AMERICAN NATIONAL INSURANCE CO /TX/
Form 10-Q
May 06, 2011

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

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

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

Texas	74-0484030
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

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

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

Large accelerated filer o Accelerated filer þ Non-accelerated filer o Smaller reporting companyo

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

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

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PART I FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
AMERICAN NATIONAL INSURANCE COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited and in thousands, except for per share data)

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

Income from continuing operations		47,695		32,360
Income from discontinued operations, net of tax (See Note 17)				223
Net income		47,695		32,583
Less**:** Net loss attributable to noncontrolling interest, net of tax		(787)		(2,195)
Net income attributable to American National Insurance Company and Subsidiaries	$	48,482	$	34,778
Amounts available to American National Insurance Company common stockholders				
Earnings per share:				
Basic	$	1.83	$	1.31
Diluted		1.82		1.30
Weighted average common shares outstanding		26,559,643		26,558,832
Weighted average common shares outstanding and dilutive potential common shares		26,690,498		26,652,210

See accompanying notes to the unaudited consolidated financial statements.

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AMERICAN NATIONAL INSURANCE COMPANY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited and in thousands, except for share and per share data)

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

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

See accompanying notes to the unaudited 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)

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

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited and in thousands)

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

See accompanying notes to the unaudited consolidated financial statements.

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

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

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

See accompanying notes to the unaudited consolidated financial statements.

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

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

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

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

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

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

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

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

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3. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Adoption of New Accounting Standards

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

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

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

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

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Future Adoption of New Accounting Standards

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

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

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4. INVESTMENTS

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

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

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

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

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

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Investment securities

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

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

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

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

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

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

Derivatives Not Designated as Hedging Instruments	Location of Asset (Liability) Reported in the Consolidated Statements of Financial Position	**Estimated Fair Value March 31, 2011**	**Estimated Fair Value December 31, 2010**
Equity-indexed options	Other invested assets	$ 72,969	$ 66,716
Equity-indexed annuity embedded derivative	Future policy benefits - Annuity	(66,180)	(59,644)

Derivatives Not Designated as Hedging Instruments	Location of Gains (Losses) Recognized in the Consolidated Statements of Operations	**Gains (Losses) Recognized in Income on Derivatives Three months ended March 31, 2011**	**Gains (Losses) Recognized in Income on Derivatives Three months ended March 31, 2010**
Equity-indexed options	Net investment income	$ 7,115	$ (1,637)
Equity-indexed annuity embedded derivative	Interest credited to policy account balances	(6,305)	283

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

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

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

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

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

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

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

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

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Net investment income and realized investments gains (losses)

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

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

Other-than-temporary impairments

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

	Three months ended March 31, 2011	Three months ended March 31, 2010
Equity securities	$	$ (1,245)

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5. VARIABLE INTEREST ENTITIES

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

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

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

	March 31, 2011		December 31, 2010	
	Carrying Amount	Maximum Exposure to Loss	Carrying Amount	Maximum Exposure to Loss
Investment in unconsolidated affiliates	$ 46,111	$ 46,111	$ 36,226	$ 36,226

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

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6. CREDIT LOSSES

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

Nonaccrual and Past Due Mortgage Loans

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

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

	March 31, 2011	December 31, 2010
Retail	$ 12,264	$ 3,685

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

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

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

Allowance for Credit Losses

Each loan is evaluated quarterly and placed in a watchlist if events occurred or circumstances exist that could indicate that American National will be unable to collect all amounts due according to the contractual terms of the loan. If, in evaluating loans for inclusion in the watchlist, sufficient analysis is performed to conclude that a loan is fully collectible, no allowance is required. All loans in the watchlist are then analyzed individually for impairment. Fair value is determined by estimating the present value of future cash flows or the fair value of the underlying collateral. Estimation techniques vary depending on the quality of available data, the type of collateral, and other factors. When the fair value analysis shows that all of the amounts due are not collectable, the difference between the estimated fair value and the loan balance is recorded as an allowance (a loss), reducing the carrying value of the loan. The allowance is reviewed quarterly to determine whether further allowance is required, or whether recovery of the asset is assured and the allowance can be reduced.

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

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

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

Impaired loans

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

	Three months ended March 31, 2011				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Retail	$ 6,679	$ 9,072	$ 493	$ 6,679	$

	Year ended December 31, 2010				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Retail	$ 6,679	$ 9,072	$ 2,393	$ 7,573	$ 406

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

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Credit Quality Indicators

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

7. CREDIT RISK MANAGEMENT

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

Bonds

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

	March 31, 2011	December 31, 2010
AAA	9.8%	10.0%
AA	10.2	10.2
A	36.6	37.0
BBB	38.2	37.2
BB and below	5.2	5.6
Total	**100.0%**	**100.0%**

Equity Securities

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

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

Mortgage loans and investment real estate

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

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

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

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

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

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8. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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9. DEFERRED POLICY ACQUISITION COSTS

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

	Life	Annuity	Accident & Health	Property & Casualty	Total
Balance at December 31, 2010	$ 661,377	$ 446,996	$ 64,967	$ 145,086	$ 1,318,426
Additions	20,389	35,537	3,019	67,065	126,010
Amortization	(17,840)	(22,935)	(5,352)	(66,833)	(112,960)
Effect of change in unrealized gains on available-for-sale securities	(1,024)	(4,994)			(6,018)
Net change	1,525	7,608	(2,333)	232	7,032
Balance at March 31, 2011	$ 662,902	$ 454,604	$ 62,634	$ 145,318	$ 1,325,458
Premiums for the three months ended:					
March 31, 2011	$ 66,386	$ 32,241	$ 58,644	$ 291,314	$ 448,585
March 31, 2010	$ 69,445	$ 40,352	$ 68,424	$ 286,472	$ 464,693

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

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

10. LIABILITY FOR UNPAID CLAIMS AND CLAIM ADJUSTMENT EXPENSES

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

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

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

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

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

11. NOTES PAYABLE

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

12. FEDERAL INCOME TAXES

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

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

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

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

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

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

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

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

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

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13. COMPONENTS OF COMPREHENSIVE INCOME

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

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

14. STOCKHOLDERS EQUITY AND NONCONTROLLING INTERESTS

Common stock

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

	March 31, 2011	December 31, 2010
Common stock		
Shares issued	30,832,449	30,832,449
Treasury shares	4,011,472	4,011,472
Restricted shares	261,334	261,334
Unrestricted outstanding shares	**26,559,643**	**26,559,643**

Stock-based compensation

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

RS Awards entitle the participant to full dividend and voting rights. Unvested shares are restricted as to disposition, and are subject to forfeiture under certain circumstances. Compensation expense is recognized over the vesting period. The restrictions on these awards lapse after 10 years, and feature a graded vesting schedule in the case of the retirement of an award holder. Restricted stock has been granted, with a total of 340,334 shares granted at an exercise price of zero, of which 261,334 shares are unvested. The compensation expense recorded for the three months ended March 31, 2011 and 2010 was $663,000 and $673,000, respectively.

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

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

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

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

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

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

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

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Earnings per share

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

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

Dividends

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

The same restrictions on amounts that can transfer in the form of dividends, loans, or advances to the parent company apply to American National s insurance subsidiaries. Dividends received by the parent company from its non-insurance subsidiaries was zero for the three months ended March 31, 2011 and 2010.

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

Noncontrolling interests

American National County Mutual Insurance Company (County Mutual) is a mutual insurance company that is owned by its policyholders. County Mutual has a management agreement, which effectively gives complete control of County Mutual to American National. As a result, County Mutual is included in the consolidated financial statements of American National. The interests that the policyholders of County Mutual have in the financial position of County Mutual is reflected as noncontrolling interest totaling $6,750,000 at March 31, 2011 and December 31, 2010.

American National s wholly-owned subsidiary, ANTAC, Inc., is a partner in various joint ventures. ANTAC exercises significant control or ownership of these joint ventures, resulting in their consolidation into the American National consolidated financial statements. As a result of the consolidation, the interest of the other partners of the joint ventures is shown as noncontrolling interests. Noncontrolling interests were a net asset of $4,718,000 and $3,523,000 at March 31, 2011 and December 31, 2010, respectively.

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15. SEGMENT INFORMATION

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

- The Life segment markets whole, term, universal and variable life insurance on a national basis primarily through employee and multiple-line agents, direct marketing channels and independent third-party marketing organizations.
- The Annuity segment develops, sells and supports fixed, equity-indexed, and variable annuity products. These products are primarily sold through independent agents and brokers, but are also sold through financial institutions, multiple-line agents and employee agents.
- The Health segment s primary lines of business are Medicare Supplement, stop loss, other supplemental health products and credit disability insurance. Health products are typically distributed through independent agents and managing general underwriters.
- The Property and Casualty segment writes personal, commercial and credit-related property insurance. These products are primarily sold through multiple-line agents and independent agents.
- The Corporate and Other business segment consists of net investment income on the investments not allocated to the insurance segments and the operations of non-insurance lines of business.

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

- Recurring income from bonds and mortgage loans is allocated based on the funds accumulated by each line of business at the average yield available from these assets.
- Net investment income from all other assets is allocated to the insurance segments in accordance with the amount of equity allocated to each segment, with the remainder going to Corporate and Other.
- Expenses are allocated to the lines based upon various factors, including premium and commission ratios within the respective operating segments.
- Realized gains or losses on investments and equity in earnings of unconsolidated affiliates are allocated to the Corporate and Other business segment.
- Federal income taxes have been applied to the net earnings of each segment based on a fixed tax rate. Any difference between the amount allocated to the segments and the total federal income tax amount is allocated to the Corporate and Other business segment.

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

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

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

	Three months ended March 31, 2010					
	Life	Annuity	Health	Property & Casualty	Corporate & Other	TOTAL

Premiums and other revenues:						
Premiums	$ 69,445	$ 40,352	$ 68,424	$ 286,472	$	$ 464,693
Other policy revenues	41,086	3,910				44,996
Net investment income	58,885	125,108	4,054	18,851	11,204	218,102
Other income	837	76	2,336	2,038	628	5,915
Total operating revenues	**170,253**	**169,446**	**74,814**	**307,361**	**11,832**	**733,706**
Realized gains on investments					16,502	16,502
Total premiums and other revenues	**170,253**	**169,446**	**74,814**	**307,361**	**28,334**	**750,208**
Benefits, losses and expenses:						
Policyholder benefits	72,538	47,695				120,233
Claims incurred			52,839	235,203		288,042
Interest credited to policy account balances	14,692	79,670				94,362
Commissions for acquiring and servicing policies	19,708	24,693	9,753	52,722	1	106,877
Other operating expenses	43,392	16,080	12,139	30,666	10,931	113,208
Change in deferred policy acquisition costs	(2,610)	(14,257)	1,912	72		(14,883)
Total benefits, losses and expenses	**147,720**	**153,881**	**76,643**	**318,663**	**10,932**	**707,839**
Income from continuing operations before federal income taxes, and equity in earnings of unconsolidated affiliates	**$ 22,533**	**$ 15,565**	**$ (1,829)**	**$ (11,302)**	**$ 17,402**	**$ 42,369**

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16. COMMITMENTS AND CONTINGENCIES

Commitments

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

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

Guarantees

In the normal course of business, American National has guaranteed bank loans for customers of a third-party marketing operation. The bank loans are used to fund premium payments on life insurance policies issued by American National. The loans are secured by the cash values of the life insurance policies. If the customer were to default on the bank loan, American National would be obligated to pay off the loans. As the cash values of the life insurance policies always equals or exceeds the balance of the loans, management does not foresee any loss on these guarantees. The total amount of the guarantees outstanding as of March 31, 2011, was approximately $206,513,000 while the total cash values of the related life insurance policies was approximately $212,253,000.

Litigation

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

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

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

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American National and certain subsidiaries are also defendants in various other lawsuits concerning alleged failure to honor certain loan commitments, alleged breach of certain agency and real estate contracts, various employment matters, allegedly deceptive insurance sales and marketing practices, and other litigation arising in the ordinary course of operations. Certain of these lawsuits include claims for compensatory and punitive damages. After reviewing these matters with legal counsel, management is of the opinion that the ultimate resultant liability, if any, would not have a material adverse effect on American National s consolidated financial position or results of operations. However, these lawsuits are in various stages of development, and future facts and circumstances could result in management s changing its conclusions.

In addition, it should be noted that the frequency of large damage awards, which bear little or no relation to the economic damages incurred by plaintiffs in some jurisdictions, continue to create the potential for an unpredictable judgment in any given lawsuit. It is possible that, if the defenses in these lawsuits are not successful, and the judgments are greater than management can anticipate, the resulting liability could have a material impact on the consolidated financial statements.

17. DISCONTINUED OPERATIONS

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

The following table summarizes income from discontinued operations:

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

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

18. RELATED PARTY TRANSACTIONS

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

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

Information Regarding Related Parties and Transactions

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

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

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

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

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

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

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

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

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Forward-Looking Statements

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

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

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

Overview

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

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General Trends
There were no material changes to the general trends we are experiencing, as discussed in the MD&A included in our 2010 Annual Report on Form 10-K filed with the SEC on March 2, 2011.
Critical Accounting Estimates
The unaudited interim consolidated financial statements have been prepared in conformity with GAAP. In addition to GAAP, insurance companies have to apply specific SEC regulations when preparing the consolidated financial statements. The preparation of the consolidated financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and notes. Actual results could differ from results reported using those estimates.
Our accounting policies inherently require the use of judgments relating to a variety of assumptions and estimates, particularly expectations of current and future mortality, morbidity, persistency, expenses, interest rates, and property and casualty frequency, severity, claim reporting and settlement patterns. Due to the inherent uncertainty when using the assumptions and estimates, the effect of certain accounting policies under different conditions or assumptions could be different from those reported in the consolidated financial statements.
For a discussion of our critical accounting estimates, see the MD&A in our 2010 Annual Report on Form 10-K filed with the SEC on March 2, 2011. There were no material changes in accounting policies from December 31, 2010.
Recently Issued Accounting Pronouncements
Refer to Note 3, Recently Issued Accounting Pronouncements, of the Notes to the Consolidated Financial Statements.

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Consolidated Results of Operations

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

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

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

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

- a decrease in Property and Casualty claims incurred,
- an increase in net investment income greater than the increase to interest credited to policy account balances.

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

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

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

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

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

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

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

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

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Policyholder Benefits

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

Other Operating Expenses

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

Change in Deferred Policy Acquisition Costs

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

	Three months ended March 31, 2011	Three months ended March 31, 2010	Change
Acquisition cost capitalized	$ 20,389	$ 18,098	$ 2,291
Amortization of DAC	(17,840)	(15,488)	(2,352)
Change in deferred policy acquisition costs [(1)]	**$ 2,549**	**$ 2,610**	**$ (61)**

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

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

Policy In-Force Information

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

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

	Three months ended March 31, 2011	Three months ended March 31, 2010	Change
Number of policies in-force			
Traditional life	2,248	2,322	(74)
Interest-sensitive life	176	175	1
Total number of policies	**2,424**	**2,497**	**(73)**

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

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

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Annuity

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

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

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

Premiums

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

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

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

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

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

Net Investment Income

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

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

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

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

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

Account Values

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

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

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

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

Policyholder Benefits

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

Interest Credited to Policy Account Balances

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

With Equity-Indexed Deferred Annuities	Without Equity-Indexed Deferred Annuities	Attributable to the Equity-Indexed Deferred Annu