-for-sale:                                   |                      |                     |                      |                     |                      |                     |
| States of the U.S. and political subdivisions of the states |                      |                     |                      |                     |                      |                     |
|   | 15,383               | 274,191             | 4,094                | 35,295              | 19,477               | 309,486             |
| Corporate debt securities                                   | 247,590              | 1,683,287           | 193,810              | 643,327             | 441,400              | 2,326,614           |
| Residential mortgage backed securities                      | 8,067                | 102,382             | 6,551                | 51,327              | 14,618               | 153,709             |
| Collateralized debt securities                              | 1,822                | 10,295              | 2,888                | 8,529               | 4,710                | 18,824              |
| Other debt securities                                       | 1,572                | 9,657               |                      |                     | 1,572                | 9,657               |
| <b>Total bonds available-for-sale</b>                       | <b>\$ 274,434</b>    | <b>\$ 2,079,812</b> | <b>\$ 207,343</b>    | <b>\$ 738,478</b>   | <b>\$ 481,777</b>    | <b>\$ 2,818,290</b> |
| <b>Total debt securities</b>                                | <b>\$ 613,859</b>    | <b>\$ 4,995,200</b> | <b>\$ 472,295</b>    | <b>\$ 1,741,316</b> | <b>\$ 1,086,154</b>  | <b>\$ 6,736,516</b> |
| Marketable equity securities                                |                      |                     |                      |                     |                      |                     |
| Common stock:   |                      |                     |                      |                     |                      |                     |
| Consumer goods  | 13,717               | 66,398              | 1,376                | 5,014               | 15,093               | 71,412              |
| Energy and utilities  | 8,203                | 24,909              | 686                  | 2,818               | 8,889                | 27,727              |
| Finance   | 12,729               | 49,150              | 319                  | 1,190               | 13,048               | 50,340              |
| Healthcare  | 5,177                | 29,429              | 1,203                | 5,826               | 6,380                | 35,255              |
| Industrials   | 9,496                | 23,880              | 122                  | 593                 | 9,618                | 24,473              |
| Information technology                                      | 13,859               | 57,237              | 1,348                | 2,583               | 15,207               | 59,820              |
| Materials   | 6,665                | 15,164              | 221                  | 456                 | 6,886                | 15,620              |
|   | 3,838                | 16,570              | 2                    | 7                   | 3,840                | 16,577              |

|   |                   |                     |                   |                     |                     |                     |
|---|-------------------|---------------------|-------------------|---------------------|---------------------|---------------------|
| Telecommunications services               |                   |                     |                   |                     |                     |                     |
| Mutual funds                              | 4,107             | 16,775              | 2                 | 6                   | 4,109               | 16,781              |
| <b>Total common stock</b>                 | <b>\$ 77,791</b>  | <b>\$ 299,512</b>   | <b>\$ 5,279</b>   | <b>\$ 18,493</b>    | <b>\$ 83,070</b>    | <b>\$ 318,005</b>   |
| Preferred stock                           | 1,238             | 7,853               | 14,267            | 31,835              | 15,505              | 39,688              |
| <b>Total marketable equity securities</b> | <b>\$ 79,029</b>  | <b>\$ 307,365</b>   | <b>\$ 19,546</b>  | <b>\$ 50,328</b>    | <b>\$ 98,575</b>    | <b>\$ 357,693</b>   |
| <b>Total investments in securities</b>    | <b>\$ 692,888</b> | <b>\$ 5,302,565</b> | <b>\$ 491,841</b> | <b>\$ 1,791,644</b> | <b>\$ 1,184,729</b> | <b>\$ 7,094,209</b> |

For all investment securities in an unrealized loss position, including those securities in an unrealized loss position for 12 months or more, American National performs quarterly analyses to determine if an-other-than temporary impairment loss should be recorded for any securities. As of September 30, 2009, the securities above did not meet management's criteria for other-than temporary impairment. At September 30, 2009, the unrealized losses were primarily the result of the deterioration in credit spreads as well as the continuance of an illiquid market. There were no delinquent coupon payments related to the bonds for which we did not record an other-than-temporary impairment as of September 30, 2009. Even though the duration of the unrealized losses on the securities exceeds one year, American National maintains the intent and ability to hold the securities until either their maturity or their value recovers.

**Table of Contents****Investment Income and Realized Gains (Losses)**

Investment income and realized gains (losses) on investments, before federal income taxes, for the three and nine months ended September 30, 2009 and 2008 are summarized as follows:

|   | <b>Investment Income</b>                |                   | <b>Realized Gains/(Losses)</b>          |                 | <b>Investment Income</b>               |                   | <b>Realized Gains/(Losses)</b>         |                  |
|---|---|-------------------|---|-----------------|--|-------------------|--|------------------|
|   | <b>Three Months Ended September 30,</b> |                   | <b>Three Months Ended September 30,</b> |                 | <b>Nine Months Ended September 30,</b> |                   | <b>Nine Months Ended September 30,</b> |                  |
|   | <b>2009</b>                             | <b>2008</b>       | <b>2009</b>                             | <b>2008</b>     | <b>2009</b>                            | <b>2008</b>       | <b>2009</b>                            | <b>2008</b>      |
|   | <b>(in thousands)</b>                   |                   |   |                 |  |                   |  |                  |
| Bonds                                       | \$ 160,559                              | \$ 156,446        | \$ 2,094                                | \$ 46,267       | \$ 468,289                             | \$ 465,837        | \$ (1,309)                             | \$ 49,692        |
| Preferred stocks                            | 547                                     | 1,596             |   | (47,144)        | 2,613                                  | 4,547             | (1,620)                                | (46,590)         |
| Common stocks                               | 5,494                                   | 6,819             | 469                                     | 8,898           | 18,195                                 | 22,075            | (349)                                  | 22,481           |
| Mortgage loans                              | 36,303                                  | 32,475            |   |                 | 102,612                                | 86,365            |  |                  |
| Real estate                                 | 35,929                                  | 33,821            | 1,523                                   |                 | 97,994                                 | 89,240            | 1,523                                  | 1,739            |
| Other invested assets                       | 14,597                                  | 4,930             | (7)                                     | (4,083)         | 29,581                                 | 22,013            | 280                                    | (4,083)          |
|   | 253,429                                 | 236,087           | 4,079                                   | 3,938           | 719,284                                | 690,077           | (1,475)                                | 23,239           |
| Investment expenses                         | (31,163)                                | (26,818)          |   |                 | (89,158)                               | (77,352)          |  |                  |
| Decrease (increase) in valuation allowances |   |                   | (827)                                   | (695)           |  |                   | (3,334)                                | (2,865)          |
| <b>Total</b>                                | <b>\$ 222,266</b>                       | <b>\$ 209,269</b> | <b>\$ 3,252</b>                         | <b>\$ 3,243</b> | <b>\$ 630,126</b>                      | <b>\$ 612,725</b> | <b>\$ (4,809)</b>                      | <b>\$ 20,374</b> |

**Other-Than-Temporary Impairment**

The following tables summarize other-than-temporary impairments ( OTTI ) for the periods indicated:

|                | <b>Three Months Ended September 30,</b> |                     | <b>Nine Months Ended September 30,</b> |                     |
|----------------|---|---------------------|--|---------------------|
|                | <b>2009</b>                             | <b>2008</b>         | <b>2009</b>                            | <b>2008</b>         |
|                | <b>(in thousands)</b>                   |                     |  |                     |
| Bonds          | \$ (4,148)                              | \$ (146,930)        | \$ (10,046)                            | \$ (163,919)        |
| Common stocks  | (39)                                    | (58,298)            | (67,789)                               | (68,358)            |
| Mortgage loans |   |                     | (500)                                  |                     |
| <b>Total</b>   | <b>\$ (4,187)</b>                       | <b>\$ (205,228)</b> | <b>\$ (78,335)</b>                     | <b>\$ (232,277)</b> |

As discussed in Note 2, certain OTTI losses on bonds are bifurcated into two components: credit losses and non-credit losses. The net amount recognized in earnings ( credit loss impairments ) represents the difference between the amortized cost of the bond and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the bond prior to impairment. Any remaining difference between the bond's fair value and

amortized cost ( non-credit loss impairments ) is recognized in other comprehensive income.

All OTTI's recognized on bonds were entirely comprised of credit losses; therefore, during the three months ended September 30, 2009, no non-credit loss was recognized in other comprehensive income.

**5. CREDIT RISK MANAGEMENT**

American National employs a strategy to invest funds at the highest return possible commensurate with sound and prudent investing practices to ensure a well-diversified investment portfolio.

**Table of Contents****Bonds**

Management believes American National's bond portfolio is diversified and of investment grade. The bond portfolio distributed by quality rating at September 30, 2009 and December 31, 2008 is summarized as follows:

|               | <b>September<br/>30,<br/>2009</b> | <b>December<br/>31,<br/>2008</b> |
|---------------|-----------------------------------|----------------------------------|
| AAA           | 12%                               | 17%                              |
| AA+           | 2%                                | 1%                               |
| AA            | 2%                                | 6%                               |
| AA-           | 4%                                | 4%                               |
| A+            | 8%                                | 11%                              |
| A             | 14%                               | 16%                              |
| A-            | 13%                               | 13%                              |
| BBB+          | 14%                               | 11%                              |
| BBB           | 17%                               | 12%                              |
| BBB-          | 7%                                | 4%                               |
| BB+ and below | 7%                                | 5%                               |
| <b>Total</b>  | <b>100%</b>                       | <b>100%</b>                      |

**Common Stock**

American National's stock portfolio by market sector distribution at September 30, 2009 and December 31, 2008 is summarized as follows:

|                        | <b>September<br/>30,<br/>2009</b> | <b>December<br/>31,<br/>2008</b> |
|------------------------|-----------------------------------|----------------------------------|
| Consumer goods         | 20%                               | 20%                              |
| Financials             | 16%                               | 16%                              |
| Energy and utilities   | 13%                               | 13%                              |
| Information technology | 15%                               | 13%                              |
| Healthcare             | 11%                               | 13%                              |
| Mutual funds           | 9%                                | 10%                              |
| Industrials            | 9%                                | 8%                               |
| Communications         | 4%                                | 5%                               |
| Materials              | 3%                                | 2%                               |
| <b>Total</b>           | <b>100%</b>                       | <b>100%</b>                      |

**Mortgage Loans and Investment Real Estate**

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

Mortgage loans and investment real estate by property type distribution at September 30, 2009 and December 31, 2008 are summarized as follows:

| <b>Mortgage Loans</b>    |                         | <b>Investment Real Estate</b> |                         |
|--------------------------|-------------------------|-------------------------------|-------------------------|
| <b>September<br/>30,</b> | <b>December<br/>31,</b> | <b>September<br/>30,</b>      | <b>December<br/>31,</b> |

|                   | <b>2009</b> | <b>2008</b> | <b>2009</b> | <b>2008</b> |
|-------------------|-------------|-------------|-------------|-------------|
| Office buildings  | 32%         | 30%         | 17%         | 18%         |
| Industrial        | 27%         | 25%         | 40%         | 45%         |
| Shopping centers  | 18%         | 21%         | 24%         | 23%         |
| Hotels and motels | 16%         | 17%         | 2%          | 2%          |
| Other             | 4%          | 4%          | 15%         | 11%         |
| Commercial        | 3%          | 3%          | 2%          | 1%          |
| <b>Total</b>      | 100%        | 100%        | 100%        | 100%        |



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American National has a diversified portfolio of mortgage loans and real estate properties. Mortgage loans and real estate investments by geographic distribution at September 30, 2009 and December 31, 2008 are as follows:

|                    | Mortgage Loans           |                         | Investment Real Estate   |                         |
|--------------------|--------------------------|-------------------------|--------------------------|-------------------------|
|                    | September<br>30,<br>2009 | December<br>31,<br>2008 | September<br>30,<br>2009 | December<br>31,<br>2008 |
| West South Central | 23%                      | 22%                     | 62%                      | 64%                     |
| East North Central | 19%                      | 22%                     | 9%                       | 6%                      |
| South Atlantic     | 20%                      | 17%                     | 16%                      | 16%                     |
| Pacific            | 11%                      | 13%                     | 3%                       | 2%                      |
| Middle Atlantic    | 8%                       | 10%                     |                          |                         |
| Mountain           | 5%                       | 5%                      |                          | 1%                      |
| New England        | 4%                       | 5%                      |                          |                         |
| East South Central | 6%                       | 4%                      | 9%                       | 10%                     |
| West North Central | 4%                       | 2%                      | 1%                       | 1%                      |
| <b>Total</b>       | 100%                     | 100%                    | 100%                     | 100%                    |

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

The carrying amounts and estimated fair values of financial instruments at September 30, 2009 and December 31, 2008 are as follows:

|   | <b>September 30, 2009</b>  |                                 | <b>December 31, 2008</b>   |                                 |
|---|----------------------------|---------------------------------|----------------------------|---------------------------------|
|   | <b>Carrying<br/>Amount</b> | <b>Estimated<br/>Fair Value</b> | <b>Carrying<br/>Amount</b> | <b>Estimated<br/>Fair Value</b> |
|   | <b>(in thousands)</b>      |                                 |                            |                                 |
| Financial assets:   |                            |                                 |                            |                                 |
| Fixed maturities  |                            |                                 |                            |                                 |
| Held-to-maturity:   |                            |                                 |                            |                                 |
| U.S. treasury and other U.S. government corporations and agencies | \$ 21,265                  | \$ 21,513                       | \$ 11,484                  | \$ 11,830                       |
| States of the U.S. and political subdivisions of the states       | 236,080                    | 246,983                         | 155,420                    | 158,294                         |
| Foreign governments   | 28,991                     | 32,690                          | 28,975                     | 32,456                          |
| Corporate debt securities   | 6,209,663                  | 6,413,790                       | 5,602,250                  | 5,118,669                       |
| Residential mortgage backed securities                            | 704,014                    | 709,888                         | 735,025                    | 709,294                         |
| Commercial mortgage backed securities                             | 32,867                     | 8,224                           | 32,110                     | 7,742                           |
| Collateralized debt securities                                    | 9,752                      | 8,910                           | 39,768                     | 34,824                          |
| Other debt securities   | 44,774                     | 47,251                          | 76,805                     | 75,594                          |
| <b>Total fixed maturities, held-to-maturity</b>                   | <b>\$ 7,287,406</b>        | <b>\$ 7,489,249</b>             | <b>\$ 6,681,837</b>        | <b>\$ 6,148,703</b>             |
| Available-for-sale:   |                            |                                 |                            |                                 |
| U.S. treasury and other U.S. government corporations and agencies | 4,047                      | 4,047                           | 4,362                      | 4,362                           |
| States of the U.S. and political subdivisions of the states       | 607,006                    | 607,006                         | 578,209                    | 578,209                         |
| Foreign governments   | 6,395                      | 6,395                           | 7,332                      | 7,332                           |
| Corporate debt securities   | 3,176,838                  | 3,176,838                       | 2,783,008                  | 2,783,008                       |
| Residential mortgage backed securities                            | 367,275                    | 367,275                         | 417,197                    | 417,197                         |
| Collateralized debt securities                                    | 22,683                     | 22,683                          | 21,072                     | 21,072                          |
| Other debt securities   | 4,430                      | 4,430                           | 9,657                      | 9,657                           |
| <b>Total fixed maturities, available-for-sale</b>                 | <b>\$ 4,188,674</b>        | <b>\$ 4,188,674</b>             | <b>\$ 3,820,837</b>        | <b>\$ 3,820,837</b>             |
| <b>Total fixed maturities</b>                                     | <b>\$ 11,476,080</b>       | <b>\$ 11,677,923</b>            | <b>\$ 10,502,674</b>       | <b>\$ 9,969,540</b>             |
| Marketable equity securities                                      |                            |                                 |                            |                                 |
| Common stock:   |                            |                                 |                            |                                 |
| Consumer goods  | 195,539                    | 195,539                         | 167,533                    | 167,533                         |
| Energy and utilities  | 134,445                    | 134,445                         | 113,319                    | 113,319                         |
| Finance   | 158,930                    | 158,930                         | 133,642                    | 133,642                         |
| Healthcare  | 112,305                    | 112,305                         | 109,503                    | 109,503                         |
| Industrials   | 86,299                     | 86,299                          | 73,528                     | 73,528                          |
| Information technology  | 148,105                    | 148,105                         | 104,679                    | 104,679                         |
| Materials   | 25,978                     | 25,978                          | 25,524                     | 25,524                          |
| Mutual funds  | 89,680                     | 89,680                          | 85,112                     | 85,112                          |

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|  |                      |                      |                      |                      |
|--|----------------------|----------------------|----------------------|----------------------|
| Telecommunication services                                     | 40,554               | 40,554               | 40,690               | 40,690               |
| Preferred stock  | 30,555               | 30,555               | 48,822               | 48,822               |
| <b>Total marketable equity securities</b>                      | <b>\$ 1,022,390</b>  | <b>\$ 1,022,390</b>  | <b>\$ 902,352</b>    | <b>\$ 902,352</b>    |
| Options  | 20,437               | 20,437               | 6,157                | 6,157                |
| Mortgage loans on real estate                                  | 2,096,286            | 2,076,607            | 1,877,053            | 1,891,895            |
| Policy loans   | 360,596              | 360,596              | 354,398              | 354,398              |
| Short-term investments   | 650,482              | 650,482              | 295,170              | 295,170              |
| <b>Total financial assets</b>                                  | <b>\$ 15,626,271</b> | <b>\$ 15,808,435</b> | <b>\$ 13,937,804</b> | <b>\$ 13,419,512</b> |
| Financial liabilities:   |                      |                      |                      |                      |
| Investment contracts   | 7,557,144            | 7,557,144            | 6,626,561            | 6,626,561            |
| Liability for embedded derivatives of equity indexed annuities | 18,513               | 18,513               | 6,208                | 6,208                |
| Notes payable  | 122,294              | 122,294              | 111,922              | 111,922              |
| <b>Total financial liabilities</b>                             | <b>\$ 7,697,951</b>  | <b>\$ 7,697,951</b>  | <b>\$ 6,744,691</b>  | <b>\$ 6,744,691</b>  |

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.

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Level 2 Quoted prices in markets that are not active or inputs that are observable either 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 analyzed the third-party pricing services valuation methodologies and related inputs, and has also evaluated the various types of securities in its investment portfolio to determine an appropriate fair value hierarchy level based upon trading activity and the observability of market inputs. Based on the results of this evaluation and investment class analysis, each price was classified into Level 1, 2, or 3.

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

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

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

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

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

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

For public common and preferred stocks, American National receives prices from a nationally recognized pricing service that are based on observable market transactions and these securities are disclosed in Level 1. For certain

preferred stock held, current market quotes in active markets are unavailable. In these instances, American National receives an estimate of fair value from the pricing service that provides fair value estimates for the fixed maturity securities. The service utilizes some of the same methodologies to price the preferred stocks as it does for the fixed maturities. These estimates for equity securities are disclosed in Level 2.

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

The following tables provide quantitative disclosures regarding fair value hierarchy measurements of our financial assets and liabilities at September 30, 2009 and December 31, 2008:

|   | Fair Value<br>at<br>September<br>30,<br>2009 | Fair Value Measurement at September 30, 2009<br>Using:   |   |  |
|---|--|--|---|--|
|   |  | Quoted<br>Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1)<br><br>(in thousands) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Financial assets:   |  |  |   |  |
| Fixed maturities  |  |  |   |  |
| Held-to-maturity:   |  |  |   |  |
| U.S. treasury and other U.S. government corporations and agencies | \$ 21,513                                    | \$   | \$ 21,513   | \$   |
| States of the U.S. and political subdivisions of the states       | 246,983                                      |  | 246,983   |  |
| Foreign governments   | 32,690                                       |  | 32,690  |  |
| Corporate debt securities   | 6,413,790                                    |  | 6,405,013   | 8,777  |
| Residential mortgage backed securities                            | 709,888                                      |  | 706,487   | 3,401  |
| Commercial mortgage backed securities                             | 8,224  |  | 8,224   |  |
| Collateralized debt securities                                    | 8,910  |  | 744   | 8,166  |
| Other debt securities   | 47,251                                       |  | 47,251  |  |
| <b>Total fixed maturities, held-to-maturity</b>                   | <b>\$ 7,489,249</b>                          | <b>\$</b>  | <b>\$ 7,468,905</b>                                       | <b>\$ 20,344</b>                                   |
| Available-for-sale:   |  |  |   |  |
| U.S. treasury and other U.S. government corporations and agencies | 4,047  |  | 4,047   |  |
| States of the U.S. and political subdivisions of the states       | 607,006                                      |  | 607,006   |  |
| Foreign governments   | 6,395  |  | 6,395   |  |
| Corporate debt securities   | 3,176,838                                    |  | 3,159,410   | 17,428   |
| Residential mortgage backed securities                            | 367,275                                      |  | 367,258   | 17   |
| Commercial mortgage backed securities                             |  |  |   |  |
| Collateralized debt securities                                    | 22,683                                       |  | 20,973  | 1,710  |
| Other debt securities   | 4,430  |  | 4,430   |  |
| <b>Total fixed maturities, available-for-sale</b>                 | <b>\$ 4,188,674</b>                          | <b>\$</b>  | <b>\$ 4,169,519</b>                                       | <b>\$ 19,155</b>                                   |

|  |               |              |               |           |
|--|---------------|--------------|---------------|-----------|
| <b>Total fixed maturities</b>                                  | \$ 11,677,923 | \$           | \$ 11,638,424 | \$ 39,499 |
| Marketable equity securities                                   |               |              |               |           |
| Common stock:  |               |              |               |           |
| Consumer goods   | 195,539       |              | 195,539       |           |
| Energy and utilities   | 134,445       |              | 134,445       |           |
| Finance  | 158,930       |              | 158,930       |           |
| Healthcare   | 112,305       |              | 112,305       |           |
| Industrials  | 86,299        |              | 86,299        |           |
| Information technology   | 148,105       |              | 148,105       |           |
| Materials  | 25,978        |              | 25,978        |           |
| Mutual funds   | 89,680        |              | 89,680        |           |
| Telecommunication services                                     | 40,554        |              | 40,554        |           |
| Preferred stock  | 30,555        |              | 29,589        | 966       |
| <b>Total marketable equity securities</b>                      | \$ 1,022,390  | \$ 1,021,424 | \$            | \$ 966    |
| Options  | 20,437        |              |               | 20,437    |
| Mortgage loans on real estate                                  | 2,076,607     |              | 2,076,607     |           |
| Short-term investments   | 650,482       |              | 650,482       |           |
| <b>Total financial assets</b>                                  | \$ 15,447,839 | \$ 1,021,424 | \$ 14,365,513 | \$ 60,902 |
| Financial liabilities:   |               |              |               |           |
| Liability for embedded derivatives of equity indexed annuities | 18,513        |              |               | 18,513    |
| <b>Total financial liabilities</b>                             | \$ 18,513     | \$           | \$            | \$ 18,513 |

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|   | <b>Fair Value Measurement at December 31, 2008</b>     |   |   |  |
|---|--|---|---|--|
|   | <b>Fair Value<br/>at<br/>December<br/>31,<br/>2008</b> | <b>Quoted<br/>Prices<br/>in Active<br/>Markets for<br/>Identical<br/>Assets<br/>(Level 1)</b> | <b>Using:<br/>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> |
|   | (in thousands)   |   |   |  |
| Financial assets:   |  |   |   |  |
| Fixed maturities  |  |   |   |  |
| Held-to-maturity:   |  |   |   |  |
| U.S. treasury and other U.S. government corporations and agencies | \$ 11,830  | \$  | \$ 11,830   | \$   |
| States of the U.S. and political subdivisions of the states       | 158,294  |   | 158,294   |  |
| Foreign governments   | 32,456   |   | 32,456  |  |
| Corporate debt securities   | 5,118,669  |   | 5,111,068   | 7,601  |
| Residential mortgage backed securities                            | 709,294  |   | 705,491   | 3,803  |
| Commercial mortgage backed securities                             | 7,742  |   | 7,742   |  |
| Collateralized debt securities                                    | 34,824   |   | 26,117  | 8,707  |
| Other debt securities   | 75,594   |   | 75,584  | 10   |
| <b>Total fixed maturities, held-to-maturity</b>                   | <b>\$ 6,148,703</b>                                    | <b>\$</b>   | <b>\$ 6,128,582</b>   | <b>\$ 20,121</b>   |
| Available-for-sale:   |  |   |   |  |
| U.S. treasury and other U.S. government corporations and agencies | 4,362  |   | 4,362   |  |
| States of the U.S. and political subdivisions of the states       | 578,209  |   | 578,209   |  |
| Foreign governments   | 7,332  |   | 7,332   |  |
| Corporate debt securities   | 2,783,008  |   | 2,752,640   | 30,368   |
| Residential mortgage backed securities                            | 417,197  |   | 407,753   | 9,444  |
| Commercial mortgage backed securities                             |  |   |   |  |
| Collateralized debt securities                                    | 21,072   |   | 18,062  | 3,010  |
| Other debt securities   | 9,657  |   | 9,657   |  |
| <b>Total fixed maturities, available-for-sale</b>                 | <b>\$ 3,820,837</b>                                    | <b>\$</b>   | <b>\$ 3,778,015</b>   | <b>\$ 42,822</b>   |
| <b>Total fixed maturities</b>                                     | <b>\$ 9,969,540</b>                                    | <b>\$</b>   | <b>\$ 9,906,597</b>   | <b>\$ 62,943</b>   |
| Marketable equity securities                                      |  |   |   |  |
| Common stock:   |  |   |   |  |
| Consumer goods  | 167,533  | 167,533   |   |  |
| Energy and utilities  | 113,319  | 113,319   |   |  |
| Finance   | 133,642  | 133,642   |   |  |



|  |                      |                   |                      |                  |
|--|----------------------|-------------------|----------------------|------------------|
| Healthcare   | 109,503              | 109,503           |                      |                  |
| Industrials  | 73,528               | 73,528            |                      |                  |
| Information technology   | 104,679              | 104,679           |                      |                  |
| Materials  | 25,524               | 25,524            |                      |                  |
| Mutual funds   | 85,112               | 85,112            |                      |                  |
| Telecommunication services                                     | 40,690               | 40,690            |                      |                  |
| Preferred stock  | 48,822               | 27,566            |                      | 21,256           |
| <b>Total marketable equity securities</b>                      | <b>\$ 902,352</b>    | <b>\$ 881,096</b> | <b>\$</b>            | <b>\$ 21,256</b> |
| Options  | 6,157                |                   |                      | 6,157            |
| Mortgage loans on real estate                                  | 1,891,895            |                   | 1,891,895            |                  |
| Short-term investments   | 295,170              |                   | 295,170              |                  |
| <b>Total financial assets</b>                                  | <b>\$ 13,065,114</b> | <b>\$ 881,096</b> | <b>\$ 12,093,662</b> | <b>\$ 90,356</b> |
| Financial liabilities:   |                      |                   |                      |                  |
| Liability for embedded derivatives of equity indexed annuities | 6,208                |                   |                      | 6,208            |
| <b>Total financial liabilities</b>                             | <b>\$ 6,208</b>      | <b>\$</b>         | <b>\$</b>            | <b>\$ 6,208</b>  |

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For assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the period, a reconciliation of the beginning and ending balances are as follows:

|   | <b>Fair Value Measurements Using<br/>Significant<br/>Unobservable Inputs<br/>Level 3 Totals<br/>(in thousands)</b> |
|---|--|
| <b>Beginning balance January 1, 2009</b>                            | \$ 84,148  |
| Net losses included in other comprehensive income (loss)            | 6,589  |
| Net fair value change for derivatives included in net income (loss) | (13,494)   |
| Purchases, sales, and settlements of derivatives (net)              | 9,883  |
| Transfers into Level 3  | 175  |
| Transfers out of Level 3  | (44,912)   |
| <b>Ending balance September 30, 2009</b>                            | <b>42,389</b>  |

The unrealized loss for the nine months ended September 30, 2009 of Level 3 assets was \$6,589,000. There were no unrealized gains in Level 3 assets at September 30, 2009.

The transfers into Level 3 were the result of securities no longer being priced by the third-party pricing service. As the securities were priced by a third-party service, inputs were used that are observable or derived from market data which resulted in classification of these assets as Level 2. In accordance with American National's pricing methodology, these securities are being valued with similar techniques as the pricing service; however, company developed data is used in the process, which results in unobservable inputs, and a corresponding transfer into Level 3. The transfers out of level 3 were comprised of \$20.8 million of sales, \$13.8 million of maturities, and \$10.3 million of transfers into Level 2.

**7. DEFERRED POLICY ACQUISITION COSTS**

Deferred policy acquisition costs as of September 30, 2009 and December 31, 2008, and premiums for the nine month periods ended September 30, 2009 and 2008 are summarized as follows:

|  | <b>Life<br/>&amp; Annuity</b> | <b>Accident<br/>&amp; Health</b> | <b>Property<br/>&amp; Casualty</b> | <b>Total</b>        |
|--|-------------------------------|----------------------------------|------------------------------------|---------------------|
|  | <b>(in thousands)</b>         |                                  |                                    |                     |
| <b>Balance at December 31, 2008</b>                                  | \$ 1,269,308                  | \$ 74,870                        | \$ 138,486                         | \$ 1,482,664        |
| Additions  | 146,776                       | 12,117                           | 192,456                            | 351,349             |
| Amortization   | (105,811)                     | (16,379)                         | (180,779)                          | (302,969)           |
| Effect of change in unrealized loss on available-for-sale securities | (193,892)                     |                                  |                                    | (193,892)           |
| Net changes  | (152,927)                     | (4,262)                          | 11,677                             | (145,512)           |
| <b>Balance at September 30, 2009</b>                                 | <b>\$ 1,116,381</b>           | <b>\$ 70,608</b>                 | <b>\$ 150,163</b>                  | <b>\$ 1,337,152</b> |
| Premiums for the nine months ended:<br><b>September 30, 2009</b>     | <b>\$ 360,779</b>             | <b>\$ 224,001</b>                | <b>\$ 866,989</b>                  | <b>\$ 1,451,769</b> |

|                           |            |            |            |              |
|---------------------------|------------|------------|------------|--------------|
| <b>September 30, 2008</b> | \$ 313,072 | \$ 217,765 | \$ 885,941 | \$ 1,416,778 |
|---------------------------|------------|------------|------------|--------------|

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

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

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

|                                | <b>2009</b>           | <b>2008</b>         |
|--------------------------------|-----------------------|---------------------|
|                                | <b>(in thousands)</b> |                     |
| Balance at January 1           | \$ 1,310,272          | \$ 1,256,698        |
| Less reinsurance recoverables  | 377,692               | 363,140             |
| <b>Net beginning balance</b>   | <b>932,580</b>        | <b>893,558</b>      |
| Incurred related to:           |                       |                     |
| Current year                   | 863,902               | 883,836             |
| Prior years                    | (5,229)               | (27,299)            |
| <b>Total incurred</b>          | <b>858,673</b>        | <b>856,537</b>      |
| Paid related to:               |                       |                     |
| Current year                   | 502,882               | 505,222             |
| Prior years                    | 340,093               | 314,904             |
| <b>Total paid</b>              | <b>842,975</b>        | <b>820,126</b>      |
| Net balance at September 30    | 948,278               | 929,969             |
| Plus reinsurance recoverables  | 273,091               | 434,276             |
| <b>Balance at September 30</b> | <b>\$ 1,221,369</b>   | <b>\$ 1,364,245</b> |

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

The potential uncertainty generated by volatility in loss development profiles is adjusted for through the selection of loss development factor patterns for each line of insurance. The net and gross reserve calculations have shown redundancies for the last several years as a result of losses emerging favorably compared to what was implied by the loss development patterns used in the original estimation of losses in prior years. Estimates for ultimate incurred losses and loss adjustment expenses attributable to insured events of prior years decreased by approximately \$5,000,000 for the nine months ended September 30, 2009 and \$27,000,000 for the same period in 2008.

**9. NOTES PAYABLE**

At September 30, 2009 and December 31, 2008, American National's real estate holding companies were partners in affiliates that had notes payable to third-party lenders totaling \$122,294,000 and \$111,922,000, respectively. These notes have interest rates ranging from 5.15% to 8.07% and maturities from 2010 to 2016. Each note is secured by the real estate owned through the respective affiliated entity, and American National's liability for these notes is limited to the amount of its investment in the respective affiliate, which totaled \$18,735,000 and \$13,226,000 at September 30, 2009 and December 31, 2008, respectively.

**10. FEDERAL INCOME TAXES**

The federal income tax provisions vary from the amounts computed when applying the statutory federal income tax rate. A reconciliation of the effective tax rate of the companies to the statutory federal income tax rate for the three and nine months ended September 30, 2009 and 2008 is as follows:

**Three Months Ended****Nine Months Ended**

|  | September 30,                 |        | September 30, |       | September 30, |       | September 30, |       |
|--|-------------------------------|--------|---------------|-------|---------------|-------|---------------|-------|
|  | 2009                          | 2008   | 2009          | 2008  | 2009          | 2008  | 2009          | 2008  |
|  | Amount                        | Rate   | Amount        | Rate  | Amount        | Rate  | Amount        | Rate  |
|  | (dollar amounts in thousands) |        |               |       |               |       |               |       |
| Income tax expense<br>(benefit) on pre-tax<br>income | \$ 12,274                     | 35.0%  | \$ (64,238)   | 35.0% | \$ (18,982)   | 35.0% | \$ (53,788)   | 35.0% |
| Tax-exempt<br>investment income                      | (2,423)                       | (6.9)  | (2,268)       | 1.2   | (7,127)       | 13.1  | (6,580)       | 4.3   |
| Dividend exclusion                                   | (3,736)                       | (10.7) | (2,052)       | 1.1   | (10,158)      | 18.7  | (9,144)       | 6.0   |
| Miscellaneous tax<br>credits, net                    | (1,520)                       | (4.3)  | (1,130)       | 0.6   | (4,706)       | 8.7   | (3,528)       | 2.3   |
| Other items, net                                     | (1,366)                       | (3.9)  | 7,730         | (4.2) | 2,403         | (4.4) | 10,275        | (6.7) |
|  | \$ 3,229                      | 9.2%   | \$ (61,958)   | 33.7% | \$ (38,570)   | 71.1% | \$ (62,765)   | 40.9% |

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The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities at September 30, 2009 and December 31, 2008 are as follows:

|   | <b>September<br/>30,<br/>2009</b> | <b>December 31,<br/>2008</b> |
|---|-----------------------------------|------------------------------|
|   | <b>(in thousands)</b>             |                              |
| <b>DEFERRED TAX ASSETS:</b>   |                                   |                              |
| Marketable securities, principally due to impairment losses   | \$ 114,772                        | \$ 138,455                   |
| Marketable securities, principally due to net unrealized losses   |                                   | 146,192                      |
| Investment in real estate and other invested assets, principally due to investment valuation allowances | 1,142                             | 1,279                        |
| Policyholder funds, principally due to policy reserve discount  | 200,902                           | 187,277                      |
| Policyholder funds, principally due to unearned premium reserve   | 33,130                            | 30,716                       |
| Non-qualified pension   | 28,951                            | 27,630                       |
| Participating policyholders surplus   | 28,535                            | 28,615                       |
| Pension   | 37,513                            | 36,968                       |
| Commissions and other expenses  | 15,961                            | 24,395                       |
| Other assets  | 16,359                            | 8,518                        |
| <b>Net deferred tax assets</b>  | <b>\$ 477,265</b>                 | <b>\$ 630,045</b>            |
| <b>DEFERRED TAX LIABILITIES:</b>  |                                   |                              |
| Marketable securities, principally due to net unrealized gains  | (103,209)                         |                              |
| Investment in bonds, principally due to accrual of discount on bonds                                    | (5,515)                           | (18,221)                     |
| Deferred policy acquisition costs, due to difference between GAAP and tax amortization methods          | (360,464)                         | (410,939)                    |
| Property, plant and equipment, principally due to difference between GAAP and tax depreciation methods  | (5,887)                           | (5,377)                      |
| <b>Net deferred tax liabilities</b>   | <b>(475,075)</b>                  | <b>(434,537)</b>             |
| <b>Total deferred tax</b>   | <b>\$ 2,190</b>                   | <b>\$ 195,508</b>            |

Income tax related interest expense is included with the Other operating costs and expenses in the Consolidated Statements of Income. No interest expense has been incurred as of September 30, 2009, while \$133,000 in interest was recognized as of September 30, 2008. No provision has provided for penalties related to American National's uncertain tax positions.

The statute of limitations for the examination of federal income tax returns by the Internal Revenue Service for years 2005 to 2008 has either been extended or has not expired. In the opinion of management, all prior year deficiencies have been paid or adequate provisions have been made for any tax deficiencies that may be upheld.

**11. COMPONENTS OF COMPREHENSIVE INCOME (LOSS)**

The items included in comprehensive income (loss), other than net income (loss), are unrealized gains and losses on available-for-sale securities (net of deferred acquisition costs), foreign exchange adjustments and pension liability adjustments. The details on the unrealized gains and losses included in comprehensive income (loss), and the related tax effects thereon, are as follows:

| <b>Before</b> | <b>Federal</b> |
|---------------|----------------|
|---------------|----------------|

|   | <b>Federal<br/>Income<br/>Tax</b> | <b>Income Tax<br/>Expense<br/>(in thousands)</b> | <b>Net of Federal<br/>Income Tax</b> |
|---|-----------------------------------|--|--------------------------------------|
| <b>September 30, 2009</b>   |                                   |  |                                      |
| Unrealized gain   | \$ 713,975                        | \$ 284,034                                       | \$ 429,941                           |
| Less: reclassification adjustment for net losses realized in net income | (81,146)                          | (28,401)   | (52,745)                             |
| <b>Net unrealized gain component of comprehensive income</b>            | <b>\$ 632,829</b>                 | <b>\$ 255,633</b>                                | <b>\$ 377,196</b>                    |
| <b>September 30, 2008</b>   |                                   |  |                                      |
| Unrealized loss   | \$ (431,267)                      | \$ (310,954)                                     | \$ (120,313)                         |
| Less: reclassification adjustment for net losses realized in net income | (142,030)                         | (49,710)   | (92,320)                             |
| <b>Net unrealized loss component of comprehensive income</b>            | <b>\$ (573,297)</b>               | <b>\$ (360,664)</b>                              | <b>\$ (212,633)</b>                  |

**Table of Contents****12. STOCKHOLDERS EQUITY AND NONCONTROLLING INTERESTS****Common Stock**

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

|  | <b>September<br/>30,<br/>2009</b> | <b>December 31,<br/>2008</b> | <b>September<br/>30,<br/>2008</b> |
|--|-----------------------------------|------------------------------|-----------------------------------|
| <b>Common Stock</b>                    |                                   |                              |                                   |
| Shares issued                          | 30,832,449                        | 30,832,449                   | 30,832,449                        |
| Treasury shares                        | 4,012,283                         | 4,013,616                    | 4,013,616                         |
| Restricted shares                      | 261,334                           | 339,001                      | 339,001                           |
| <b>Unrestricted outstanding shares</b> | <b>26,558,832</b>                 | <b>26,479,832</b>            | <b>26,479,832</b>                 |

**Stock-Based Compensation**

American National has one stock-based compensation plan. Under this plan, American National can grant Non-Qualified Stock Options, Stock Appreciation Rights, Restricted Stock Awards, Performance Awards, Incentive Awards and any combination of these. The number of shares available for grants under the plan cannot exceed 2,900,000 shares, and no more than 200,000 shares may be granted to any one individual in any calendar year. The plan provides for the award of Restricted Stock. 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. Eight awards of restricted stock have been granted, with a total of 340,334 shares granted at an exercise price of zero. These awards result in compensation expense to American National over the vesting period. The amount of compensation expense recorded was \$3,052,445 for the nine months ended September 30, 2009 and \$2,694,000 for the 12 months ended December 31, 2008. On August 1, 2009 the restrictions on 60,000 shares of Restricted Stock expired. The plan provides for the award of Stock Appreciation Rights (SAR). The SARs give the holder the right to compensation based on the difference between the price of a share of stock on the grant date and the price on the exercise date. The SARs vest at a rate of 20% per year for 5 years and expire 5 years after the vesting period. American National uses the average of the high and low price on the last trading day of the period to calculate the fair value and compensation expense for SARs. The fair value of the SARs was \$13,000 at September 30, 2009 and \$16,000 at December 31, 2008. Compensation expense (income) was recorded totaling \$20,000 for the nine months ended September 30, 2009 and (\$1,777,000) for the year ended December 31, 2008.

SAR and Restricted Stock (RS) information for September 30, 2009 and December 31, 2008 and 2007 is as follows:

|   | <b>SAR<br/>Shares</b> | <b>SAR Weighted-<br/>Average Price<br/>per<br/>Share</b> | <b>RS Shares</b> | <b>RS<br/>Weighted-<br/>Average<br/>Price<br/>per Share</b> |
|---|-----------------------|--|------------------|---|
| <b>Outstanding at December 31, 2007</b> | 96,724                | \$ 97.84   | 253,000          | \$ 4.40   |
| Granted                                 | 96,917                | 115.92   | 86,001           |   |
| Exercised                               | (4,109)               | 81.30  |                  |   |
| <b>Outstanding at December 31, 2008</b> | <b>189,532</b>        | <b>\$ 107.44</b>   | <b>339,001</b>   | <b>\$ 3.28</b>  |



|  |         |    |        |          |    |
|--|---------|----|--------|----------|----|
| Granted                                  | 2,999   |    | 66.76  | 1,333    |    |
| Exercised                                | (1,100) |    | 57.00  | (79,000) |    |
| Canceled                                 | (6,630) |    | 107.45 |          |    |
| <b>Outstanding at September 30, 2009</b> | 184,801 | \$ | 107.08 | 261,334  | \$ |

The weighted-average contractual remaining life for the 184,801 SARs outstanding as of September 30, 2009, is 6.9 years. The weighted-average exercise price for these shares is \$107.08 per share. Of the shares outstanding, 87,768 are exercisable at a weighted-average exercise price of \$101.27 per share.

The weighted-average contractual remaining life for the 261,334 Restricted Stock shares outstanding as of September 30, 2009, is 5.8 years. The weighted-average exercise price for these shares is \$0 per share. None of the shares outstanding was exercisable.

**Table of Contents****Earnings (Loss) Per Share**

Basic earnings per share was calculated using the number of shares outstanding of 26,558,832 at September 30, 2009 and 26,479,832 at December 31, 2008. The Restricted Stock resulted in diluted earnings per share as follows. Due to the net losses incurred in 2009 and 2008, diluted earnings per share are equal to basic earnings per share.

|  | <b>September<br/>30,<br/>2009</b> | <b>December 31,<br/>2008</b> | <b>September<br/>30,<br/>2008</b> |
|--|-----------------------------------|------------------------------|-----------------------------------|
| Unrestricted shares outstanding              | 26,558,832                        | 26,479,832                   | 26,479,832                        |
| Incremental shares from restricted stock     | 42,536                            | 137,625                      | 152,076                           |
| <b>Total shares for diluted calculations</b> | <b>26,601,368</b>                 | <b>26,617,457</b>            | <b>26,631,908</b>                 |
| <b>Diluted earnings (losses) per share</b>   | <b>(\$0.73)</b>                   | <b>(\$5.82)</b>              | <b>(\$3.34)</b>                   |

**Dividends**

American National's payment of dividends to stockholders is restricted by statutory regulations. Generally, the restrictions require life insurance companies to maintain minimum amounts of capital and surplus, and in the absence of special approval, limit the payment of dividends to statutory net gain from operations on an annual, non-cumulative basis. Additionally, insurance companies are not permitted to distribute the excess of stockholders' equity, as determined on a GAAP basis over that determined on a statutory basis. At September 30, 2009 and December 31, 2008, American National's statutory capital and surplus was \$1,776,726,000 and \$1,804,712,000, respectively. Generally, the same restrictions on amounts that can transfer in the form of dividends, loans, or advances apply to American National's insurance subsidiaries.

At September 30, 2009, approximately \$1,360,071,000 of American National's consolidated stockholders' equity represents net assets of its insurance subsidiaries, compared to \$1,297,226,000 at December 31, 2008. Any transfer of these net assets to American National would be subject to statutory restrictions and approval.

**Noncontrolling Interests**

American National County Mutual Insurance Company (County Mutual) is a mutual insurance company that is owned by its policyholders. However, the company has a management agreement which effectively gives complete control of County Mutual to American National. As a result, County Mutual is included in the consolidated financial statements. The interest that the policyholders of County Mutual have in the financial position of County Mutual is reflected as a noncontrolling interest totaling \$6,750,000 at September 30, 2009 and December 31, 2008.

American National's subsidiary, ANTAC, Inc., is a partner in various joint ventures. ANTAC exercises significant control or ownership of these joint ventures, resulting in their consolidation into the American National consolidated financial statements. As a result of the consolidation, the interest of the other partners of the joint ventures is shown as noncontrolling interest. Noncontrolling interests were a net liability of \$3,401,000 and \$1,627,000 at September 30, 2009 and December 31, 2008, respectively.

**13. SEGMENT INFORMATION**

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

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

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

The Health segment's primary lines of business are Medicare Supplement, medical expense, employer medical stop loss, true group, other supplemental health products and credit disability insurance. Health products are typically distributed through employee agents, exclusive agents, independent agents and Managing General Underwriters.

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The Property and Casualty segment writes auto, homeowners, agribusiness, and other personal and commercial insurance. These products are primarily sold through multiple line exclusive agents. Credit related property insurance is also written through independent agents.

The Corporate and Other business segment consists of net investment income on the capital not allocated to the insurance lines and the operations of non-insurance lines of business. This segment also provides mutual fund products.

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

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

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

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

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

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

Federal income taxes have been applied to the net earnings of each segment based on a fixed tax rate. Any difference between the amount allocated to the segments and the total federal income tax amount is allocated to Corporate and Other.

Segment operating income provides pertinent and advantageous information to investors, as it represents the basis on which American National's business performance is internally assessed by its chief operating decision makers. During the third quarter of 2008, the chief operating decision makers redefined the segment reporting structure to better align it with their current processes for assessing business performance and allocating resources. In previous financial reporting periods, operating segments were aggregated based on marketing distribution channels. In accordance with the performance measurements used by the chief operating decision makers, the segment reporting has been reorganized into five operating segments according to the type of insurance products sold or services rendered. The segment reporting for prior periods has been restated to reflect the change in business segments.

The following tables summarize American National's key financial measures used by the chief operating decision makers, including operating results and allocation of assets as of and for the three and nine months ended September 30, 2009 and 2008:

| <i>(Three Months Ended September 30, 2009)</i> | <b>Life</b> | <b>Annuity</b> | <b>Health</b> | <b>Property<br/>&amp;<br/>Casualty</b> | <b>Corporate<br/>&amp;<br/>Other</b> | <b>Total</b> |
|--|-------------|----------------|---------------|--|--------------------------------------|--------------|
|  |             |                |               |  |                                      |              |

(in thousands)

**Premiums and other revenues:**

|  |                  |                 |                   |                 |                  |                  |
|--|------------------|-----------------|-------------------|-----------------|------------------|------------------|
| Premiums   | \$ 76,320        | \$ 58,284       | \$ 74,428         | \$ 298,073      | \$               | \$ 507,105       |
| Other policy revenues  | 41,569           | 3,723           |                   |                 |                  | 45,292           |
| Net investment income  | 55,724           | 118,963         | 4,031             | 16,171          | 27,377           | 222,266          |
| Other income   | 948              | (2,168)         | 2,729             | 856             | 4,254            | 6,619            |
| <b>Total operating revenues</b>  | <b>174,561</b>   | <b>178,802</b>  | <b>81,188</b>     | <b>315,100</b>  | <b>31,631</b>    | <b>781,282</b>   |
| Realized investment losses   |                  |                 |                   |                 | (935)            | (935)            |
| <b>Total revenues</b>  | <b>174,561</b>   | <b>178,802</b>  | <b>81,188</b>     | <b>315,100</b>  | <b>30,696</b>    | <b>780,347</b>   |
| <b>Benefits, losses and expenses:</b>  |                  |                 |                   |                 |                  |                  |
| Policy benefits  | 75,865           | 63,776          | 57,217            | 222,196         |                  | 419,054          |
| Interest credited to policy account balances   | 13,932           | 84,320          |                   |                 |                  | 98,252           |
| Commissions for acquiring and servicing policies   | 25,241           | 21,807          | 11,226            | 55,862          | 8                | 114,144          |
| Other operating costs and expenses   | 48,000           | 14,511          | 15,267            | 33,788          | 16,615           | 128,181          |
| Decrease (increase) in deferred policy acquisition costs   | (177)            | (9,650)         | 423               | (4,947)         |                  | (14,351)         |
| <b>Total benefits, losses and expenses</b>   | <b>162,861</b>   | <b>174,764</b>  | <b>84,133</b>     | <b>306,899</b>  | <b>16,623</b>    | <b>745,280</b>   |
| <b>Income (loss) from continuing operations before federal income tax, and equity in earnings of unconsolidated affiliates</b> | <b>\$ 11,700</b> | <b>\$ 4,038</b> | <b>\$ (2,945)</b> | <b>\$ 8,201</b> | <b>\$ 14,073</b> | <b>\$ 35,067</b> |

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| <i>(Three Months Ended September 30, 2008)</i>   | <b>Life</b>     | <b>Annuity</b>  | <b>Health</b>     | <b>Property<br/>&amp;<br/>Casualty<br/>(in thousands)</b> | <b>Corporate<br/>&amp; Other</b> | <b>Total</b>        |
|--|-----------------|-----------------|-------------------|---|----------------------------------|---------------------|
| <b>Premiums and other revenues:</b>  |                 |                 |                   |   |                                  |                     |
| Premiums   | \$ 75,569       | \$ 18,843       | \$ 72,688         | \$ 292,747  | \$                               | \$ 459,847          |
| Other policy revenues  | 40,094          | 4,955           |                   |   |                                  | 45,049              |
| Net investment income  | 57,151          | 98,319          | 4,183             | 13,977  | 35,639                           | 209,269             |
| Other income   | 977             | (1,506)         | 3,459             | 2,461   | 4,522                            | 9,913               |
| <b>Total operating revenues</b>  | <b>173,791</b>  | <b>120,611</b>  | <b>80,330</b>     | <b>309,185</b>  | <b>40,161</b>                    | <b>724,078</b>      |
| Realized investment losses   |                 |                 |                   |   | (201,985)                        | (201,985)           |
| <b>Total revenues</b>  | <b>173,791</b>  | <b>120,611</b>  | <b>80,330</b>     | <b>309,185</b>  | <b>(161,824)</b>                 | <b>522,093</b>      |
| <b>Benefits, losses and expenses:</b>  |                 |                 |                   |   |                                  |                     |
| Policy benefits  | 69,786          | 25,433          | 51,531            | 223,311   |                                  | 370,061             |
| Interest credited to policy account balances   | 15,784          | 64,252          |                   |   |                                  | 80,036              |
| Commissions for acquiring and servicing policies   | 30,358          | 10,791          | 11,491            | 59,084  |                                  | 111,724             |
| Other operating costs and expenses   | 65,809          | 10,438          | 23,713            | 41,491  | 3,983                            | 145,434             |
| Decrease (increase) in deferred policy acquisition costs   | (7,583)         | 5,672           | 1,503             | (1,216)   |                                  | (1,624)             |
| <b>Total benefits, losses and expenses</b>   | <b>174,154</b>  | <b>116,586</b>  | <b>88,238</b>     | <b>322,670</b>  | <b>3,983</b>                     | <b>705,631</b>      |
| <b>Income (loss) from continuing operations before federal income tax, and equity in earnings of unconsolidated affiliates</b> | <b>\$ (363)</b> | <b>\$ 4,025</b> | <b>\$ (7,908)</b> | <b>\$ (13,485)</b>  | <b>\$ (165,807)</b>              | <b>\$ (183,538)</b> |

| <i>(Nine Months Ended September 30, 2009)</i> | <b>Life</b>    | <b>Annuity</b> | <b>Health</b>  | <b>Property<br/>&amp;<br/>Casualty<br/>(in thousands)</b> | <b>Corporate<br/>&amp; Other</b> | <b>Total</b>     |
|---|----------------|----------------|----------------|---|----------------------------------|------------------|
| <b>Premiums and other revenues:</b>           |                |                |                |   |                                  |                  |
| Premiums                                      | \$ 211,638     | \$ 149,141     | \$ 224,001     | \$ 866,989  | \$                               | \$ 1,451,769     |
| Other policy revenues                         | 122,420        | 11,320         |                |   |                                  | 133,740          |
| Net investment income                         | 166,510        | 331,607        | 12,080         | 49,941  | 69,988                           | 630,126          |
| Other income                                  | 1,868          | 295            | 7,757          | 5,308   | 12,415                           | 27,643           |
| <b>Total operating revenues</b>               | <b>502,436</b> | <b>492,363</b> | <b>243,838</b> | <b>922,238</b>  | <b>82,403</b>                    | <b>2,243,278</b> |
| Realized investment losses                    |                |                |                |   | (83,144)                         | (83,144)         |
| <b>Total revenues</b>                         | <b>502,436</b> | <b>492,363</b> | <b>243,838</b> | <b>922,238</b>  | <b>(741)</b>                     | <b>2,160,134</b> |

**Benefits, losses and expenses:**

|  |                |                |                |                |               |                  |
|--|----------------|----------------|----------------|----------------|---------------|------------------|
| Policy benefits  | 222,131        | 170,584        | 178,983        | 714,041        |               | 1,285,739        |
| Interest credited to policy account balances             | 44,140         | 231,414        |                |                |               | 275,554          |
| Commissions for acquiring and servicing policies         | 68,931         | 77,790         | 34,038         | 160,967        | 8             | 341,734          |
| Other operating costs and expenses                       | 138,712        | 43,794         | 46,834         | 93,271         | 37,110        | 359,721          |
| Decrease (increase) in deferred policy acquisition costs | 152            | (41,117)       | 4,262          | (11,677)       |               | (48,380)         |
| <b>Total benefits, losses and expenses</b>               | <b>474,066</b> | <b>482,465</b> | <b>264,117</b> | <b>956,602</b> | <b>37,118</b> | <b>2,214,368</b> |

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

|  |           |          |             |             |             |             |
|--|-----------|----------|-------------|-------------|-------------|-------------|
|  | \$ 28,370 | \$ 9,898 | \$ (20,279) | \$ (34,364) | \$ (37,859) | \$ (54,234) |
|--|-----------|----------|-------------|-------------|-------------|-------------|

| <i>(Nine Months Ended September 30, 2008)</i> | Life           | Annuity        | Health         | Property & Corporate<br>&<br>Casualty & Other |                 | Total            |
|---|----------------|----------------|----------------|---|-----------------|------------------|
|   |                |                |                | (in thousands)                                |                 |                  |
| <b>Premiums and other revenues:</b>           |                |                |                |   |                 |                  |
| Premiums                                      | \$ 222,583     | \$ 90,489      | \$ 217,765     | \$ 885,941                                    | \$              | \$ 1,416,778     |
| Other policy revenues                         | 114,790        | 15,704         |                |   |                 | 130,494          |
| Net investment income                         | 169,805        | 278,917        | 12,416         | 52,924  | 98,663          | 612,725          |
| Other income                                  | 2,758          | (4,550)        | 10,145         | 6,849   | 14,439          | 29,641           |
| <b>Total operating revenues</b>               | <b>509,936</b> | <b>380,560</b> | <b>240,326</b> | <b>945,714</b>                                | <b>113,102</b>  | <b>2,189,638</b> |
| Realized investment losses                    |                |                |                |   | (211,903)       | (211,903)        |
| <b>Total revenues</b>                         | <b>509,936</b> | <b>380,560</b> | <b>240,326</b> | <b>945,714</b>                                | <b>(98,801)</b> | <b>1,977,735</b> |

**Benefits, losses and expenses:**

|  |                |                |                |                |               |                  |
|--|----------------|----------------|----------------|----------------|---------------|------------------|
| Policy benefits  | 215,653        | 111,137        | 166,581        | 720,430        |               | 1,213,801        |
| Interest credited to policy account balances             | 47,814         | 175,311        |                |                |               | 223,125          |
| Commissions for acquiring and servicing policies         | 102,762        | 60,758         | 32,090         | 173,702        |               | 369,312          |
| Other operating costs and expenses                       | 170,759        | 32,910         | 53,530         | 100,372        | 38,577        | 396,148          |
| Decrease (increase) in deferred policy acquisition costs | (46,783)       | (18,257)       | 4,641          | (10,573)       |               | (70,972)         |
| <b>Total benefits, losses and expenses</b>               | <b>490,205</b> | <b>361,859</b> | <b>256,842</b> | <b>983,931</b> | <b>38,577</b> | <b>2,131,414</b> |

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

|  |           |           |             |             |              |              |
|--|-----------|-----------|-------------|-------------|--------------|--------------|
|  | \$ 19,731 | \$ 18,701 | \$ (16,516) | \$ (38,217) | \$ (137,378) | \$ (153,679) |
|--|-----------|-----------|-------------|-------------|--------------|--------------|





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In the ordinary course of their operations, American National had commitments outstanding at September 30, 2009, to purchase, expand or improve real estate, to fund mortgage loans, and to purchase other invested assets aggregating \$305,563,000, of which \$281,182,000 is expected to be funded in 2009. The remaining balance of \$24,381,000 will be funded in 2010 and beyond. As of September 30, 2009, all of the mortgage loan commitments have interest rates that are fixed.

**Guarantees**

In the normal course of business, American National has guaranteed bank loans for customers of a third-party marketing operation. The bank loans are used to fund premium payments on life insurance policies issued by American National. The loans are secured by the cash values of the life insurance policies. If the customer were to default on the bank loan, American National would be obligated to pay off the loan. However, since the cash value of the life insurance policies always equals or exceeds the balance of the loans, management does not foresee any loss on the guarantees. The total amount of the guarantees outstanding as of September 30, 2009, was approximately \$206,513,000, while the total cash values of the related life insurance policies was approximately \$209,889,000.

**Litigation**

As previously disclosed in filings with the Securities and Exchange Commission, American National was a defendant in a lawsuit which proposed to certify one or more classes of persons who contended that American National allegedly violated various provisions of the Fair Labor Standards Act and the California Labor Code, engaged in unfair business practices, fraud and deceit, conversion, and negligent misrepresentation with respect to certain of its sales agents (*Dulanto v. American National Insurance Company*, C.D. Cal., filed October 31, 2008). Upon plaintiff's motion, the Court dismissed the class allegations in this lawsuit leaving only the plaintiff's individual claims against the company. The plaintiff sought statutory penalties, restitution, interest, penalties, attorneys' fees, punitive damages and injunctive relief in an unspecified amount. As noted in American National's Form 10-Q filed with the Securities and Exchange Commission on August 7, 2009, the parties reached an agreement to resolve the remaining claims in this lawsuit. This lawsuit has since been settled and the complaint dismissed. American National had previously reserved an adequate amount for settlement of this lawsuit.

There have been no other material changes to the legal proceedings described in American National's Form 10-Q filed with the Securities and Exchange Commission on August 7, 2009.

**15. RELATED PARTY TRANSACTIONS**

American National has entered into recurring transactions and agreements with certain related parties as a part of its ongoing operations. These include mortgage loans, management contracts, agency commission contracts, marketing agreements, health insurance contracts, legal services, and insurance contracts. The impact on the consolidated financial statements of the significant related party transactions as of September 30, 2009, is shown below:

| <b>Related Party</b>           | <b>Financial Statement Line Impacted</b> | <b>September 30,<br/>2009<br/>(in thousands)</b> |
|--------------------------------|--|--|
| Gal-Tex Hotel Corporation      | Mortgage loans on real estate            | \$ 12,095  |
| Gal-Tex Hotel Corporation      | Investment income                        | 674  |
| Gal-Tex Hotel Corporation      | Other operating costs and expenses       | 253  |
| Moody Insurance Group, Inc.    | Commissions                              | 2,271  |
| Moody Insurance Group, Inc.    | Other operating costs and expenses       | 174  |
| National Western Life Ins. Co. | Accident and health premiums             | 130  |
| National Western Life Ins. Co. | Other operating costs and expenses       | 891  |
| Moody Foundation               | Accident and health premiums             | 102  |
| Greer, Herz and Adams, LLP     | Other operating costs and expenses       | 6,613  |



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**16. SUBSEQUENT EVENTS**

Included in American National's investment portfolio are debt securities issued by CIT Group (CIT) with an amortized cost of \$74.0 million consisting of \$56.7 million of senior bonds and \$17.3 million of CIT Canada notes, as of September 30, 2009.

As a result of our September 30, 2009 quarterly analysis and credit review for our investment portfolio, we concluded that no other-than-temporary impairment should be recorded for the CIT securities.

On October 28, 2009, CIT secured important agreements in order to enable a prepackaged bankruptcy plan. It obtained a \$4.5 billion loan from several investors, including the bondholders who lent it \$3.0 billion this past summer. It also reached an accord with Goldman Sachs that would preserve a \$2.1 billion loan even through bankruptcy protection, while paying only a portion of a \$1.0 billion termination fee. On October 30, 2009 CIT also received a new \$1.0 billion line of credit from its largest investor Carl Icahn enabling the company to borrow from the line on or before the end of this year.

On November 1, 2009, CIT announced that it had entered into the prepackaged bankruptcy plan that would enable it to emerge from bankruptcy court protection by the end of 2009. The prepackaged bankruptcy is estimated to give all holders of senior bonds seventy cents on the dollar in new notes as well as shares of stock in the reorganized company.

American National will closely monitor CIT's situation, and re-evaluate CIT's situation as necessary. Based on our current assessment, we expect to recover the amortized cost basis of the securities American National holds as of September 30, 2009 through the combination of the new bonds and the additional shares of stock.

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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 the financial condition and results of operations for the three and nine months ended September 30, 2009 and September 30, 2008 of American National Insurance Company and its subsidiaries (referred to in this document as we , our , us , or the Company ). Such information should be read in conjunction with our consolidated financial statements together with the notes to the consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q and our amended Form 10/A Registration Statement filed on July 1, 2009 ( Form 10 Registration Statement ) with the Securities and Exchange Commission ( SEC ).

**Forward-Looking Statements**

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

- international economic and financial crises, including the performance and fluctuations of fixed income, equity, real estate, credit, capital and other financial markets;

- interest rate fluctuations;

- estimates of our reserves for future policy benefits and claims;

- differences between actual experience regarding mortality, morbidity, persistency, surrender experience, interest rates or market returns, property and casualty frequency, severity, claim reporting and settlement patterns, and the assumptions we use in pricing our products, establishing liabilities and reserves or for other purposes;

- changes in our assumptions related to deferred policy acquisition costs, valuation of business acquired or goodwill;

- changes in our claims-paying or credit ratings;

- investment losses and defaults;

- competition in our product lines and for personnel;

- changes in tax law;

- regulatory or legislative changes;

- adverse determinations in litigation or regulatory matters and our exposure to contingent liabilities, including in connection with our divestiture or winding down of businesses;

domestic or international military actions, natural or man-made disasters, including terrorist activities or pandemic disease, or other events resulting in catastrophic loss of life and/or property;

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

effects of acquisitions, divestitures and restructurings, including possible difficulties in integrating and realizing the projected results of acquisitions;

changes in statutory or U.S. Generally Accepted Accounting Principles ( GAAP ) practices or policies; and

changes in assumptions for retirement expense.

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We describe these risks and uncertainties in greater detail in Item IA, *Risk Factors*, in our amended Form 10 Registration Statement filed with the SEC on July 1, 2009. It has never been a matter of corporate policy for us to make specific projections relating to future earnings, and we do not endorse any projections regarding future performance made by others. Additionally, we do not publicly update or revise forward-looking statements based on the outcome of various foreseeable or unforeseeable events.

### **Overview**

American National Insurance Company has more than 100 years of experience. We have maintained our home office in Galveston, Texas since our founding in 1905. Our core businesses are life insurance, annuities, and property and casualty; however, we also offer individual and group health insurance, pension services, and mutual funds. Within our property and casualty business, we offer insurance for personal lines, agribusiness, and targeted commercial exposures. We provide personalized service to approximately eight million policyholders throughout the United States, the District of Columbia, Puerto Rico, Guam, and American Samoa. Our total assets and stockholders' equity as of September 30, 2009 were \$19.8 billion and \$3.4 billion, respectively, and at December 31, 2008 were \$18.4 billion and \$3.1 billion, respectively.

### **General Trends**

There were no material changes to the general trends we are experiencing, as discussed in the MD&A included in our amended Form 10 filed with the SEC on July 1, 2009.

### **Critical Accounting Estimates**

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

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

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

For a discussion of the critical accounting estimates, see the MD&A in our amended Form 10 Registration Statement filed with the SEC on July 1, 2009. There were no material changes in accounting policies from December 31, 2008, with the exception of changes made to our other-than-temporary impairment of debt securities accounting policy. Refer to Item 1, Note 2 to the Consolidated Financial Statements included in this report for a discussion on the other-than-temporary impairment of debt securities accounting policy.

### **Recently Issued Accounting Pronouncements**

Refer to Item 1, Note 3 to the Consolidated Financial Statements for a discussion on Adoption of New Accounting Standards and Future Adoption of New Accounting Standards.

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

The following is a discussion of our consolidated results of operations for the three and nine months ended September 30, 2009 and 2008. For a discussion of our segment results, see *Results of Operations and Related Information by Segment*. The following table sets forth the consolidated results of operations:

|  | Three Months Ended    |                     |                         | Nine Months Ended     |                     |                         |
|--|-----------------------|---------------------|-------------------------|-----------------------|---------------------|-------------------------|
|  | September 30,<br>2009 | 2008                | Increase/<br>(Decrease) | September 30,<br>2009 | 2008                | Increase/<br>(Decrease) |
|  | (in thousands)        |                     |                         |                       |                     |                         |
| <b>Revenues:</b>   |                       |                     |                         |                       |                     |                         |
| Premiums   | \$ 507,105            | \$ 459,847          | \$ 47,258               | \$ 1,451,769          | \$ 1,416,778        | \$ 34,991               |
| Other policy revenues  | 45,292                | 45,049              | 243                     | 133,740               | 130,494             | 3,246                   |
| Net investment income  | 222,266               | 209,269             | 12,997                  | 630,126               | 612,725             | 17,401                  |
| Realized investment gains (losses)                               | (935)                 | (201,985)           | 201,050                 | (83,144)              | (211,903)           | 128,759                 |
| Other income   | 6,619                 | 9,913               | (3,294)                 | 27,643                | 29,641              | (1,998)                 |
| <b>Total revenues</b>  | <b>780,347</b>        | <b>522,093</b>      | <b>258,254</b>          | <b>2,160,134</b>      | <b>1,977,735</b>    | <b>182,399</b>          |
| <b>Benefits and expenses:</b>                                    |                       |                     |                         |                       |                     |                         |
| Policy benefits  | 419,054               | 370,061             | 48,993                  | 1,285,739             | 1,213,801           | 71,938                  |
| Interest credited to policy account balances                     | 98,252                | 80,036              | 18,216                  | 275,554               | 223,125             | 52,429                  |
| Commissions  | 114,144               | 111,724             | 2,420                   | 341,734               | 369,312             | (27,578)                |
| Other operating costs and expenses                               | 128,181               | 145,434             | (17,253)                | 359,721               | 396,148             | (36,427)                |
| Change in deferred policy acquisition costs                      | (14,351)              | (1,624)             | (12,727)                | (48,380)              | (70,972)            | 22,592                  |
| <b>Total benefits and expenses</b>                               | <b>745,280</b>        | <b>705,631</b>      | <b>39,649</b>           | <b>2,214,368</b>      | <b>2,131,414</b>    | <b>82,954</b>           |
| <b>Income (loss) before other items and federal income taxes</b> | <b>\$ 35,067</b>      | <b>\$ (183,538)</b> | <b>\$ 218,605</b>       | <b>\$ (54,234)</b>    | <b>\$ (153,679)</b> | <b>\$ 99,445</b>        |

**Three Months ended September 30, 2009 compared with the Three Months ended September 30, 2008****Consolidated**

Consolidated revenues increased \$258.2 million to \$780.3 million for the three months ended September 30, 2009 from \$522.1 million for the same period in 2008. This increase was primarily due to the investment losses realized during the third quarter of 2008 with limited comparable losses realized in 2009 and a \$47.3 million increase in premiums.

Consolidated benefits and expenses increased \$39.7 million to \$745.3 million for the three months ended September 30, 2009 compared to \$705.6 million for the same period in 2008. This change was primarily due to the higher benefits from our annuity products, partially offset by a decrease in catastrophe losses in our property and casualty business.

**Nine Months ended September 30, 2009 compared with the Nine Months ended September 30, 2008**  
**Consolidated**

Consolidated revenues increased \$182.4 million to \$2.2 billion for the nine months ended September 30, 2009 from \$2.0 billion for the same period in 2008. This increase was primarily due to significant investment losses realized during the third quarter of 2008 that did not occur in 2009.

Consolidated benefits and expenses increased \$83.0 million to approximately \$2.2 billion for the nine months ended September 30, 2009 compared to approximately \$2.1 billion for the same period in 2008. This change was primarily due to benefits on deferred annuity policy account balances, partially offset by decreased catastrophe losses in our property and casualty business from record amounts in 2008.



**Table of Contents****RESULTS OF OPERATIONS AND RELATED INFORMATION BY SEGMENT****Life**

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

|   | Three Months Ended    |                       |                         | Nine Months Ended     |                       |                         |
|---|-----------------------|-----------------------|-------------------------|-----------------------|-----------------------|-------------------------|
|   | September 30,<br>2009 | September 30,<br>2008 | Increase/<br>(Decrease) | September 30,<br>2009 | September 30,<br>2008 | Increase/<br>(Decrease) |
|   | (in thousands)        |                       |                         |                       |                       |                         |
| <b>Revenues:</b>  |                       |                       |                         |                       |                       |                         |
| Premiums  | \$ 76,320             | \$ 75,569             | \$ 751                  | \$ 211,638            | \$ 222,583            | \$ (10,945)             |
| Other policy revenues                                     | 41,569                | 40,094                | 1,475                   | 122,420               | 114,790               | 7,630                   |
| Net investment income                                     | 55,724                | 57,151                | (1,427)                 | 166,510               | 169,805               | (3,295)                 |
| Other income  | 948                   | 977                   | (29)                    | 1,868                 | 2,758                 | (890)                   |
| <b>Total revenues</b>                                     | <b>174,561</b>        | <b>173,791</b>        | <b>770</b>              | <b>502,436</b>        | <b>509,936</b>        | <b>(7,500)</b>          |
| <b>Benefits and expenses:</b>                             |                       |                       |                         |                       |                       |                         |
| Policy benefits   | 75,865                | 69,786                | 6,079                   | 222,131               | 215,653               | 6,478                   |
| Interest credited to policy account balances              | 13,932                | 15,784                | (1,852)                 | 44,140                | 47,814                | (3,674)                 |
| Commissions   | 25,241                | 30,358                | (5,117)                 | 68,931                | 102,762               | (33,831)                |
| Other operating costs and expenses                        | 48,000                | 65,809                | (17,809)                | 138,712               | 170,759               | (32,047)                |
| Change in deferred policy acquisition costs               | (177)                 | (7,583)               | 7,406                   | 152                   | (46,783)              | 46,935                  |
| <b>Total benefits and expenses</b>                        | <b>162,861</b>        | <b>174,154</b>        | <b>(11,293)</b>         | <b>474,066</b>        | <b>490,205</b>        | <b>(16,139)</b>         |
| <b>Income before other items and federal income taxes</b> | <b>\$ 11,700</b>      | <b>\$ (363)</b>       | <b>\$ 12,063</b>        | <b>\$ 28,370</b>      | <b>\$ 19,731</b>      | <b>\$ 8,639</b>         |

Overall, earnings increased \$12.1 million and \$8.6 million to \$11.7 million and \$28.4 million for the three and nine months ended September 30, 2009, respectively, from a loss of \$0.4 million and a gain of \$19.7 million for the same periods in 2008. During 2009 there was an increase in earnings which was primarily a result of a decline in expenses due to lower commissions and other operating costs and expenses. The decrease in the other operating costs and expenses during the quarter is primarily a result of a reserve established in 2008 for two lawsuits.

During the second quarter of 2009, we paid premium refunds as the result of a class action settlement made by us in May, 2007. The refunds on the credit life product resulted in issuing \$12.9 million in settlement payments comprised of credit life premium refunds and other related damages and fees, to certain previously insured persons. The Life segment was fully reserved for this settlement and did not incur any related impact to its income (loss) from operations during the nine months ended September 30, 2009. However, during the second quarter of 2009, several categories of the statement of income were impacted by the recording of the settlement as follows: premiums were

decreased by \$4.5 million, other income was decreased by \$0.8 million, commissions were decreased by \$0.9 million, and other operating costs and expenses were decreased by \$4.5 million. For additional information on this settlement, refer to the discussion of the *Perkins* litigation in our Commitments and Contingencies footnote within the Notes to the Consolidated Financial Statements in our amended Form 10 Registration Statement, filed with the SEC on July 1, 2009.

**Three and Nine Months ended September 30, 2009 compared with the Three and Nine Months ended September 30, 2008 Life**

***Premiums***

Premiums increased \$0.8 million to \$76.3 million for the three months ended September 30, 2009 and decreased \$10.9 million to \$211.6 million for the nine months ended September 30, 2009 compared to the same periods in 2008. For the nine months ended September 30, 2009, we recorded a reversal of \$4.5 million premium related to the previously noted settlement payments. Excluding the effect of the settlement payments, premiums decreased \$6.4 million for the nine months ended September 30, 2009. The decrease is primarily due to a reduction in credit life sales and an increase in ceded reinsurance premiums.

**Table of Contents****Other Policy Revenues**

Other policy revenues increased \$1.5 million to \$41.6 million for the three months ended September 30, 2009 and \$7.6 million to \$122.4 million for the nine months ended September 30, 2009 compared to the same periods in 2008. The increases were due to higher mortality charges and fees, which are primarily a result of sales of universal life products in 2008.

**Net Investment Income**

Net investment income decreased \$1.4 million to \$55.7 million for the three months ended September 30, 2009 and \$3.3 million to \$166.5 million for the nine months ended September 30, 2009 compared to the same periods in 2008. These decreases were primarily due to the increased amount of cash we held and lower account values on interest sensitive products. Refer to the *Investments* discussion for further analysis.

**Policy Benefits**

Policy benefits increased \$6.1 million to \$75.9 million for the three month period ended September 30, 2009 from \$69.8 million for the same period in 2008. In the nine months ended September 30, 2009, policy benefits increased \$6.5 million to \$222.1 million compared to the same period in 2008. These increases were a result of higher death claims in the prior period.

**Commissions**

Commissions decreased \$5.1 million to \$25.2 million for the three months ended September 30, 2009 and \$33.8 million to \$68.9 million for the nine months ended September 30, 2009 compared to the same periods in 2008. We recorded a reversal of \$0.9 million related to the previously noted settlement payments. Excluding the effect of the settlement payments, commissions decreased \$32.9 million for the nine months ended September 30, 2009. The decreases can be primarily attributed to lower first year universal life premiums in our Independent Marketing Group.

**Other Operating Costs and Expenses**

Other operating costs and expenses decreased \$17.8 million to \$48.0 million for the three months ended September 30, 2009 and \$32.0 million to \$138.7 million for the nine months ended September 30, 2009 compared to the same periods in 2008. We recorded a reversal of \$4.5 million related to the previously noted settlement payments. Excluding the effect of the settlement payments, other operating costs and expenses decreased \$27.5 million for the nine months ended September 30, 2009. The decreases for the three and nine months ended September 30, 2009 were primarily due to the reduction in Credit Life and Multiple Line marketing division operating costs, which are related to the establishment of the lawsuits reserve in the third quarter of 2008. A portion of the decrease can be attributed to the decline in production bonuses due to lower sales in 2009 and a planned decrease in marketing expenses from our Direct Marketing area.

**Change in Deferred Policy Acquisition Costs**

We incur significant costs in connection with acquiring new business. Such costs are capitalized as deferred policy acquisition costs ( DAC ) and are amortized over the life of the policy. The following table presents the components of the change in DAC for the three and nine months ended September 30, 2009 and 2008:

|                               | Three Months Ended    |                       |                         | Nine Months Ended     |                       |                         |
|-------------------------------|-----------------------|-----------------------|-------------------------|-----------------------|-----------------------|-------------------------|
|                               | September 30,<br>2009 | September 30,<br>2008 | Increase/<br>(Decrease) | September 30,<br>2009 | September 30,<br>2008 | Increase/<br>(Decrease) |
|                               | (in thousands)        |                       |                         |                       |                       |                         |
| Acquisition costs capitalized | \$ 19,757             | \$ 26,272             | \$ (6,515)              | \$ 54,881             | \$ 111,934            | \$ (57,053)             |
| Amortization of DAC           | (19,580)              | (18,689)              | (891)                   | (55,033)              | (65,151)              | 10,118                  |
| <b>Change in DAC</b>          | <b>\$ 177</b>         | <b>\$ 7,583</b>       | <b>\$ (7,406)</b>       | <b>\$ (152)</b>       | <b>\$ 46,783</b>      | <b>\$ (46,935)</b>      |

Acquisition costs capitalized decreased \$6.5 million to \$19.8 million for the three months ended September 30, 2009 and \$57.1 million to \$54.9 million for the nine months ended September 30, 2009 compared to the same periods in 2008. These decreases are primarily related to the decrease in commission expenses and acquisition costs related to

lower sales of our universal life products.

The amortization of DAC as a percentage of gross profits for the nine months ended September 30, 2009 remained relatively flat at 41.2% compared to 42.5% in the same period in 2008.

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An increase in the lapse rate would cause an acceleration in DAC amortization/ (write-off); therefore controlling the lapse rate is an important measure of company performance. Average lapse/surrender rates in the Life segment have remained relatively unchanged with an annualized rate of 10.4% in the nine months ended September 30, 2009 compared to 10.2% in the same period in 2008.

The following table summarizes changes in the Life segment's direct in-force amounts and direct policy counts:

|                                      | <b>As of<br/>September<br/>30,<br/>2009</b> | <b>As of September<br/>30,<br/>2008</b> |
|--------------------------------------|---|---|
|                                      | <b>(in thousands)</b>                       |   |
| Life Insurance in-force:             |   |   |
| Traditional life                     | \$ 46,270,129                               | \$ 46,606,991                           |
| Interest sensitive life              | 23,151,676                                  | 23,449,047                              |
| <b>Total life insurance in-force</b> | <b>\$ 69,421,805</b>                        | <b>\$ 70,056,038</b>                    |

|                                      | <b>As of<br/>September<br/>30,<br/>2009</b> | <b>As of September<br/>30,<br/>2008</b> |
|--------------------------------------|---|---|
|                                      | <b>(in thousands)</b>                       |   |
| Number of policies:                  |   |   |
| Traditional life                     | 2,366,373                                   | 2,514,677                               |
| Interest sensitive life              | 173,770                                     | 174,673                                 |
| <b>Total life insurance policies</b> | <b>2,540,143</b>                            | <b>2,689,350</b>                        |

Life insurance in-force decreased \$449.1 million to \$69.4 billion in the nine months ended September 30, 2009 compared to an increase of \$1.4 billion to \$70.1 billion for the period ended September 30, 2008.

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

The Annuity segment develops, sells, and supports a variety of immediate and deferred annuities, including fixed, equity-indexed and variable products. We sell these products through independent agents, brokers, financial institutions, and employee agents.

Annuity segment financial results for the periods indicated were as follows:

|   | <b>Three Months Ended September 30,</b> |                 | <b>Increase/ (Decrease)</b> | <b>Nine Months Ended September 30,</b> |                  | <b>Increase/ (Decrease)</b> |
|---|---|-----------------|-----------------------------|--|------------------|-----------------------------|
|   | <b>2009</b>                             | <b>2008</b>     |                             | <b>2009</b>                            | <b>2008</b>      |                             |
|   | <b>(in thousands)</b>                   |                 |                             |  |                  |                             |
| <b>Revenues:</b>  |   |                 |                             |  |                  |                             |
| Premiums  | \$ 58,284                               | \$ 18,843       | \$ 39,441                   | \$ 149,141                             | \$ 90,489        | \$ 58,652                   |
| Other policy revenues                                     | 3,723                                   | 4,955           | (1,232)                     | 11,320                                 | 15,704           | (4,384)                     |
| Net investment income                                     | 118,963                                 | 98,319          | 20,644                      | 331,607                                | 278,917          | 52,690                      |
| Other income (loss)                                       | (2,168)                                 | (1,506)         | (662)                       | 295                                    | (4,550)          | 4,845                       |
| <b>Total revenues</b>                                     | <b>178,802</b>                          | <b>120,611</b>  | <b>58,191</b>               | <b>492,363</b>                         | <b>380,560</b>   | <b>111,803</b>              |
| <b>Benefits and expenses:</b>                             |   |                 |                             |  |                  |                             |
| Policy benefits   | 63,776                                  | 25,433          | 38,343                      | 170,584                                | 111,137          | 59,447                      |
| Interest credited to policy account balances              | 84,320                                  | 64,252          | 20,068                      | 231,414                                | 175,311          | 56,103                      |
| Commissions   | 21,807                                  | 10,791          | 11,016                      | 77,790                                 | 60,758           | 17,032                      |
| Other operating costs and expenses                        | 14,511                                  | 10,438          | 4,073                       | 43,794                                 | 32,910           | 10,884                      |
| Change in deferred policy acquisition costs               | (9,650)                                 | 5,672           | (15,322)                    | (41,117)                               | (18,257)         | (22,860)                    |
| <b>Total benefits and expenses</b>                        | <b>174,764</b>                          | <b>116,586</b>  | <b>58,178</b>               | <b>482,465</b>                         | <b>361,859</b>   | <b>120,606</b>              |
| <b>Income before other items and federal income taxes</b> | <b>\$ 4,038</b>                         | <b>\$ 4,025</b> | <b>\$ 13</b>                | <b>\$ 9,898</b>                        | <b>\$ 18,701</b> | <b>\$ (8,803)</b>           |

Earnings remained relatively flat for the three months ended September 30, 2009 compared to the same period in 2008. For the nine months ended September 30, 2009, earnings decreased \$8.8 million, compared to the same period in 2008. The decrease in the nine months ended September 30, 2009 was primarily due to increased operating costs and expenses. These costs increased \$4.1 million and \$10.9 million to \$14.5 million and \$43.8 million for the three and nine months ended September 30, 2009, respectively. These are discussed in further detail below.

**Three and Nine Months ended September 30, 2009 compared with the Three and Nine Months ended September 30, 2008 Annuity**

**Premiums**

Annuity premium and deposit amounts received during the three and nine months ended September 30, 2009 and 2008 are shown in the table below:

**Increase/**

**Increase/**

|   | Three Months Ended<br>September 30, |                  |                  | Nine Months Ended<br>September 30, |                  |                  |
|---|-------------------------------------|------------------|------------------|------------------------------------|------------------|------------------|
|   | 2009                                | 2008             | (Decrease)       | 2009                               | 2008             | (Decrease)       |
|   | (in thousands)                      |                  |                  |                                    |                  |                  |
| Fixed deferred annuity                        | \$ 287,528                          | \$ 185,239       | \$ 102,289       | \$ 1,429,434                       | \$ 1,233,331     | \$ 196,103       |
| Equity indexed<br>deferred annuity            | 56,497                              | 17,878           | 38,619           | 119,701                            | 61,305           | 58,396           |
| Variable deferred<br>annuity                  | 26,221                              | 22,909           | 3,312            | 67,452                             | 83,112           | (15,660)         |
| Single premium<br>immediate annuity<br>(SPIA) | 60,197                              | 20,773           | 39,424           | 153,687                            | 95,131           | 58,556           |
| <b>Total</b>                                  | <b>430,443</b>                      | <b>246,799</b>   | <b>183,644</b>   | <b>1,770,274</b>                   | <b>1,472,879</b> | <b>297,395</b>   |
| Less: policy deposits                         | (372,159)                           | (227,956)        | (144,203)        | (1,621,133)                        | (1,382,390)      | (238,743)        |
| <b>Total earned<br/>premiums</b>              | <b>\$ 58,284</b>                    | <b>\$ 18,843</b> | <b>\$ 39,441</b> | <b>\$ 149,141</b>                  | <b>\$ 90,489</b> | <b>\$ 58,652</b> |

Fixed deferred annuity premiums and deposits increased \$102.3 million to \$287.5 million for the three months ended September 30, 2009 and \$196.1 million to \$1.4 billion for the nine months ended September 30, 2009 compared to the same periods in 2008. Equity indexed annuity premiums and deposits increased by \$38.6 million to \$56.5 million for the three months ended September 30, 2009 and \$58.4 million to \$119.7 million for the nine months ended September 30, 2009 as compared to the same periods in 2008. For the third quarter and nine months ended 2009, we continue to see an increase in sales of our fixed annuity products, primarily as a result of lower rates on competitive products such as CD s and money market funds.

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Premiums from single premium immediate annuities increased \$39.4 million to \$60.2 million for the three months ended September 30, 2009 and \$58.6 million to \$153.7 million for the nine months ended September 30, 2009 compared to the same periods in 2008. As noted in our fixed annuity discussion, our single premium immediate annuity premiums and deposits have also benefited from the lower rates on the various competitive fixed products. Variable deferred annuity premiums and deposits increased \$3.3 million to \$26.2 million for the three months ended September 30, 2009 and decreased \$15.7 million to \$67.5 million for the nine months ended September 30, 2009 compared to the same periods in 2008. We believe the decline in the nine months ended September 30, 2009 is a continuation of investors seeking the safety of less volatile financial investments.

**Other Policy Revenues**

Other policy revenues declined to \$3.7 million and \$11.3 million for the three and nine months ended September 30, 2009, respectively, compared to \$5.0 million and \$15.7 million for the same periods in 2008, respectively. Income from surrender charges fell during the third quarter of 2009, as there was a change in the mix of surrenders between those which incurred surrender charges and those where policyholders utilized optional penalty-free withdrawal provisions.

**Net Investment Income**

Net Investment income increased to \$119.0 million and \$331.6 million for the three and nine months ended September 30, 2009, respectively compared to \$98.3 million and \$278.9 million for the same periods in 2008, respectively. The increase in the three and nine months ended September 30, 2009 was largely a result of an increase in fixed deferred annuity account values compared to the same periods in 2008. The increase in invested assets and the change in the derivative hedge total return (realized and unrealized gain/ (loss)) also added to the increases in net investment income. Refer to the *Investments* discussion for further analysis of net investment income.

Realized and unrealized gains or losses on the derivative hedge portfolio that supports the equity index annuities portfolio are recognized in earnings as investment income. Equity indexed annuities include a fixed host annuity contract and an embedded equity derivative option. The gain or loss on the embedded option is recognized in earnings as interest credited to policyholders. The following table details the gain or loss on derivatives related to equity indexed annuities (in thousands):

|   | Three Months Ended |            |            | Nine Months Ended |             |             |
|---|--------------------|------------|------------|-------------------|-------------|-------------|
|   | September 30,      |            | Increase/  | September 30,     |             | Increase/   |
|   | 2009               | 2008       | (Decrease) | 2009              | 2008        | (Decrease)  |
| Derivative hedge gain/ (loss) included in net investment income | \$ 6,103           | \$ (4,005) | \$ 10,108  | \$ 4,002          | \$ (16,741) | \$ 20,743   |
| Embedded derivative gain/ (loss) included in interest credited  | \$ (5,970)         | \$ 2,624   | \$ (8,594) | \$ (6,708)        | \$ 16,942   | \$ (23,650) |



**Table of Contents****Interest Spread and Account Values**

The table below shows the interest spreads for our annuity products.

|   | <b>Nine Months Ended September<br/>30,</b> |             |
|---|--|-------------|
|   | <b>2009</b>                                | <b>2008</b> |
|   | <b>(dollar amounts in thousands)</b>       |             |
| <b>Fixed deferred annuity</b>                           |  |             |
| <b>Interest spread:</b>                                 |  |             |
| Dollar amount   | \$ 85,299                                  | \$ 83,382   |
| Annualized rate   | 1.54%                                      | 1.71%       |
| <b>Variable deferred annuity</b>                        |  |             |
| <b>Mortality and expense charge:</b>                    |  |             |
| Dollar amount   | \$ 2,942                                   | \$ 3,619    |
| Annualized rate   | 1.14%                                      | 1.21%       |
| <b>Single premium immediate annuity (SPIA)</b>          |  |             |
| <b>Gross interest and mortality margins:</b>            |  |             |
| Dollar amount   | \$ 5,404                                   | \$ 1,717    |
| Annualized rate   | 0.98%                                      | 0.33%       |
| <b>Total annuity:</b>                                   |  |             |
| <b>Gross interest margins including SPIA mortality:</b> |  |             |
| Dollar amount   | \$ 93,645                                  | \$ 88,718   |
| Annualized rate   | 1.59%                                      | 1.70%       |

*Interest Spreads:* The profits on fixed deferred annuity contracts and single premium immediate annuities are driven by interest spreads and, to a lesser extent, other policy fees. Target interest margins vary by product depending on such factors as the level and term of interest guarantees, interest bonuses, level of commissions, length of surrender charge periods and the level of inherent risk.

As shown in the table above, interest spreads on fixed deferred annuities decreased 17 basis points to 1.54% for the nine months ended September 30, 2009 from 1.71% for the same period in 2008. The portion of supporting assets comprised of cash holdings is a significant factor here. For the nine months ended September 30, 2009, our cash position increased from 4.09% to 4.97% of the portfolio. The yield on cash decreased 186 basis points from 3.63% in the nine months ended September 2008 to 1.77% in the nine months ended September 2009.

The average rate for variable annuity mortality and expense charges decreased 7 basis points for the nine months ended September 30, 2009 from 1.21% for the same period in 2008.

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*Account Values:* In addition to interest margins, we monitor account values and changes in account values as a key indicator of the performance of our Annuity segment. The table below shows the account values and the changes in these values as a result of net inflows, fees, interest credited and market value changes for the nine months ended September 30, 2009 and 2008.

|  | <b>Nine Months Ended<br/>September 30,</b> |                     | <b>Increase/<br/>(Decrease)</b> |
|--|--|---------------------|---------------------------------|
|  | <b>2009</b>                                | <b>2008</b>         |                                 |
|  | <b>(in thousands)</b>                      |                     |                                 |
| <b>Fixed deferred annuity:</b>           |  |                     |                                 |
| Account value, beginning of period       | \$ 6,918,365                               | \$ 6,210,456        | \$ 707,909                      |
| Net inflows                              | 705,327                                    | 423,979             | 281,348                         |
| Fees                                     | (8,365)                                    | (12,068)            | 3,703                           |
| Interest credited                        | 228,960                                    | 174,220             | 54,740                          |
| <b>Account value, end of period</b>      | <b>\$ 7,844,287</b>                        | <b>\$ 6,796,587</b> | <b>\$ 1,047,700</b>             |
| <b>Variable deferred annuity:</b>        |  |                     |                                 |
| Account value, beginning of period       | \$ 309,011                                 | \$ 429,505          | \$ (120,494)                    |
| Net inflows                              | 13,735                                     | 21,604              | (7,869)                         |
| Fees                                     | (2,942)                                    | (3,619)             | 677                             |
| Change in market value and other         | 60,943                                     | (77,378)            | 138,321                         |
| <b>Account value, end of period</b>      | <b>\$ 380,747</b>                          | <b>\$ 370,112</b>   | <b>\$ 10,635</b>                |
| <b>Single premium immediate annuity:</b> |  |                     |                                 |
| Reserve, beginning of period             | \$ 701,141                                 | \$ 693,137          | \$ 8,004                        |
| Net inflows                              | 51,816                                     | (15,614)            | 67,430                          |
| Interest and mortality                   | 23,709                                     | 26,257              | (2,548)                         |
| <b>Reserve, end of period</b>            | <b>\$ 776,666</b>                          | <b>\$ 703,780</b>   | <b>\$ 72,886</b>                |

*Fixed Deferred Annuity:* For the nine months ended September 30, 2009, account values associated with fixed deferred annuities increased \$925.9 million to \$7.8 billion, compared to an increase of \$586.1 million to \$6.8 billion for the same period in 2008. The change in account value for 2009 was attributable to net inflows of \$705.3 million and interest credited of \$229.0 million less fees of \$8.4 million. Sales of fixed deferred annuity products rose to \$1.4 billion for the nine months ended September 30, 2009 compared to \$1.2 billion in the same period of 2008. The sales of these products continued to increase in 2009 as rates on competing fixed products declined.

Fees charged against account values decreased \$3.7 million to \$8.4 million for the nine months ended September 30, 2009 compared to \$12.1 million for the same period in 2008. These fees include withdrawal charges levied against policies being partially withdrawn or fully surrendered. Income from surrender charges continues to decline as we had a change in the mix of surrenders from 2008 to 2009 between products which earned surrender charges and products which include an option for certain penalty-free surrenders.

*Variable Deferred Annuity:* For the nine months ended September 30, 2009, variable deferred annuity account values increased \$71.7 million to \$380.7 million, compared to a decrease of \$59.4 million to \$370.1 million for the same period in 2008. The increase in account value for the nine months ended September 30, 2009 was mainly due to market appreciation. The decrease in value for the nine months ended September 30, 2008 is primarily a result of the

weak financial markets in 2008.

*Single Premium Immediate Annuity:* For the nine months ended September 30, 2009, single premium immediate annuity reserves increased \$75.5 million to \$776.7 million, compared to an increase of \$10.6 million to \$703.8 million for the same period in 2008. This increase is due to reserves established on inflows from new sales and increases in reserves on existing policies due to interest and mortality charges. Net inflows for the nine months ended September 30, 2009 were \$51.8 million, compared to net outflows of \$15.6 million for the same period in 2008.

***Policy Benefits***

Benefits consist of annuity payments and reserve increases on single premium immediate annuity contracts. These benefits increased \$38.3 million to \$63.8 million for the three months ended September 30, 2009 and \$59.4 million to \$170.6 million for the nine months ended September 30, 2009 compared to the same periods in 2008. The changes for the three and nine months are primarily due to an increase in single premium immediate annuity in-force volume resulting from increased single premium immediate annuity sales.

**Table of Contents****Interest Credited to Policy Account Balances**

Interest credited increased \$20.1 million to \$84.3 million for the three months ended September 30, 2009 and \$56.1 million to \$231.4 million for the nine months ended September 30, 2009 compared to the same periods in 2008. The increases in 2009 are primarily due to higher average fixed deferred annuity account balances and the change in embedded derivative total return (embedded derivative gain/ (loss)).

**Commissions**

Commissions increased \$11.0 million to \$21.8 million for the three months ended September 30, 2009 and \$17.0 million to \$77.8 million for the nine months ended September 30, 2009 compared to the same periods in 2008. The changes in the third quarter and nine months ended are primarily a result of increased sales of fixed deferred, equity indexed, and single premium immediate annuities.

**Other Operating Costs and Expenses**

Other operating costs and expenses increased \$4.1 million to \$14.5 million for the three months ended September 30, 2009 and \$10.9 million to \$43.8 million for the nine months ended September 30, 2009 compared to the same periods in 2008. These increases are attributable to defined benefit pension costs, fees incurred for compliance with Sarbanes-Oxley Act requirements, and information technology enhancements. We also experienced higher marketing expenses in our Independent Marketing Group, from increased sales.

**Change in Deferred Policy Acquisition Costs**

The following table presents the components of the change in DAC for the three and nine months ended September 30, 2009 and 2008:

|                               | Three Months Ended    |                   |                         | Nine Months Ended     |                  |                         |
|-------------------------------|-----------------------|-------------------|-------------------------|-----------------------|------------------|-------------------------|
|                               | September 30,<br>2009 | 2008              | Increase/<br>(Decrease) | September 30,<br>2009 | 2008             | Increase/<br>(Decrease) |
|                               | (in thousands)        |                   |                         |                       |                  |                         |
| Acquisition costs capitalized | \$ 27,055             | \$ 14,452         | \$ 12,603               | \$ 91,897             | \$ 73,995        | \$ 17,902               |
| Amortization of DAC           | (17,405)              | (20,124)          | 2,719                   | (50,780)              | (55,738)         | 4,958                   |
| <b>Change in DAC</b>          | <b>\$ 9,650</b>       | <b>\$ (5,672)</b> | <b>\$ 15,322</b>        | <b>\$ 41,117</b>      | <b>\$ 18,257</b> | <b>\$ 22,860</b>        |

Acquisition costs capitalized increased \$12.6 million to \$27.1 million for the three months ended September 30, 2009 and \$17.9 million to \$91.9 million for the nine months ended September 30, 2009 compared to the same periods in 2008. The increases in 2009 were the result of commissions and other costs related to increased sales of fixed annuities.

The amortization of DAC as a percentage of gross profits for the nine months ended September 30, 2009 and 2008 was 66.0% and 64.9%, respectively. The slight change in the ratio was primarily driven by lower gross profits in 2009.

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

The Health segment is primarily focused on supplemental and limited benefit coverage products including Medicare Supplement insurance for the aged population as well as cancer and hospital surgical for the general population. Other health products include credit accident and health, employer-based stop loss, major medical and others.

Health segment financial results for the periods indicated were as follows:

|   | <b>Three Months Ended</b> |                   | <b>Increase/<br/>(Decrease)</b> | <b>Nine Months Ended</b> |                    | <b>Increase/<br/>(Decrease)</b> |
|---|---------------------------|-------------------|---------------------------------|--------------------------|--------------------|---------------------------------|
|   | <b>September 30,</b>      |                   |                                 | <b>September 30,</b>     |                    |                                 |
|   | <b>2009</b>               | <b>2008</b>       | <b>(in<br/>thousands)</b>       | <b>2009</b>              | <b>2008</b>        |                                 |
| <b>Revenues:</b>  |                           |                   |                                 |                          |                    |                                 |
| Premiums  | \$ 74,428                 | \$ 72,688         | \$ 1,740                        | \$ 224,001               | \$ 217,765         | \$ 6,236                        |
| Net investment income   | 4,031                     | 4,183             | (152)                           | 12,080                   | 12,416             | (336)                           |
| Other income  | 2,729                     | 3,459             | (730)                           | 7,757                    | 10,145             | (2,388)                         |
| <b>Total revenues</b>   | <b>81,188</b>             | <b>80,330</b>     | <b>858</b>                      | <b>243,838</b>           | <b>240,326</b>     | <b>3,512</b>                    |
| <b>Benefits and expenses:</b>   |                           |                   |                                 |                          |                    |                                 |
| Policy benefits   | 57,217                    | 51,531            | 5,686                           | 178,983                  | 166,581            | 12,402                          |
| Commissions   | 11,226                    | 11,491            | (265)                           | 34,038                   | 32,090             | 1,948                           |
| Other operating costs<br>and expenses   | 15,267                    | 23,713            | (8,446)                         | 46,834                   | 53,530             | (6,696)                         |
| Change in deferred<br>policy acquisition costs                                    | 423                       | 1,503             | (1,080)                         | 4,262                    | 4,641              | (379)                           |
| <b>Total benefits and<br/>expenses</b>  | <b>84,133</b>             | <b>88,238</b>     | <b>(4,105)</b>                  | <b>264,117</b>           | <b>256,842</b>     | <b>7,275</b>                    |
| <b>(Loss) from operations<br/>before other items and<br/>federal income taxes</b> | <b>\$ (2,945)</b>         | <b>\$ (7,908)</b> | <b>\$ 4,963</b>                 | <b>\$ (20,279)</b>       | <b>\$ (16,516)</b> | <b>\$ (3,763)</b>               |

The Health segment experienced losses from operations of \$2.9 million and \$20.3 million for the three and nine months ended September 30, 2009, respectively, as compared to losses of \$7.9 million and \$16.5 million, respectively, for the same periods in 2008. During the three months ended September 30, 2009, the decrease in losses was due primarily to a decrease in other operating costs and expenses in comparison to 2008 when a reserve was established for a class action lawsuit (discussed below). There was also an increase in premiums earned on our hospital surgical and Medicare supplement products. The aforementioned decreases in losses were partially offset by an increase in policy benefits due to a high level of claims incurred in our major medical and Medicare supplement product lines for the three months ended September 30, 2009. During the nine months ended September 30, 2009, the decrease in earnings was primarily due to an increase in policy benefits attributable to growth in claims incurred on the Medicare supplement and hospital surgical product lines, which was partially offset by an increase in hospital surgical premiums and the absence of the legal reserve discussed above. These items are discussed in further detail below.

During the second quarter of 2009, we paid premium refunds as a result of a class action settlement made by us in May, 2007. The refunds on the credit accident and health product resulted in issuing \$12.4 million of settlement payments comprised of credit accident and health premium refunds and other related damages and fees, to certain

previously insured persons. The Health segment was fully reserved for this settlement and did not incur any related impact to its (loss) from operations during the nine months ended September 30, 2009. However, during the second quarter of 2009, several categories of the consolidated statements of income were impacted by the recording of the settlement as follows: premiums decreased by \$4.3 million, other income decreased by \$0.8 million, commissions decreased by \$0.9 million, and other operating costs and expenses decreased by \$4.3 million. For additional information on this settlement, refer to the discussion of the *Perkins* litigation in our Commitments and Contingencies footnote within the Notes to the Consolidated Financial Statements in our amended Form 10 Registration Statement, filed with the SEC on July 1, 2009.

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The following tables summarize key data for the Health segment:

|                                       | Three months ended<br>September 30, 2009 |             | Three months ended September 30,<br>2008 |             |
|---------------------------------------|--|-------------|--|-------------|
|                                       | Premiums                                 |             | Premiums                                 |             |
|                                       | Dollars                                  | Percentage  | Dollars                                  | Percentage  |
|                                       | (dollar amounts in thousands)            |             |  |             |
| Medicare supplement                   | \$ 32,517                                | 43.7%       | \$ 29,786                                | 41.0%       |
| Managing general underwriter<br>Group | 3,280                                    | 4.4%        | 3,507                                    | 4.8%        |
| Major medical                         | 8,280                                    | 11.1%       | 7,804                                    | 10.7%       |
| Hospital surgical                     | 7,007                                    | 9.4%        | 9,384                                    | 12.9%       |
| Long term care                        | 12,886                                   | 17.3%       | 10,544                                   | 14.5%       |
| Supplemental insurance                | 497                                      | 0.7%        | 581                                      | 0.8%        |
| Credit accident and health            | 2,037                                    | 2.7%        | 2,040                                    | 2.8%        |
| All other                             | 5,924                                    | 8.0%        | 6,787                                    | 9.3%        |
|                                       | 2,000                                    | 2.7%        | 2,255                                    | 3.2%        |
| <b>Total</b>                          | <b>\$ 74,428</b>                         | <b>100%</b> | <b>\$ 72,688</b>                         | <b>100%</b> |

|                                       | As of September 30, 2009 |             | As of September 30, 2008 |             |
|---------------------------------------|--------------------------|-------------|--------------------------|-------------|
|                                       | Certificates / Policies  |             | Certificates / Policies  |             |
|                                       | Number                   | Percentage  | Number                   | Percentage  |
| Medicare supplement                   | 58,804                   | 8.5%        | 59,533                   | 8.1%        |
| Managing general underwriter<br>Group | 116,227                  | 16.8%       | 137,008                  | 18.5%       |
| Major medical                         | 18,878                   | 2.7%        | 19,435                   | 2.6%        |
| Hospital surgical                     | 3,834                    | 0.6%        | 5,459                    | 0.7%        |
| Long term care                        | 15,790                   | 2.3%        | 14,708                   | 2.0%        |
| Supplemental insurance                | 1,929                    | 0.3%        | 2,094                    | 0.3%        |
| Credit accident and health            | 97,743                   | 14.1%       | 112,573                  | 15.2%       |
| All other                             | 311,738                  | 45.1%       | 315,188                  | 42.7%       |
|                                       | 66,612                   | 9.6%        | 72,918                   | 9.9%        |
| <b>Total</b>                          | <b>691,555</b>           | <b>100%</b> | <b>738,916</b>           | <b>100%</b> |

### Three Months ended September 30, 2009 compared with the Three Months ended September 30, 2008 - Health Premiums

The Health segment's earned premiums were \$74.4 million for the three months ended September 30, 2009, compared to \$72.7 million earned for the same period in 2008. The increase was primarily attributable to increased sales of our hospital surgical and Medicare supplement products. We continue to focus our marketing efforts primarily on our hospital surgical and Medicare supplement products. The foregoing increase was partially offset by a decline in the sales of our major medical product which we expect to continue in the near term.

### Net Investment Income

Net investment income remained relatively flat at approximately \$4.0 million and \$4.2 million for the three months ended September 30, 2009 and 2008, respectively. Refer to the *Investments* discussion for further analysis.

### Policy Benefits

The benefit ratio increased to 76.9% for the three months ended September 30, 2009, from 70.9% for same period in 2008. High levels of claims on the major medical and Medicare supplement products were primary contributors to the increase in the benefit ratio. The benefit ratio increase also reflects major medical and Medicare supplement products

benefits costs outpacing their earned premium. This increase was partially offset by an improvement in the hospital surgical benefit ratio as a result of premium rate increases implemented during 2009.



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

Commissions decreased by \$0.3 million to \$11.2 million for the three months ended September 30, 2009, from \$11.5 million for the same period in 2008. This decrease was primarily due to a decline in premiums earned on our credit accident and health product which was caused by a decrease in the volume of business written through automobile dealers due to the tight credit markets.

**Other Operating Costs and Expenses**

Other operating costs and expenses decreased by \$8.4 million to \$15.3 million for the three months ended September 30, 2009 from \$23.7 million for the same period in 2008. The decrease was primarily attributed to a reserve for the previously noted settlement payments being established in 2008. The foregoing decrease was partially offset by information technology consulting fees and legal expenses associated with health claims incurred in the three months ended September 30, 2009.

**Change in Deferred Policy Acquisition Costs**

The following table presents the components of the change in DAC expense for the three months ended September 30, 2009 and 2008:

|                               | <b>Three Months Ended<br/>September 30,<br/>2009</b> |              | <b>2008</b>       | <b>Increase/<br/>(Decrease)</b> |
|-------------------------------|--|--------------|-------------------|---------------------------------|
|                               | <b>(in thousands)</b>                                |              |                   |                                 |
| Acquisition costs capitalized | \$   | 6,197        | \$ 5,592          | \$ 605                          |
| Amortization of DAC           |  | (6,620)      | (7,095)           | 475                             |
| <b>Change in DAC</b>          | <b>\$</b>  | <b>(423)</b> | <b>\$ (1,503)</b> | <b>\$ 1,080</b>                 |

The change in DAC expense was \$0.4 million for the three months ended September 30, 2009, compared to \$1.5 million for the same period in 2008. The change was primarily attributed to an increase in acquisition costs capitalized which was related to sales of our credit accident and health products. This increase in acquisition costs capitalized was due to a shift in sales by producers earning lower commission rates to producers earning higher commission rates. Generally, we expect the change in DAC expense to continue to follow changes in the in-force block by policy duration.

As of September 30, 2009, the Health segment related DAC was \$70.6 million compared to \$75.3 million as of September 30, 2008. The decrease in DAC primarily reflects a reversal of acquisition costs previously capitalized and related amortization expense associated with the previously noted settlement payments.

**Nine Months ended September 30, 2009 compared with the Nine Months ended September 30, 2008 Health**

|                              | <b>Premiums</b>                                 |                   |   |                   |
|------------------------------|---|-------------------|---|-------------------|
|                              | <b>Nine months ended<br/>September 30, 2009</b> |                   | <b>Nine months ended September 30,<br/>2008</b> |                   |
|                              | <b>Dollars</b>                                  | <b>Percentage</b> | <b>Dollars</b>                                  | <b>Percentage</b> |
|                              | <b>(dollar amounts in thousands)</b>            |                   |   |                   |
| Medicare supplement          | \$ 92,695                                       | 41.4%             | \$ 90,691                                       | 41.6%             |
| Managing general underwriter | 17,021  | 7.6%              | 10,151  | 4.7%              |
| Group                        | 25,271  | 11.3%             | 25,185  | 11.6%             |
| Major medical                | 22,944  | 10.2%             | 30,170  | 13.9%             |
| Hospital surgical            | 37,960  | 16.9%             | 27,820  | 12.8%             |
| Long term care               | 1,567   | 0.7%              | 2,086   | 1.0%              |
| Supplemental insurance       | 6,243   | 2.8%              | 6,338   | 2.9%              |
| Credit accident and health   | 13,873  | 6.2%              | 18,507  | 8.5%              |

|              |            |      |            |      |
|--------------|------------|------|------------|------|
| All other    | 6,427      | 2.9% | 6,817      | 3.0% |
| <b>Total</b> | \$ 224,001 | 100% | \$ 217,765 | 100% |

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

The Health segment's earned premiums increased \$6.2 million or 2.9% to \$224.0 million for the nine month period ended September 30, 2009, compared to \$217.8 million earned for the same period in 2008. Related to the previously noted settlement payments, we recorded a reversal of \$4.3 million. Excluding the effect of the settlement payments, premiums increased \$10.5 million during the nine months ended September 30, 2009. The increase was primarily attributable to an increase in premiums earned on our hospital surgical product as well as a one-time realized premium associated with the unwinding of an MGU agreement. The timing of the premium recognition for this pool was based on the timing of the settlements and participation based allocation in the first quarter of 2009. The aforementioned earned premium increases were partially offset by a decrease in premium earned on our major medical product, due to the run-off of the product.

As expected, major medical business continues to lapse in favor of less comprehensive hospital surgical coverage. As of September 30, 2009, there were about 3,800 major medical policies in-force compared to about 5,500 as of September 30, 2008, a decrease of 29.8%. We expect the major medical policies in-force to continue to decline at the current pace. This line of business is no longer competitively priced and new sales have diminished. However, major medical premiums will continue to influence Health segment results since the average premium per policy from this product may be at least twice that of other products sold. The decline in major medical is offset by the increase in hospital surgical policies to about 15,800 as of September 30, 2009 from 14,700 as of September 30, 2008. Medicare supplement policies decreased slightly by 1.2% to about 58,800 policies in-force as of September 30, 2009 from about 59,500 policies in-force as of September 30, 2008. We anticipate that Medicare supplement and hospital surgical policies will continue to be the main drivers of top line growth in 2009.

***Net Investment Income***

Net investment income remained relatively flat at approximately \$12.1 million and \$12.4 million for the nine months ended September 30, 2009 and 2008, respectively. Refer to the *Investments* discussion for further analysis.

***Policy Benefits***

The benefit ratio increased to 79.9% for the nine months ended September 30, 2009 from 76.5% for same period in 2008. The benefit ratio increase primarily reflects the Medicare supplement and hospital surgical products' percentage increase of benefit costs outpacing the percentage increase in the related earned premium. Much of the increase was attributable to growth in the volume of claims incurred on the hospital surgical and major medical product line. The increase in claims on the hospital surgical line primarily resulted from aggressive rates and underwriting practices in prior periods. Rate increases to the hospital surgical line were made over the last two years, and we anticipate that these rate increases will positively impact our benefits ratio in the remainder of 2009. Our major medical product line also contributed to the increase in the benefit ratio as a result of two significantly large claims which were incurred earlier in 2009. Corrective rate actions to the hospital surgical and major medical lines continue to be made and we anticipate that these rate increases will continue to positively impact our benefits ratio for the remainder of 2009 and into 2010. The benefit ratios for these products improved by 10.0% in the second quarter and 12.0% in the third quarter of 2009. The 2008 results were impacted by expenses associated with litigation involving one MGU that resulted in \$8.9 million of reinsurance write offs in the first quarter of 2008. We have terminated our relationship with this particular MGU.

***Commissions***

Commissions increased by \$1.9 million to \$34.0 million for the nine months ended September 30, 2009, from \$32.1 million for the same period in 2008. This increase is primarily associated with the increase in premium from MGUs during the first quarter of 2009, as noted above, and an increase in premium earned on our hospital surgical line. The foregoing increase was partially offset by a decrease in commission due to a reduction in new production of our credit accident and health products.

***Other Operating Costs and Expenses***

Other operating costs and expenses decreased by \$6.7 million to \$46.8 million for the nine months ended September 30, 2009 from \$53.5 million for the same period in 2008. We recorded a reversal of \$4.3 million related to the settlement payments noted above. Excluding the effect of the settlement payments, other operating costs and expenses decreased \$2.4 million during the nine months ended September 30, 2009. The decrease was primarily

attributed to the absence of a legal reserve for the previously noted settlement payments which was established in September 2008. The foregoing decrease was partially offset by increases in an excise tax on reinsured foreign premiums, employee benefits, information technology consulting fees and a one-time marketing expense of \$2.6 million for the write-off for agents' balances as part of reconciliations performed in the second quarter of 2009.

**Table of Contents****Change in Deferred Policy Acquisition Costs**

The following table presents the components of the change in DAC expense for the nine months ended September 30, 2009 and 2008:

|                               | <b>Nine Months Ended<br/>September 30,<br/>2009</b> |                   | <b>2008</b>   | <b>Increase/<br/>(Decrease)</b> |
|-------------------------------|---|-------------------|---------------|---------------------------------|
|                               | <b>(in thousands)</b>                               |                   |               |                                 |
| Acquisition costs capitalized | \$ 12,117   | \$ 15,736         | \$ (3,619)    |                                 |
| Amortization of DAC           | (16,379)  | (20,377)          | 3,998         |                                 |
| <b>Change in DAC</b>          | <b>\$ (4,262)</b>                                   | <b>\$ (4,641)</b> | <b>\$ 379</b> |                                 |

The change in DAC expense was \$4.3 million for the nine months ended September 30, 2009 compared to \$4.6 million for the same period in 2008. The change was primarily driven by a reversal of acquisition costs previously capitalized and related amortization expense associated with the previously noted settlement payments. Generally, we expect the change in DAC expense to continue to follow changes in the in-force block by policy duration.

As of September 30, 2009, the Health related DAC was \$70.6 million compared to \$75.3 million as of September 30, 2008. The decrease in DAC reflects a reversal of acquisition costs previously capitalized and related amortization expense associated with the previously noted settlement payments as well as a reduction in the acquisition costs capitalized due to the decline in new production of our credit accident and health product.

**Property and Casualty**

We write Property and Casualty business through our Multiple Line agents and Credit Insurance Division agents. We evaluate our Property and Casualty insurance operations based on the total underwriting results (net premiums earned less incurred losses and loss expenses, policy acquisition costs and other underwriting expenses) and the ratios noted in the table below.

Property and Casualty segment financial results for the periods indicated were as follows:

|                               | <b>Three Months Ended<br/>September 30,<br/>2009</b> |                | <b>Increase/<br/>(Decrease)</b> | <b>Nine Months Ended September<br/>30,<br/>2009</b> |                | <b>2008</b>     | <b>Increase/<br/>(Decrease)</b> |
|-------------------------------|--|----------------|---------------------------------|---|----------------|-----------------|---------------------------------|
|                               | <b>(dollar amounts in thousands)</b>                 |                |                                 |   |                |                 |                                 |
| <b>Revenues:</b>              |  |                |                                 |   |                |                 |                                 |
| Net premiums written          | \$ 303,609   | \$ 297,549     | \$ 6,060                        | \$ 907,085  | \$ 916,398     | \$ (9,313)      |                                 |
| Net premiums earned           | 298,073  | 292,747        | 5,326                           | 866,989   | 885,941        | (18,952)        |                                 |
| Net investment income         | 16,171   | 13,977         | 2,194                           | 49,941  | 52,924         | (2,983)         |                                 |
| Other income                  | 856  | 2,461          | (1,605)                         | 5,308   | 6,849          | (1,541)         |                                 |
| <b>Total revenues</b>         | <b>315,100</b>                                       | <b>309,185</b> | <b>5,915</b>                    | <b>922,238</b>                                      | <b>945,714</b> | <b>(23,476)</b> |                                 |
| <b>Benefits and expenses:</b> |  |                |                                 |   |                |                 |                                 |
| Policy benefits               | 222,196  | 223,311        | (1,115)                         | 714,041   | 720,430        | (6,389)         |                                 |
| Commissions                   | 55,862   | 59,084         | (3,222)                         | 160,967   | 173,702        | (12,735)        |                                 |

|  |                 |                    |                  |                    |                    |                 |
|--|-----------------|--------------------|------------------|--------------------|--------------------|-----------------|
| Other operating costs and expenses   | 33,788          | 41,491             | (7,703)          | 93,271             | 100,372            | (7,101)         |
| Change in deferred policy acquisition costs                                      | (4,947)         | (1,216)            | (3,731)          | (11,677)           | (10,573)           | (1,104)         |
| <b>Total benefits and expenses</b>   | <b>306,899</b>  | <b>322,670</b>     | <b>(15,771)</b>  | <b>956,602</b>     | <b>983,931</b>     | <b>(27,329)</b> |
| <b>Income/(loss) from operations before other items and federal income taxes</b> | <b>\$ 8,201</b> | <b>\$ (13,485)</b> | <b>\$ 21,686</b> | <b>\$ (34,364)</b> | <b>\$ (38,217)</b> | <b>\$ 3,853</b> |
| Loss ratio   | 74.5%           | 76.3%              | (1.8)            | 82.4%              | 81.3%              | 1.1             |
| Underwriting expense ratio   | 28.4%           | 33.9%              | (5.5)            | 28.0%              | 29.7%              | (1.7)           |
| Combined ratio   | 102.9%          | 110.2%             | (7.3)            | 110.4%             | 111.0%             | (0.6)           |

Property and Casualty earnings increased \$21.7 million and \$3.9 million for the three and nine months ended September 30, 2009, respectively, as compared to the same periods in 2008. The changes are primarily due to a decrease in catastrophe losses. In addition, for the three months ended September 30, 2009, premiums increased which reversed the trend that produced an overall decrease in premiums for the nine months ended September 30, 2009. These are discussed in further detail below.

**Table of Contents****Three Months ended September 30, 2009 compared with the Three Months ended September 30, 2008****Property & Casualty*****Net Premiums Written and Earned***

Net premiums written increased \$6.1 million to \$303.6 million for the three months ended September 30, 2009 from \$297.5 million for the same period in 2008. This change was primarily due to a \$10.7 million increase in homeowners premium as rate increases implemented during the last twelve months begin to take effect. This increase was offset by a \$2.8 million decrease in our Workers Compensation product due to lower payrolls during this period of high unemployment and a \$2.2 million decrease in our auto business due to continued high levels of competition.

Net premiums earned increased \$5.4 million to \$298.1 million for the three months ended September 30, 2009 from \$292.7 million for the three months ended September 30, 2008. This increase is driven primarily by our homeowners business, as rate increases assigned to policies continue to take effect and raise our average premium per policy. The increase is offset by a continued decline in Auto premiums as noted above.

***Net Investment Income***

Net investment income increased by \$2.2 million to \$16.2 million for the three months ended September 30, 2009 from \$14.0 million for the same period in 2008. This increase was due to the decreased amount of cash we held during the three months ended September 30, 2009 compared to the same period in 2008. Refer to the *Investments* discussion for further analysis.

***Policy Benefits***

Policy benefits include claim losses and loss adjustment expenses ( LAE ) incurred on property and casualty policies. The third quarter of 2009 saw an improvement in the catastrophe loss experience from the very high levels experienced in the previous year. Relative to 2008, fewer and less severe catastrophes occurred during the third quarter in 2009. For the three months ended September 30, 2009 and 2008, we experienced net catastrophe losses of \$22.9 million on nine catastrophes and \$38.1 million on ten catastrophes, respectively. These catastrophe losses contributed 7.7% to the loss ratio for the third quarter of 2009, compared to 13.0% for the same period in 2008. The loss ratios were 74.5% and 76.3% for the three months ended September 30, 2009 and 2008, respectively, with the improvement from catastrophe losses being offset by the increase in frequency and severity of personal auto claims experience.

For the three months ended September 30, 2009, net unfavorable prior year loss and LAE development was \$3.2 million compared to \$7.9 million of net unfavorable prior year loss and LAE development and improvement of \$4.7 million from the same period in 2008, as a result of worse than expected paid and incurred loss emergence across commercial multi-peril lines of business offset by savings on catastrophe claims.

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

|   | <b>Three Months Ended<br/>September 30,</b> |                       | <b>Increase/<br/>(Decrease)</b> |
|---|---|-----------------------|---------------------------------|
|   | <b>2009</b>                                 | <b>2008</b>           |                                 |
|   |   | <b>(in thousands)</b> |                                 |
| Commissions   | \$ 55,862                                   | \$ 59,084             | \$ (3,222)                      |
| Change in deferred policy acquisition costs                 | (4,947)                                     | (1,216)               | (3,731)                         |
| <b>Commissions and change in deferred acquisition costs</b> | <b>\$ 50,915</b>                            | <b>\$ 57,868</b>      | <b>\$ (6,953)</b>               |

Commissions decreased \$3.2 million to \$55.9 million for the three months ended September 30, 2009 from \$59.1 million for the same period in 2008. This decrease was primarily the result of a \$2.2 million decrease in credit related insurance commissions due to a shift toward products with lower commission structures. Commissions decreased further as a result of decreases in our personal and commercial auto policies for the three months ended September 30, 2009.

The change in deferred acquisition costs for the three months ended September 30, 2009 was \$3.7 million, which represented an increase to deferred policy acquisition costs and a decrease in expenses for the period compared to the same period in the prior year. This was primarily driven by a change in our deferral estimates during the second quarter of 2009, deferring less in some policies and more in others in order to improve our consistency among subsidiaries.



**Table of Contents****Other Operating Costs and Expenses**

Other operating costs and expenses decreased \$7.7 million to \$33.8 million for the three months ended September 30, 2009 from \$41.5 million for the same period in 2008. The decrease was due to the *Farm Bureau* lawsuit resulting in a one-time accrual of \$7.4 million in expenses during the third quarter of 2008. For additional information on this lawsuit, refer to our Commitments and Contingencies footnote within the Notes to the Consolidated Financial Statements in our amended Form 10 Registration Statement, filed with the SEC on July 1, 2009.

The underwriting expense ratio decreased to 28.4% for the three months ended September 30, 2009 from 33.9% for the same period in 2008. The decrease in the underwriting expense ratio during the third quarter of 2009, as compared to the same period in 2008, was primarily the result of the lawsuit expense noted above, combined with a greater amount of expenses being deferred through our updated deferral estimates noted in the discussion of Commissions and Changes in Deferred Policy Acquisition Costs above.

**Products**

The following table shows net premiums written and earned and key ratios for our auto, homeowners, agribusiness, credit related property and other policies for the three months ended September 30, 2009, and 2008:

|  | <b>Automobile</b>             | <b>Homeowner</b> | <b>Agribusiness</b> | <b>Credit<br/>Related</b> | <b>Other</b> | <b>Total</b> |
|--|-------------------------------|------------------|---------------------|---------------------------|--------------|--------------|
|  | (dollar amounts in thousands) |                  |                     |                           |              |              |
| <b>Three Months Ended September 30, 2009</b> |                               |                  |                     |                           |              |              |
| Net premiums written                         | \$ 136,595                    | \$ 62,075        | \$ 26,714           | \$ 39,723                 | \$ 38,502    | \$ 303,609   |
| Net premiums earned                          | \$ 138,212                    | \$ 56,229        | \$ 26,730           | \$ 35,889                 | \$ 41,013    | \$ 298,073   |
| Loss ratio                                   | 75.0%                         | 92.3%            | 86.1%               | 37.5%                     | 73.5%        | 74.5%        |
| Underwriting expense ratio                   | 23.6%                         | 21.9%            | 36.3%               | 61.9%                     | 19.1%        | 28.4%        |
| Combined ratio                               | 98.6%                         | 114.2%           | 122.4%              | 99.4%                     | 92.6%        | 102.9%       |
| <b>Three Months Ended September 30, 2008</b> |                               |                  |                     |                           |              |              |
| Net premiums written                         | \$ 138,746                    | \$ 51,409        | \$ 26,731           | \$ 38,451                 | \$ 42,212    | \$ 297,549   |
| Net premiums earned                          | \$ 141,642                    | \$ 45,632        | \$ 26,862           | \$ 34,730                 | \$ 43,881    | \$ 292,747   |
| Loss ratio                                   | 64.4%                         | 128.8%           | 67.3%               | 37.1%                     | 96.7%        | 76.3%        |
| Underwriting expense ratio                   | 27.7%                         | 41.4%            | 34.7%               | 66.1%                     | 20.5%        | 33.9%        |
| Combined ratio                               | 92.1%                         | 170.2%           | 102.0%              | 103.2%                    | 117.2%       | 110.2%       |

The following is a discussion of our most significant products:

*Automobile*: Net premiums earned decreased \$3.4 million, or 2.4%, for the three months ended September 30, 2009 compared to the same period in 2008, due to continued price competition. Rate reductions in certain policies have begun to take effect, while rate increases in others have caused a loss of policies, resulting in a slight decrease in both

the number of policies and the average premium per policy.

The loss ratio for the period ended September 30, 2009 and 2008 increased 10.6% to 75.0% from 64.4% for the same period in 2008. The combined ratios for the three months ended September 30, 2009 and 2008 were 98.6% and 92.1%, respectively. The increase in the combined ratio was primarily the result of an increase in severity of auto claims, offset by the reduction in our underwriting expense ratio to 23.6% from 27.7%. This reduction in underwriting expense was primarily driven by the change in the deferral methodology discussed above, which decreased the auto expense for the quarter by \$6.5 million.

*Homeowners:* Net premiums earned increased \$10.6 million to \$56.2 million for the three months ended September 30, 2009 from \$45.6 million for the same period in 2008. This increase is a result of rate increases to policies that are beginning to take effect and increase our average premium per policy.

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The loss ratios for the three months ended September 30, 2009 and 2008 were 92.3% and 128.8%, respectively. The significant improvement in the loss ratio for 2009 compared to 2008 is due to the decreased level of catastrophe losses during the third quarter of 2009 as compared to the high levels we experienced in 2008. Net catastrophe losses for all lines of business combined in the third quarter of 2009 were \$22.9 million, compared to approximately \$38.1 million for the same period in 2008. The underwriting expense ratio experienced a significant decline, decreasing to 21.9% from 41.4% for the three months ended September 30, 2009 and 2008, respectively. This decrease was primarily the result of the lawsuit expense noted in the *Other Operating Costs and Expenses* discussion above, combined with a greater amount of expenses being deferred through our updated deferral estimates noted in the discussion of

*Commissions and Changes in Deferred Policy Acquisition Costs* above.

*Agribusiness*: Premium earned remained flat for the three months ended September 30, 2009 and 2008. The loss ratios for the three months ended September 30, 2009 and 2008 were 86.1% and 67.3%, respectively. The change in the loss ratio reflects an increase in policy benefits of \$5.0 million, or 27.4%, primarily due to an increase in non-catastrophe events.

*Credit related property*: Net premiums earned increased to \$35.9 million from \$34.7 million for the three months ended September 30, 2009 and 2008, respectively. The increase in revenue is due to an increase in our Collateral Protection line of business as lenders move to protect their consumer lending products, offset by the decrease in our Guaranteed Auto Protection ( *GAP* ) product as a result of a continued decline in auto sales. *GAP* insurance covers the amount of indebtedness in excess of the insured value of the car. With the decline in auto sales fewer transactions take place, reducing our opportunity to sell this product.

The loss ratios for the three months ended September 30, 2009 and 2008 were 37.5% and 37.1%, respectively, while the expense ratios were 61.9%, and 66.1%, respectively. The slight increase in the loss ratio is attributable to a continued increase in the frequency and severity of *GAP* claims during the third quarter of 2009 and the decrease in the underwriting expense ratio was due to the one time lawsuit expense during third quarter 2008 noted in the *Other Operating Costs and Expenses* section above.

### **Nine Months ended September 30, 2009 compared with the Nine Months ended September 30, 2008    *Property & Casualty***

#### ***Net Premiums Written and Earned***

Net premiums written decreased \$9.3 million to \$907.1 million for the nine months ended September 30, 2009 from \$916.4 million for the same period in 2008. This change was primarily due to a \$13.6 million decrease in auto net premiums written, and a \$5.6 million decrease in workers compensation insurance net written premium partially offset by a \$13.0 million increase in homeowner premiums.

The decrease in auto business is due to continued high levels of competition in this line. The decrease we are experiencing in workers compensation net written premium is due to the current economic environment as lower payrolls result in lower premiums written and earned. We expect this to continue in the short-term until the economy shows signs of recovery and job growth and payrolls begin to rebound. The increase in homeowners premium is due to rate increases beginning to take effect, increasing our average premium per policy by approximately 10.0% for the nine months ended September 30, 2009 as compared to the same period in 2008.

Net premiums earned decreased \$18.9 million to \$867.0 million for the nine months ended September 30, 2009 from \$885.9 million for the nine months ended September 30, 2008. This decrease was primarily the result of a \$20.4 million decrease in auto premiums earned, and a \$3.8 million decrease in workers compensation, offset by a \$2.9 million increase in homeowners premiums; all as noted above.

#### ***Net Investment Income***

Net investment income decreased by \$3.0 million to \$49.9 million for the nine months ended September 30, 2009 from \$52.9 million for the same period in 2008. This decrease was due to the increased amount of cash in our investment portfolio during the nine months ended September 30, 2009 compared to the same period in 2008. As investing opportunities arise, we are reinvesting the cash held in primarily fixed maturity securities. Refer to the *Investments* discussion for further analysis.

#### ***Policy Benefits***

Policy benefits decreased \$6.4 million to \$714.0 million for the nine months ended September 30, 2009 from \$720.4 million for the same period in 2008. The decrease was due to a \$31.8 million improvement in the record catastrophe loss experience from the previous year as fewer and less severe catastrophes occurred during the nine months ended September 30, 2009, compared to the same period in 2008. We experienced net catastrophe losses of \$88.9 million on twenty-six catastrophes during the nine months ended September 30, 2009 and \$120.7 million on thirty-five catastrophes during the nine months ended September 30, 2008. This improvement was offset by an increase in the claim experience of our auto lines by \$11.0 million, workers compensation insurance product of \$3.6 million, and an increase of \$3.3 million from our credit insurance products. These are discussed in further detail in the Products discussion below.

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The loss ratios were 82.4% and 81.3% for the nine months ended September 30, 2009 and 2008, respectively. The primary factor in the increased loss ratio was lower net earned premiums and increased benefits in certain products during 2009 as compared to 2008, offset by the decrease in catastrophe losses. Catastrophe losses contributed 10.3% and 13.6% to the loss ratio for the first nine months of 2009 and 2008, respectively.

For the nine months ended September 30, 2009, net favorable prior year loss and LAE development was \$16.0 million compared to \$25.3 million of net favorable prior year loss and LAE development for the same period in 2008, as a result of better than expected paid and incurred loss emergence across several lines of business (personal auto, commercial auto, agribusiness and commercial multi-peril lines) as well as savings on catastrophe claims. This favorable emergence was offset by adverse development for the workers compensation and homeowners lines of business.

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

|   | <b>Nine Months Ended<br/>September 30,</b> |                       | <b>Increase/<br/>(Decrease)</b> |
|---|--|-----------------------|---------------------------------|
|   | <b>2009</b>                                | <b>2008</b>           |                                 |
|   |  | <b>(in thousands)</b> |                                 |
| Commissions   | \$ 160,967                                 | \$ 173,702            | \$ (12,735)                     |
| Change in deferred policy acquisition costs                 | (11,677)                                   | (10,573)              | (1,104)                         |
| <b>Commissions and change in deferred acquisition costs</b> | <b>\$ 149,290</b>                          | <b>\$ 163,129</b>     | <b>\$ (13,839)</b>              |

Commissions decreased \$12.7 million to \$161.0 million for the nine months ended September 30, 2009 from \$173.7 million for the same period in 2008. This decrease was primarily the result of a \$9.4 million decrease in credit related insurance commissions due to a shift toward products with lower commission structures. Commissions on personal and commercial auto policies for the nine months ended September 30, 2009 also decreased as compared to the same period in 2008 due to reductions in net earned premiums.

The change in deferred acquisition costs for the nine months ended September 30, 2009 was \$1.1 million, which represented a reduction to deferred policy acquisition costs and a decrease in expenses for the period. This was primarily driven by changes in the product mix within our credit related property lines towards products that have lower commission structures, resulting in fewer additions to DAC as compared to the same period in 2008.

**Other Operating Costs and Expenses**

Other operating costs and expenses decreased \$7.1 million to \$93.3 million for the nine months ended September 30, 2009 from \$100.4 million for the same period in 2008. The underwriting expense ratio decreased slightly to 28.0% from 29.7% for the nine months ended September 30, 2009 and 2008, respectively. This was primarily the result of a certain lawsuit resulting in a one-time accrual of \$7.4 million in expenses during the third quarter of 2008 noted in our three month discussion above.

**Table of Contents****Products**

The following table shows net premiums written and earned and key ratios for our auto, homeowners, agribusiness, credit related property and other policies for the nine months ended September 30, 2009, and 2008:

|   | <b>Automobile</b>                    | <b>Homeowner</b> | <b>Agribusiness</b> | <b>Credit<br/>Related</b> | <b>Other</b> | <b>Total</b> |
|---|--------------------------------------|------------------|---------------------|---------------------------|--------------|--------------|
|   | <b>(dollar amounts in thousands)</b> |                  |                     |                           |              |              |
| <b>Nine Months Ended September 30, 2009</b> |                                      |                  |                     |                           |              |              |
| Net premiums written                        | \$ 418,002                           | \$ 165,821       | \$ 79,293           | \$ 109,025                | \$ 134,944   | \$ 907,085   |
| Net premiums earned                         | \$ 406,010                           | \$ 154,047       | \$ 79,322           | \$ 104,748                | \$ 122,862   | \$ 866,989   |
| Loss ratio                                  | 79.7%                                | 116.9%           | 95.3%               | 41.7%                     | 74.1%        | 82.4%        |
| Underwriting expense ratio                  | 21.1%                                | 22.4%            | 36.2%               | 60.8%                     | 24.4%        | 28.0%        |
| Combined ratio                              | 100.8%                               | 139.3%           | 131.5%              | 102.5%                    | 98.5%        | 110.4%       |
| <b>Nine Months Ended September 30, 2008</b> |                                      |                  |                     |                           |              |              |
| Net premiums written                        | \$ 431,639                           | \$ 152,841       | \$ 79,490           | \$ 110,511                | \$ 141,917   | \$ 916,398   |
| Net premiums earned                         | \$ 426,426                           | \$ 151,122       | \$ 78,644           | \$ 101,059                | \$ 128,690   | \$ 885,941   |
| Loss ratio                                  | 73.3%                                | 125.1%           | 100.0%              | 39.9%                     | 77.4%        | 81.3%        |
| Underwriting expense ratio                  | 23.5%                                | 29.7%            | 32.6%               | 64.7%                     | 21.2%        | 29.7%        |
| Combined ratio                              | 96.8%                                | 154.8%           | 132.6%              | 104.6%                    | 98.6%        | 111.0%       |

The following is a discussion of our most significant products:

*Automobile:* Net premiums earned decreased \$20.4 million, or 4.8%, for the nine months ended September 30, 2009 compared to the same period in 2008, due to continued competition in the product line. Rate increases are now being implemented which should result in improved operating results for the remainder of 2009 and into 2010. The end result should be a better priced and higher quality product line.

The loss ratios for the period ended September 30, 2009 and 2008 were 79.7% and 73.3%, respectively. The increase of the ratio is primarily due to the decrease in premiums noted above, and the increase in the severity of claims. The increase in loss severity is due to increased bodily injury claims, increased litigation costs and increased property damage liabilities. The combined ratios for the nine months ended September 30, 2009 and 2008 were 100.8% and 96.8%, respectively.

*Homeowners:* Net premiums earned increased \$2.9 million to \$154.0 million for the nine months ended September 30, 2009 from \$151.1 million for the same period in 2008. The increase in premiums is due to rate increases across the entirety of our product line. The increase in premiums is partially offset by the approximately 4,500 in-force policy decrease during the first nine months of 2009 as compared to 2008. The rate actions combined with our focus on increasing insured values on existing policies should result in a higher quality product line.

The loss ratios for the nine months ended September 30, 2009 and 2008 were 116.9% and 125.1%, respectively. The decrease in the loss ratio for 2009 compared to 2008 is due to the decrease in catastrophe losses, offset by lower net premiums earned during the first half of the year. The underwriting expense ratio decreased to 22.4% from 29.7% for the nine months ended September 30, 2009 and 2008, respectively. This decrease was primarily the result of the lawsuit expense noted in the *Other Operating Costs and Expenses* discussion above, combined with a greater amount of expenses being deferred through our updated deferral estimates noted in the discussion of *Commissions and Changes in Deferred Policy Acquisition Costs* above.

*Agribusiness*: Net premiums earned increased slightly to \$79.3 million for the nine months ended September 30 2009, compared to the same period in 2008. This increase is primarily the result of rate increases initiated during the prior year that are being earned in the first three quarters of 2009, and a slight increase in the number of policies.

The loss ratios for the nine months ended September 30, 2009 and 2008 were 95.3% and 100.0%, respectively. The change in the loss ratio reflects an improvement in our underwriting and lower catastrophe losses in this line, equating to \$3.1 million less of policy benefit expense during the first three quarters of 2009. This also represents expected variability in this line, which is sensitive to the frequency and severity of storm and weather related losses. Our focus on disciplined underwriting will assist us in achieving the profitability potential of this product in the long term.

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*Credit related property:* Net premiums earned were \$104.7 million and \$101.1 million for the nine months ended September 30, 2009 and 2008, respectively. The increase in revenue is due to an increase in our collateral protection line of business as lenders move to protect their consumer lending products, offset by the decrease in our GAP product as a result of declining auto sales. We expect the current economic recession combined with increased lending standards to continue the reduction in the demand for credit and credit related insurance products. However, as credit standards are tightened, we expect to write higher quality business and to continue to add new business partners as the economy shows signs of recovery. In the current economic environment, we expect our collateral protection product to continue to grow until the economy begins to recover, at which time we expect the sales of our GAP products to increase.

The loss ratios for the nine months ended September 30, 2009 and 2008 were 41.7% and 39.9%, respectively, while the expense ratios were 60.8%, and 64.7%, respectively. The increase in the loss ratio is attributable to an increase in frequency and severity of GAP claims during the first three quarters of 2009 as compared to the same period in 2008, as policy benefits in this line increased 75.5% to \$10.4 million during this time. Slowing auto sales have driven down the replacement values of most vehicles, thus creating a larger difference between a vehicle's value and its indebtedness. The decrease in the expense ratio mainly reflects a decrease in commission expense relative to earned premium as compared to the prior year. This is attributable to a shift in product mix during the first three quarters of 2009 towards products that have lower commission structures.

**Corporate & Other**

Corporate and Other primarily includes the capital not allocated to support our insurance business segments. Investments include publicly traded equities, real estate, mortgage loans, high-yield bonds, venture capital partnerships, mineral interests and tax-advantaged instruments. Refer to the *Investments* discussion for further analysis. Our registered investment advisor subsidiary also manages a family of mutual funds and earns management fees, which are insignificant to the overall segment results.

Corporate and Other segment financial results for the periods indicated were as follows:

|   | Three Months Ended |                     |                   | Nine Months Ended  |                     |                  |
|---|--------------------|---------------------|-------------------|--------------------|---------------------|------------------|
|   | September 30,      |                     | Increase/         | September 30,      |                     | Increase/        |
|   | 2009               | 2008                | (Decrease)        | 2009               | 2008                | (Decrease)       |
|   | (in thousands)     |                     |                   |                    |                     |                  |
| <b>Revenues:</b>                                  |                    |                     |                   |                    |                     |                  |
| Net investment income                             | \$ 27,377          | \$ 35,639           | \$ (8,262)        | \$ 69,988          | \$ 98,663           | \$ (28,675)      |
| (Loss) from sale of investments, net              | (935)              | (201,985)           | 201,050           | (83,144)           | (211,903)           | 128,759          |
| Other income                                      | 4,254              | 4,522               | (268)             | 12,415             | 14,439              | (2,024)          |
| <b>Total revenues</b>                             | <b>30,696</b>      | <b>(161,824)</b>    | <b>192,520</b>    | <b>(741)</b>       | <b>(98,801)</b>     | <b>98,060</b>    |
| <b>Benefits and expenses:</b>                     |                    |                     |                   |                    |                     |                  |
| Other operating costs and expenses                | 16,623             | 3,983               | 12,640            | 37,118             | 38,577              | (1,459)          |
| <b>Total benefits and expenses</b>                | <b>16,623</b>      | <b>3,983</b>        | <b>12,640</b>     | <b>37,118</b>      | <b>38,577</b>       | <b>(1,459)</b>   |
| <b>Income/(loss) from operations before other</b> | <b>\$ 14,073</b>   | <b>\$ (165,807)</b> | <b>\$ 179,880</b> | <b>\$ (37,859)</b> | <b>\$ (137,378)</b> | <b>\$ 99,519</b> |



**items and federal  
income taxes**

***Three Months and Nine Months ended September 30, 2009 compared with the Three Months and Nine Months ended September 30, 2008***

Total income (loss) from operations before other items and federal income taxes increased \$179.9 million and \$99.5 million to a gain of \$14.1 million and a loss of \$37.9 million for the three and nine months ended September 30, 2009, respectively, from losses of \$165.8 million and \$137.4 million for the same periods in 2008. We recorded other-than-temporary impairments of \$4.2 million and \$78.3 million on security investments during the three and nine months ended September 30, 2009, respectively, due to market volatility.

In accordance with our investment asset allocation process, the illiquid credit market and the other-than-temporary impairments recorded required us to reallocate some invested assets, including additional cash, from the Corporate and Other segment to the insurance segments in 2009. The reallocation resulted in a decrease in net investment income for the Corporate and Other segment.

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We issue participating life insurance policies in which our policyholders share in our investment gains and/or losses. In the nine months ended September 30, 2009, we allocated a portion of our realized losses to participating policyholders. The allocation is done through an adjustment to other operating costs and expenses in our Corporate and Other segment and resulted in the other operating costs and expenses for the three and nine months ended September 30, 2009 being significantly lower when compared to the same periods in 2008.

**Liquidity and Capital Resources****Liquidity**

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

|  | Nine Months Ended September<br>30, |                     |
|--|------------------------------------|---------------------|
|  | 2009                               | 2008                |
|  | (in thousands)                     |                     |
| <b>Net cash provided by (used in):</b> |                                    |                     |
| Operating activities                   | \$ 354,932                         | \$ 243,898          |
| Investing activities                   | (1,083,110)                        | (811,426)           |
| Financing activities                   | 755,449                            | 464,486             |
| <b>Net increase (decrease) in cash</b> | <b>\$ 27,271</b>                   | <b>\$ (103,042)</b> |

The slight increase in operating cash flows primarily relates to a decrease in our realized losses on investments in the nine months ended September 30, 2009 compared to the same period in 2008.

Cash flows used in investing activities increased primarily due to increased investments in fixed income securities and short-term investments offset by the decrease in mortgage loans in the nine months ended September 30, 2009 compared to the same period in 2008.

Increased deposits on annuity products contributed to the increase in cash provided by financing activities for the nine months ended September 30, 2009 from the same period in 2008. Annuity sales are recorded as part of the cash flows from financing activities in accordance with U.S. GAAP rules.

**Capital Resources**

Our capital resources at September 30, 2009 and December 31, 2008 consisted of stockholders' equity summarized as follows:

|  | As of<br>September<br>30,<br>2009 | As of December<br>31,<br>2008 | Increase/<br>(Decrease) |
|--|-----------------------------------|-------------------------------|-------------------------|
|  | (in thousands)                    |                               |                         |
| Equity, excluding accumulated other comprehensive income (loss), net of tax ( AOCI ) | \$ 3,327,801                      | \$ 3,355,004                  | \$ (27,203)             |
| AOCI, net of tax   | 108,830                           | (221,148)                     | 329,978                 |
| <b>Total stockholders' equity</b>  | <b>\$ 3,436,631</b>               | <b>\$ 3,133,856</b>           | <b>\$ 302,775</b>       |

We have notes payable on our consolidated statement of financial position that are not part of our capital resources. These notes payable represent amounts borrowed by real estate joint ventures that we are required to consolidate into our results in accordance with accounting rules. The lenders for the notes payable have no recourse to us in the event

of default by the joint ventures. Therefore, the only amount of liability we have for these notes payable is limited to our investment in the joint ventures, which totaled \$18.7 million at September 30, 2009.

Total stockholders' equity in the nine month period ended September 30, 2009 increased \$302.8 million as a result of unrealized gains on marketable equity securities, offset by the net loss of \$19.4 million and \$61.8 million in dividends paid to stockholders.

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***Statutory Surplus and Risk-based Capital***

Statutory surplus represents the capital of our insurance companies reported in accordance with accounting practices prescribed or permitted by the applicable state insurance departments. As of September 30, 2009, the levels of our insurance subsidiaries' surplus and risk-based capital exceeded the minimum risk-based capital requirements of the National Association of Insurance Commissioners. As of September 30, 2009, on a stand-alone basis the surplus of American National Insurance Company, the parent company, increased from the level recorded at December 31, 2008.

**Contractual Obligations**

Our future cash payments associated with loss and LAE reserves, life, annuity and disability obligations, contractual obligations pursuant to operating leases for office space and equipment, and notes payable have not materially changed since December 31, 2008. We expect to have the capacity to repay and/or refinance these obligations as they come due.

**Off Balance Sheet Arrangements**

We have off-balance sheet arrangements relating to third-party marketing operation bank loans which are discussed under Commitments and Contingencies in the footnotes to the consolidated financial statements above. In 2010, the third-party marketing operation plans to renegotiate the bank loans. If these renegotiations are unsuccessful, we would have to pay the bank loans during the second quarter of 2010 using the cash value of the underlying insurance contracts. However, since the cash value of the life insurance policies always equals or exceeds the balance of the loans, management does not foresee any loss on the guarantees.

**Investments**

***General***

We manage our investment portfolio to optimize the rate of return that is commensurate with sound and prudent underwriting practices and maintaining a well diversified portfolio. Our investment operations are governed by various regulatory authorities, including state insurance departments. Investment activity, including the setting of investment policies and defining acceptable risk levels, is subject to review and approval of our Finance Committee, a committee made up of two members of the Board of Directors and senior investment professionals. For additional information on the composition and responsibilities of the Finance Committee, see our amended Form 10 Registration Statement filed with the SEC on July 1, 2009.

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

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

Our historically strong capitalization enabled us to invest in equity securities and investment real estate where there were opportunities for more significant returns. We make investments in real estate and equity securities based on a risk/reward analysis.

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

The following summarizes the carrying values of our investment portfolio by asset class as of September 30, 2009 and December 31, 2008 (other than investments in unconsolidated affiliates):

|   | As of:                        |             |                      |             |
|---|-------------------------------|-------------|----------------------|-------------|
|   | September 30, 2009            |             | December 31, 2008    |             |
|   | Amount                        | Percent     | Amount               | Percent     |
|   | (dollar amounts in thousands) |             |                      |             |
| Bonds held-to-maturity, at amortized cost   | \$ 7,287,406                  | 44.7%       | \$ 6,681,837         | 45.9%       |
| Bonds available-for-sale, at fair value     | 4,188,674                     | 25.7%       | 3,820,837            | 26.3%       |
| Preferred stock, at fair value              | 30,555                        | 0.2%        | 48,822               | 0.3%        |
| Common stock, at fair value                 | 991,835                       | 6.1%        | 853,530              | 5.9%        |
| Mortgage loans, at amortized cost           | 2,096,286                     | 12.9%       | 1,877,053            | 12.9%       |
| Policy loans, at outstanding balance        | 360,596                       | 2.2%        | 354,398              | 2.4%        |
| Investment real estate, net of depreciation | 590,233                       | 3.6%        | 528,905              | 3.6%        |
| Short-term investments                      | 650,482                       | 4.0%        | 295,170              | 2.0%        |
| Other invested assets                       | 93,859                        | 0.6%        | 85,151               | 0.7%        |
| <b>Total investments</b>                    | <b>\$ 16,289,926</b>          | <b>100%</b> | <b>\$ 14,545,703</b> | <b>100%</b> |

Total invested assets increased by \$1.8 billion to \$16.3 billion as of September 30, 2009 from \$14.5 billion as of December 31, 2008. The increase in our invested assets in the nine months ended September 30, 2009 was a reflection of increasing account values in fixed deferred annuities and market improvements. The securities industry, while not back to business-as-usual, has taken some comfort in a rising stock market, modest inflation, and significant spread compression. The rising market in concert with spread compression in fixed income securities has lowered borrowing costs and provided an opportunity for companies to rebuild their balance sheets.

**Fair Value Disclosures**

The fair value of fixed income securities, equity securities, mortgage loans and short-term investments is determined by the use of third party pricing services, independent broker quotes and internal valuation methodologies. See Note 6 of the consolidated financial statements for further discussion of the calculation of fair value for our investments.

Below is a summary of the valuation techniques we utilize to measure fair value of the noted invested assets. There have been no material changes to our fair value methodologies since December 31, 2008.

As of September 30, 2009, 100% of our common stock are considered to be Level 1 securities as their fair values are determined by observable market prices.

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

The discount rate for the fair value of mortgage loans is determined by the weighted average adjustment of the spread factor against U.S. treasury rates. The spread factor includes an adjustment for quality rating, property type, geographic distribution and payment status (current, delinquent, in process of foreclosure) of each loan. Management performs periodic reviews and weighs each adjustment to calculate the spread factor based on the current economic environment and lending practices. All mortgage loan investments are classified as Level 2. Mortgage loan pricing is evaluated for consistency with our knowledge of the current market environment to ensure amounts are reflective of fair value.



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

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

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

***Corporate Bonds***

During the second quarter of 2009, we adopted new accounting guidance, which significantly modified the rules regarding other-than-temporary impairments on bonds (see Note 2 to the consolidated financial statements for further information on our adoption of new accounting guidance). Bonds were subjected to further review if any of the following situations were observed: a) fair value was more than 50% below our cost, b) fair value was 35% or more below our cost at the reporting date and had been below cost by some amount continuously for nine months, c) the issue had been downgraded by a national rating agency, or d) the issuer had widely publicized financial problems.

Once a bond is determined as needing further review, it was subjected to a three part test:

1. We determined if we intend to hold the bond until maturity.
2. We determined if it is more likely than not that we will have to sell the bond before maturity.
3. If it was determined that we would hold the bond and we would not have to sell it, then we would determine the present value of the future cash flows of the bond.

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

***Equity***

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

***Real Estate, Mortgage Loan, and other***

We perform a quarterly review of assets to determine if there are any valuation issues. We evaluate various information on each asset including but not limited to payment history, property inspection, tenant creditworthiness, guarantees and the effect of economic conditions. Once we determine there is a possible adverse change in the condition of the investment, we complete debt service coverage analysis, appraisals and comparisons to similar properties to determine if the investment has valuation impairment.





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In the first quarter of 2009, we recorded \$68.1 million in other-than-temporary impairments. With the change in the rules from new accounting guidance, we recorded \$6.0 million in the second quarter and \$4.2 million in the three months ended September 30, 2009, making a total of \$78.3 million for the nine months ended September 30, 2009. No other-than-temporary impairment was recorded in the first three quarters of 2009 as a result of a change in our intent and ability to hold to recovery. The following summarizes our other-than-temporary impairments by investment type:

|  | <b>Nine<br/>Months<br/>Ended<br/>September<br/>30,<br/>2009</b> | <b>Year Ended<br/>December 31,<br/>2008</b> |
|--|---|---|
|  | <b>(in thousands)</b>   |   |
| Corporate bonds                                      | \$ (10,046)   | \$ (165,802)                                |
| Equities:  |   |   |
| Financial services                                   | (22,295)  | (125,518)                                   |
| Other  | (45,494)  | (74,231)                                    |
| Mortgage loans                                       |   | (740)                                       |
| Real estate  | (500)   | (745)                                       |
| <b>Total other-than-temporary impairment charges</b> | <b>\$ (78,335)</b>  | <b>\$ (367,036)</b>                         |

The impairments recognized for the nine months ended September 30, 2009 between fixed maturities and equity securities were \$10.1 million and \$67.8 million, respectively. Of these impairments, \$30.0 million of corporate bond and equity impairments relate to the financial services industry. For the nine months ending September 30, 2009, we have received the principal and interest in accordance with the contractual terms with the exception of one bond which represents 1.3% of our total bond impairments and less .02% of our total securities impairments.

We will continue to analyze our investments and record any necessary impairment. A material ( $\pm 10\%$ ) change in the fair value of securities might require additional impairments. These further impairments would also have little or no effect on our liquidity. We do not rely on the sale of securities to meet our cash flow needs.

**Fixed Maturity Securities**

We allocate most of our fixed maturity securities to support our insurance business. The following table identifies the fixed maturity securities by type as of September 30, 2009 and December 31, 2008:

|                                     | <b>Amortized<br/>Cost</b> | <b>As of September 30, 2009</b>      |                              | <b>Fair Value</b>    | <b>% of Fair<br/>Value</b> |
|-------------------------------------|---------------------------|--------------------------------------|------------------------------|----------------------|----------------------------|
|                                     |                           | <b>Unrealized<br/>Gains</b>          | <b>Unrealized<br/>Losses</b> |                      |                            |
|                                     |                           |                                      |                              |                      |                            |
|                                     |                           | <b>(dollar amounts in thousands)</b> |                              |                      |                            |
| Corporate bonds                     | \$ 9,376,557              | \$ 433,526                           | \$ (219,455)                 | \$ 9,590,628         | 82.1%                      |
| Mortgage-backed securities          | 1,101,647                 | 37,282                               | (53,542)                     | 1,085,387            | 9.3%                       |
| States and political subdivisions   | 812,898                   | 41,854                               | (763)                        | 853,989              | 7.3%                       |
| Collateralized debt securities      | 33,643                    | 1,097                                | (3,147)                      | 31,593               | 0.3%                       |
| US Treasury and government agencies | 24,709                    | 851                                  |                              | 25,560               | 0.2%                       |
| Foreign governments                 | 33,991                    | 5,094                                |                              | 39,085               | 0.3%                       |
| Other debt securities               | 48,976                    | 2,733                                | (28)                         | 51,681               | 0.5%                       |
| <b>Total fixed income</b>           | <b>\$ 11,432,421</b>      | <b>\$ 522,437</b>                    | <b>\$ (276,935)</b>          | <b>\$ 11,677,923</b> | <b>100%</b>                |

## As of December 31, 2008

|                                     | Amortized<br>Cost    | Unrealized        |                       | Fair Value          | % of Fair<br>Value |
|-------------------------------------|----------------------|-------------------|-----------------------|---------------------|--------------------|
|                                     |                      | Gains             | Losses                |                     |                    |
| (dollar amounts in thousands)       |                      |                   |                       |                     |                    |
| Corporate bonds                     | \$ 8,797,605         | \$ 78,016         | \$ (973,944)          | \$ 7,901,677        | 79.2%              |
| Mortgage-backed securities          | 1,194,595            | 17,912            | (78,274)              | 1,134,233           | 11.4%              |
| States and political subdivisions   | 746,825              | 10,766            | (21,088)              | 736,503             | 7.4%               |
| Collateralized debt securities      | 65,417               | 463               | (9,984)               | 55,896              | 0.6%               |
| US Treasury and government agencies | 14,946               | 1,246             |                       | 16,192              | 0.2%               |
| Foreign governments                 | 33,975               | 5,813             |                       | 39,788              | 0.4%               |
| Other debt securities               | 88,034               | 81                | (2,864)               | 85,251              | 0.8%               |
| <b>Total fixed income</b>           | <b>\$ 10,941,397</b> | <b>\$ 114,297</b> | <b>\$ (1,086,154)</b> | <b>\$ 9,969,540</b> | <b>100%</b>        |

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At September 30, 2009, our fixed maturity securities had an estimated fair market value of \$11.7 billion, which was \$245.5 million (2.1% ) above the amortized cost. At December 31, 2008, our fixed maturity securities had an estimated fair market value of \$10.0 billion, which was \$971.9 million (8.9% ) below the amortized cost. The 21.4% increase in corporate bonds from \$7.9 billion as of December 31, 2008 to \$9.6 billion as of September 30, 2009, was caused by new purchases made to support net annuity sales and an increase in valuation of available-for-sale bonds as a result of improving market perceptions of credit quality and the resulting spread narrowing. The 4.3% decrease in the fair value of mortgage backed securities to \$1.1 billion as of September 30, 2009 is due to normal pay down activity.

The following tables summarize the fixed income portfolio's contractual maturities, as of September 30, 2009 and December 31, 2008:

|  | Amortized<br>Cost    | As of September 30, 2009 |                         |             |
|--|----------------------|--------------------------|-------------------------|-------------|
|  |                      | Percent                  | Estimated Fair<br>Value | Percent     |
| (dollar amounts in thousands)          |                      |                          |                         |             |
| <b>Bonds held-to-maturity</b>          |                      |                          |                         |             |
| Due in one year or less                | \$ 133,071           | 1.8%                     | \$ 133,236              | 1.8%        |
| Due after one year through five years  | 3,344,401            | 45.9%                    | 3,459,035               | 46.2%       |
| Due after five years through ten years | 3,077,303            | 42.2%                    | 3,156,312               | 42.1%       |
| Due after ten years                    | 726,780              | 10.0%                    | 736,040                 | 9.8%        |
| Without single maturity date           | 5,851                | 0.1%                     | 4,626                   | 0.1%        |
| <b>Total bonds held-to-maturity</b>    | <b>\$ 7,287,406</b>  | <b>100%</b>              | <b>\$ 7,489,249</b>     | <b>100%</b> |
| <b>Bonds available-for-sale</b>        |                      |                          |                         |             |
| Due in one year or less                | \$ 134,379           | 3.2%                     | \$ 135,270              | 3.2%        |
| Due after one year through five years  | 1,871,955            | 45.2%                    | 1,886,901               | 45.0%       |
| Due after five years through ten years | 1,514,999            | 36.5%                    | 1,531,206               | 36.6%       |
| Due after ten years                    | 613,406              | 14.8%                    | 627,008                 | 15.0%       |
| Without single maturity date           | 10,276               | 0.3%                     | 8,289                   | 0.2%        |
| <b>Total bonds available-for-sale</b>  | <b>\$ 4,145,015</b>  | <b>100%</b>              | <b>\$ 4,188,674</b>     | <b>100%</b> |
| <b>Total</b>                           | <b>\$ 11,432,421</b> |                          | <b>\$ 11,677,923</b>    |             |

|  | Amortized<br>Cost   | As of December 31, 2008 |                         |             |
|--|---------------------|-------------------------|-------------------------|-------------|
|  |                     | Percent                 | Estimated Fair<br>Value | Percent     |
| (dollar amounts in thousands)          |                     |                         |                         |             |
| <b>Bonds held-to-maturity</b>          |                     |                         |                         |             |
| Due in one year or less                | \$ 335,885          | 5.0%                    | \$ 334,044              | 5.4%        |
| Due after one year through five years  | 2,880,344           | 43.1%                   | 2,674,238               | 43.5%       |
| Due after five years through ten years | 2,722,138           | 40.7%                   | 2,436,099               | 39.6%       |
| Due after ten years                    | 737,619             | 11.1%                   | 700,052                 | 11.4%       |
| Without single maturity date           | 5,851               | 0.1%                    | 4,270                   | 0.1%        |
| <b>Total bonds held-to-maturity</b>    | <b>\$ 6,681,837</b> | <b>100%</b>             | <b>\$ 6,148,703</b>     | <b>100%</b> |

**Bonds available-for-sale**

|  |                      |             |                     |             |
|--|----------------------|-------------|---------------------|-------------|
| Due in one year or less                | \$ 154,877           | 3.6%        | \$ 153,727          | 4.0%        |
| Due after one year through five years  | 1,359,792            | 31.9%       | 1,237,037           | 32.4%       |
| Due after five years through ten years | 2,012,462            | 47.2%       | 1,733,270           | 45.3%       |
| Due after ten years                    | 722,153              | 17.0%       | 689,786             | 18.1%       |
| Without single maturity date           | 10,276               | 0.3%        | 7,017               | 0.2%        |
| <b>Total bonds available-for-sale</b>  | <b>\$ 4,259,560</b>  | <b>100%</b> | <b>\$ 3,820,837</b> | <b>100%</b> |
| <b>Total</b>                           | <b>\$ 10,941,397</b> |             | <b>\$ 9,969,540</b> |             |

Fixed income securities estimated fair value, due in one year or less, decreased \$219.3 million to \$268.5 million as of September 30, 2009 from \$487.8 million as of December 31, 2008. As in the second quarter, the decrease is due to the maturing of certain bonds during the nine months ended September 30, 2009.

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The following table identifies the total invested assets by credit quality as of September 30, 2009 and December 31, 2008:

|               | As of September 30, 2009      |                      |                 | As of December 31, 2008 |                     |                 |
|---------------|-------------------------------|----------------------|-----------------|-------------------------|---------------------|-----------------|
|               | Amortized Cost                | Fair Value           | % of Fair Value | Amortized Cost          | Fair Value          | % of Fair Value |
|               | (dollar amounts in thousands) |                      |                 |                         |                     |                 |
| AAA           | \$ 1,368,228                  | \$ 1,410,630         | 12.1%           | \$ 1,671,643            | \$ 1,644,481        | 16.5%           |
| AA+           | 177,614                       | 185,640              | 1.6%            | 66,610                  | 68,221              | 0.7%            |
| AA            | 185,578                       | 195,586              | 1.7%            | 599,490                 | 571,982             | 5.7%            |
| AA-           | 516,538                       | 513,901              | 4.4%            | 378,795                 | 344,047             | 3.5%            |
| A+            | 856,915                       | 912,062              | 7.8%            | 1,096,073               | 1,046,621           | 10.5%           |
| A             | 1,595,830                     | 1,662,322            | 14.2%           | 1,704,256               | 1,636,806           | 16.4%           |
| A-            | 1,493,286                     | 1,551,471            | 13.3%           | 1,475,569               | 1,297,590           | 13.0%           |
| BBB+          | 1,560,224                     | 1,617,195            | 13.8%           | 1,289,245               | 1,141,339           | 11.4%           |
| BBB           | 1,916,431                     | 1,974,483            | 16.9%           | 1,440,290               | 1,226,227           | 12.3%           |
| BBB-          | 808,701                       | 788,049              | 6.7%            | 536,972                 | 433,461             | 4.3%            |
| BB+ and below | 953,076                       | 866,584              | 7.5%            | 682,454                 | 558,765             | 5.7%            |
| <b>Total</b>  | <b>\$ 11,432,421</b>          | <b>\$ 11,677,923</b> | <b>100%</b>     | <b>\$ 10,941,397</b>    | <b>\$ 9,969,540</b> | <b>100%</b>     |

Our exposure to below investment grade securities has increased during the nine months ending September 30, 2009 as a result of downgrades including frequent multiple step downgrades. At 7.5% of our fixed maturity portfolio, the exposure is acceptable to management, particularly since it contains a number of securities purchased below investment grade as part of a high yield portfolio. We have reached our portfolio target allocations for BBB's and now will only invest in them as assets grow or BBB's mature. Corporate bonds represent \$9.6 billion or 82.1% of our invested assets at fair value, as of September 30, 2009.

**Equity Securities**

We have invested \$1.0 billion, or 6.3% of our invested assets, in a well diversified equity investment portfolio. Of these equity securities 96.8% are invested in publicly traded (on a national U.S. stock exchange) common stock. The remaining 3.2% of the equity portfolio is invested in publicly traded preferred stock.

We carry our equity portfolio at fair value based on quoted market prices obtained from independent pricing services. The amortized cost and estimated fair market value of the equity portfolio as of September 30, 2009 and December 31, 2008 are:

|                 | September 30, 2009 |                   |                    |                     |
|-----------------|--------------------|-------------------|--------------------|---------------------|
|                 | Amortized Cost     | Unrealized Gains  | Unrealized Losses  | Fair Value          |
|                 | (in thousands)     |                   |                    |                     |
| Common stock    | \$ 739,712         | \$ 263,161        | \$ (11,038)        | \$ 991,835          |
| Preferred stock | 30,359             | 5,528             | (5,332)            | \$ 30,555           |
| <b>Total</b>    | <b>\$ 770,071</b>  | <b>\$ 268,689</b> | <b>\$ (16,370)</b> | <b>\$ 1,022,390</b> |

**December 31, 2008**  
Unrealized Unrealized

|                 | <b>Amortized<br/>Cost</b> | <b>Gains<br/>(in thousands)</b> | <b>Losses</b>      | <b>Fair Value</b> |
|-----------------|---------------------------|---------------------------------|--------------------|-------------------|
| Common stock    | \$ 820,908                | \$ 115,692                      | \$ (83,070)        | \$ 853,530        |
| Preferred stock | 60,718                    | 3,609                           | (15,505)           | 48,822            |
| <b>Total</b>    | <b>\$ 881,626</b>         | <b>\$ 119,301</b>               | <b>\$ (98,575)</b> | <b>\$ 902,352</b> |

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Our common stock portfolio is summarized below:

|                                | <b>Nine Months Ended<br/>September 30,<br/>2009</b> | <b>Year Ended<br/>December 31,<br/>2008</b> |
|--------------------------------|---|---|
| <b>Common stock securities</b> |   |   |
| Consumer goods                 | 20%   | 20%   |
| Energy and utilities           | 13%   | 13%   |
| Financials                     | 16%   | 16%   |
| Healthcare                     | 11%   | 13%   |
| Industrials                    | 9%  | 8%  |
| Information technology         | 15%   | 13%   |
| Materials                      | 3%  | 2%  |
| Communication                  | 4%  | 5%  |
| Mutual funds                   | 9%  | 10%   |
| <b>Total</b>                   | <b>100%</b>   | <b>100%</b>                                 |

The 2.0% decrease in the Healthcare and the 2.0% increase in the Information Technology sector are the result of relative market prices. None of the changes represent a shift in our diversification goals.

**Mortgage Loans**

We invest primarily in commercial mortgage loans that are diversified by property type and geography. We do not make residential mortgage loans; therefore, we have no direct exposure to sub-prime or Alt A mortgage loans. Generally, mortgage loans are secured by first liens on income-producing real estate with a loan-to-value ratio of up to 75%. Mortgage loans are used as a component of fixed income investments that support our insurance liabilities. Mortgage loans comprised 12.9% of total invested assets at September 30, 2009. Mortgage loans on real estate are recorded at carrying value, which is comprised of the original cost, net of repayments, amortization of premiums, accretion of discounts, unamortized deferred revenue and valuation allowances. If at any point mortgage loans are deemed to be impaired, they are adjusted so that the reported value is equal to fair value as of the impairment date. As the economy has deteriorated, commercial mortgage loans have come under pressure from bankrupt retailers, contracting office tenants, reduced business and pleasure travel, and other business difficulties. Difficult credit markets have aggravated the problem by refusing credit to all but the most credit worthy borrowers. The consequence has been increased delinquency with the potential for foreclosure. During the third quarter of 2009 we foreclosed on two properties. Given our ability to hold the properties and provide capital to refurbish and/or re-tenant, our analysis indicated that the carrying value was not impaired.

The following tables present the distribution across property types and geographic regions for mortgage loans at September 30, 2009 and December 31, 2008:

|                   | <b>Nine Months<br/>Ended<br/>September 30,<br/>2009</b> | <b>Year Ended<br/>December<br/>31,<br/>2008</b> |
|-------------------|---|---|
| Industrial        | 27%   | 25%   |
| Office buildings  | 32%   | 30%   |
| Shopping centers  | 18%   | 21%   |
| Hotels and motels | 16%   | 17%   |
| Commercial        | 3%  | 3%  |

|              |      |      |
|--------------|------|------|
| Other        | 4%   | 4%   |
| <b>Total</b> | 100% | 100% |

|                    | <b>Nine Months<br/>Ended<br/>September 30,<br/>2009</b> | <b>Year Ended<br/>December<br/>31,<br/>2008</b> |
|--------------------|---|---|
| West South Central | 23%   | 22%   |
| South Atlantic     | 20%   | 17%   |
| Pacific            | 11%   | 13%   |
| East North Central | 19%   | 22%   |
| Middle Atlantic    | 8%  | 10%   |
| East South Central | 6%  | 4%  |
| New England        | 4%  | 5%  |
| Mountain           | 5%  | 5%  |
| West North Central | 4%  | 2%  |
| <b>Total</b>       | 100%  | 100%  |



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We increased our investment in mortgage loans on real estate by \$219.2 million for the first nine months of 2009, as the combination of yield and collateral made them relatively attractive compared to other fixed income alternatives. While there has been no change in our investment methodology relating to mortgage loans, our investment in industrial mortgage loans increased by 2.0%, and our investment in office building mortgage loans increased 2.0%, for the nine months ended September 30, 2009, primarily due to a shift away from Retail and Hospitality (hotels and motels).

**Investment in Real Estate**

We invest in commercial real estate with positive cash flows or where appreciation in value is expected. Real estate is owned directly by our insurance companies, through non-insurance affiliates, or through joint ventures. The carrying value of real estate is stated at cost, less allowance for depreciation and valuation impairments. Depreciation is provided over the estimated useful lives of the properties. We have not recorded any material valuation impairments on investments in real estate in the nine months ended September 30, 2009. A number of our real estate projects remain in the construction phase or are recently completed. As a result, there is little to report in the way of income, expense, or sales. The development projects are on schedule and on budget, but face difficult markets upon completion. Commercial property values continue to fall as vacancies increase and financing, if available at all, becomes more expensive.

The following tables present the distribution across property types and geographic regions for real estate at September 30, 2009 and December 31, 2008:

|                   | <b>Nine Months<br/>Ended<br/>September 30,<br/>2009</b> | <b>Year Ended<br/>December<br/>31,<br/>2008</b> |
|-------------------|---|---|
| Industrial        | 40%   | 45%   |
| Office buildings  | 17%   | 18%   |
| Shopping centers  | 24%   | 23%   |
| Hotels and motels | 2%  | 2%  |
| Commercial        | 2%  | 1%  |
| Other             | 15%   | 11%   |
| <b>Total</b>      | <b>100%</b>   | <b>100%</b>                                     |

|                    | <b>Nine Months<br/>Ended<br/>September 30,<br/>2009</b> | <b>Year Ended<br/>December<br/>31,<br/>2008</b> |
|--------------------|---|---|
| West South Central | 62%   | 64%   |
| South Atlantic     | 16%   | 16%   |
| Pacific            | 3%  | 2%  |
| East North Central | 9%  | 6%  |
| East South Central | 9%  | 10%   |
| Mountain           |   | 1%  |
| West North Central | 1%  | 1%  |
| <b>Total</b>       | <b>100%</b>   | <b>100%</b>                                     |

The 5% decrease in Industrial for the nine months ended September 30, 2009 was caused by the addition of two apartment properties (included in Other ) resulting in the relative decline of Industrial and relative increase of Other.

***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 of short-term investments fluctuates depending on our liquidity needs. Short term investments increased \$355.3 million during the nine months ended September 30, 2009 to \$650.5 million, which was a reflection of increasing account values in fixed deferred annuities. At September 30, 2009, we had mortgage loan commitments outstanding totaling \$240.0 million.

**Table of Contents****Investment Income and Realized Gains/ (Losses):**

Investment income and realized gains/ (losses) on investments (including other-than-temporary impairments), before federal income taxes, for the three and nine months ended September 30, 2009 and 2008 are summarized as follows:

|   | <b>Investment Income</b>                |                   | <b>Realized Gains/(Losses)</b>          |                     | <b>Investment Income</b>               |                   | <b>Realized Gains/(Losses)</b>         |                     |
|---|---|-------------------|---|---------------------|--|-------------------|--|---------------------|
|   | <b>Three Months Ended September 30,</b> |                   | <b>Three Months Ended September 30,</b> |                     | <b>Nine Months Ended September 30,</b> |                   | <b>Nine Months Ended September 30,</b> |                     |
|   | <b>2009</b>                             | <b>2008</b>       | <b>2009</b>                             | <b>2008</b>         | <b>2009</b>                            | <b>2008</b>       | <b>2009</b>                            | <b>2008</b>         |
|   | <b>(in thousands)</b>                   |                   |   |                     |  |                   |  |                     |
| Bonds                                       | \$ 160,559                              | \$ 156,446        | \$ (2,054)                              | \$ (100,663)        | \$ 468,289                             | \$ 465,837        | \$ (11,355)                            | \$ (114,227)        |
| Preferred stocks                            | 547                                     | 1,596             |   | (47,144)            | 2,613                                  | 4,547             | (1,620)                                | (46,590)            |
| Common stocks                               | 5,494                                   | 6,819             | 430                                     | (49,400)            | 18,195                                 | 22,075            | (68,138)                               | (45,877)            |
| Mortgage loans                              | 36,303                                  | 32,475            |   |                     | 102,612                                | 86,365            | (500)                                  |                     |
| Real estate                                 | 35,929                                  | 33,821            | 1,523                                   |                     | 97,994                                 | 89,240            | 1,523                                  | 1,739               |
| Other invested assets                       | 14,597                                  | 4,930             | (7)                                     | (4,083)             | 29,581                                 | 22,013            | 280                                    | (4,083)             |
|   | 253,429                                 | 236,087           | (108)                                   | (201,290)           | 719,284                                | 690,077           | (79,810)                               | (209,038)           |
| Investment expenses                         | (31,163)                                | (26,818)          |   |                     | (89,158)                               | (77,352)          |  |                     |
| Decrease (increase) in valuation allowances |   |                   | (827)                                   | (695)               |  |                   | (3,334)                                | (2,865)             |
| <b>Total</b>                                | <b>\$ 222,266</b>                       | <b>\$ 209,269</b> | <b>\$ (935)</b>                         | <b>\$ (201,985)</b> | <b>\$ 630,126</b>                      | <b>\$ 612,725</b> | <b>\$ (83,144)</b>                     | <b>\$ (211,903)</b> |

For the three months ended September 30, 2009, investment income decreased \$13.0 million from the same period in 2008. The decrease was primarily driven by higher investment expenses and a reduction in income derived from other invested assets, partially offset by an increase in investment income from bonds and mortgage loans. For the nine months ended September 30, 2009, investment income decreased \$17.4 million from the same period in 2008 and was primarily driven by higher investment expenses.

The majority of the realized losses are write-downs of securities due to other-than-temporary impairments. These write-downs totaled \$4.2 million and \$78.3 million for the three and nine months ended September 30, 2009, respectively, compared to \$205.3 million and \$232.3 million for the same periods in 2008. Realized gains and losses and real estate investment income from sales in subsidiaries may fluctuate because they are the result of decisions to sell invested assets that depend on considerations of investment values, market opportunities and tax consequences. The new accounting regulations regarding impairments should result in significantly less bond impairments in the future, but stock impairments will continue to depend on the volatility in the market. We do not hold investments for trading purposes and only sell when the opportunity fits our investment objectives.

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

depending on the risk level of the asset involved.

**Table of Contents*****Unrealized Capital Gains and Losses***

The net change in unrealized gains/ (losses) on marketable securities, as presented in the stockholders' equity section of the consolidated statements of financial position equaled a gain of \$377.2 million and a loss of \$212.6 million for the nine months ending September 30, 2009 and 2008, respectively.

The change in net unrealized gains or losses for the nine months ended September 30, 2009 and 2008 is summarized as follows:

|  | <b>2009</b>           | <b>2008</b>         |
|--|-----------------------|---------------------|
|  | <b>(in thousands)</b> |                     |
| Bonds available-for-sale   | \$ 482,382            | \$ (244,446)        |
| Preferred stocks   | 12,092                | (8,141)             |
| Common stocks  | 219,501               | (178,680)           |
| Amortization of deferred policy acquisition costs  | (193,892)             | 94,476              |
|  | 520,083               | (336,791)           |
| Provision (benefit) for federal income taxes   | 181,497               | (117,789)           |
|  | \$ 338,586            | \$ (219,002)        |
| Change in unrealized gains (losses) of investments attributable to participating policyholders' interest | (11,801)              | 6,369               |
| One time adjustment for the Recognition and Presentation of Other-Than-Temporary Impairments             | 50,411                |                     |
| <b>Total</b>   | <b>\$ 377,196</b>     | <b>\$ (212,633)</b> |

The net unrealized loss for our available-for-sale bond portfolio decreased \$482.4 million to a net unrealized gain of \$43.7 million as of September 30, 2009. The net unrealized gain as of September 30, 2009 was comprised of \$153.4 million of unrealized gains and \$109.7 million of unrealized losses. The decline in unrealized losses is principally the result of general price improvement as spreads narrowed from the historically wide levels prevalent earlier in the year. Some securities in the financial sector were affected by company-specific concerns. The unrealized change in fair value of available-for-sale securities is reported in the consolidated statements of changes in equity. Held to maturity securities are reported at amortized cost on the consolidated statements of financial position.

The net unrealized gain for the common stock portfolio increased \$219.5 million to a net unrealized gain of \$252.1 million as of September 30, 2009 from a net unrealized gain of \$32.6 million at December 31, 2008. During the third quarter of 2009, the equity markets dramatically improved as represented by the S&P 500 Index, which improved 15%. This improvement was evident in our equity portfolio which tracks the S&P 500 closely by design. The net unrealized loss for the preferred stock portfolio decreased \$12.1 million to a net unrealized gain of \$0.2 million as of September 30, 2009 from a net unrealized loss of \$11.9 million at December 31, 2008. The decline in unrealized losses is principally the result of changes in market conditions.

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

**Quantitative and Qualitative Disclosures about Market Risk**

Our market risks have not changed materially from those disclosed in our amended Form 10 Registration Statement filed with the SEC on July 1, 2009.

**ITEM 4. CONTROLS AND PROCEDURES**

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934 (the **Exchange Act**), Company management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation as of the end of the period covered by this report, of the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) under the Exchange Act. The disclosure controls and procedures are the controls and other procedures designed to ensure that we record, process, accumulate and communicate information to the management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures and submissions within the time periods specified in the Securities and Exchange Commission's rules and forms.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those determined to be effective can provide only a reasonable assurance with respect to financial statement preparation and presentation. Based on the evaluation, the management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective as of September 30, 2009. There were no changes in our internal control over financial reporting during the nine months ended September 30, 2009 that have materially affected or are reasonably likely to affect, our internal control over financial reporting.

As required by Rule 13a-15(d) under the Exchange Act, Company management, including the Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of the Company's internal control over financial reporting to determine whether any changes occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting. Based on that evaluation, there has been no such change during the period covered by this report.

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**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

See our Litigation discussion in Item 1, Note 14 to the consolidated financial statements.

**ITEM 1A. RISK FACTORS**

There have been no material changes with respect to the risk factors as previously disclosed in our amended Form 10 Registration Statement filed with the SEC on July 1, 2009.

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

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

**ITEM 5. OTHER INFORMATION**

None.

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**ITEM 6. EXHIBITS**

(a) Exhibits

- 3.1 Articles of Incorporation of American National Insurance Company (incorporated by reference to Exhibit 3.1 of the Company's amended Form 10 Registration Statement filed with the SEC on July 1, 2009).
- 3.2 By-Laws of American National Insurance Company (incorporated by reference to Exhibit 3.2 of the Company's amended Form 10 Registration Statement filed with the SEC on July 1, 2009).
- 31.1\* Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2\* Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1\* Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2\* Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\* filed herewith

**SIGNATURES**

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

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

Date: November 6, 2009

By: /s/ Stephen E. Pavlicek  
Name: Stephen E. Pavlicek  
Title: Senior Vice President and Chief  
Financial Officer

Date: November 6, 2009