AMERICAN NATIONAL INSURANCE CO /TX/
Form 10-Q
August 07, 2009

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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 June 30, 2009

OR

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

For the transition period from __________ to __________

Commission file number: 001-34280

AMERICAN NATIONAL INSURANCE COMPANY
(Exact name of registrant as specified in its charter)

Texas	**74-0484030**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. employer identification number)*
One Moody Plaza **Galveston, Texas** *(Address of principal executive offices)*	**77550-7999** *(Zip code)*

(409) 763-4661
(Registrant s telephone number, including area code)

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

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

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 definition of accelerated filer, large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

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

As of July 31, 2009, the registrant had 26,820,166 shares of common stock, $1.00 par value per share, outstanding.

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PART I FINANCIAL INFORMATION

ITEM 1 *FINANCIAL STATEMENTS*

Consolidated Statements of Income

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

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
PREMIUMS AND OTHER REVENUE				
Premiums				
Life	$ 65,228	$ 72,859	$ 135,318	$ 147,014
Annuity	53,641	27,347	90,857	71,646
Accident and health	69,651	73,040	149,573	145,077
Property and casualty	276,427	293,088	568,916	593,194
Other policy revenues	44,768	43,379	88,448	85,445
Net investment income	214,664	215,868	407,860	403,456
Realized investments gains (losses)	(2,674)	15,564	(8,061)	17,131
Other-than-temporary impairments	(6,074)	(19,897)	(74,148)	(27,049)
Other income	12,159	10,314	21,024	19,728
Total revenues	727,790	731,562	1,379,787	1,455,642
BENEFITS, LOSSES AND EXPENSES				
Policy Benefits				
Life	72,317	73,901	146,266	145,867
Annuity	63,151	35,954	106,808	85,704
Accident and health	57,699	54,471	121,766	115,050
Property and casualty	243,771	279,508	491,845	497,119
Interest credited to policy account balances	95,714	75,942	177,302	143,089
Commissions for acquiring and servicing policies	114,675	132,318	227,590	257,588
Other operating costs and expenses	120,378	133,169	231,540	250,714
Increase in deferred policy acquisition costs	(27,396)	(40,617)	(34,029)	(69,348)
Total benefits, losses and expenses	740,309	744,646	1,469,088	1,425,783
Income (loss) from continuing operations before federal income tax, and equity in earnings of unconsolidated affiliates,	(12,519)	(13,084)	(89,301)	29,859
Provision (benefit) for federal income taxes				
Current	(10,330)	(27,631)	(25,105)	(17,278)
Deferred	(446)	16,604	(16,694)	16,471
Equity in earnings (losses) of unconsolidated affiliates, net of tax	(3,180)	348	(5,117)	7,996
Income (loss) from continuing operations	(4,923)	(1,709)	(52,619)	38,662

Loss from discontinued operations				(1,100)				(2,446)
Net income (loss)	$	(4,923)	$	(2,809)	$	(52,619)	$	36,216
Less Net income (loss) attributable to noncontrolling interests		(568)		126		(569)		126
Net income (loss) attributable to American National Insurance Company and Subsidiaries	$	(4,355)	$	(2,935)	$	(52,050)	$	36,090
Amounts attributable to American National Insurance Company common stockholders								
Earnings (loss) per share:								
Basic	$	(0.16)	$	(0.11)	$	(1.96)	$	1.36
Diluted	$	(0.16)	$	(0.11)	$	(1.96)	$	1.35
Weighted average common shares outstanding		26,498,832		26,479,832		26,498,832		26,479,832
Weighted average common shares outstanding and dilutive potential common shares		26,599,550		26,646,008		26,599,550		26,646,008

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited and In thousands)

	June 30, 2009	December 31, 2008
ASSETS		
Investments, other than investments in unconsolidated affiliates		
Fixed Securities:		
Bonds held-to-maturity, at amortized cost	$ 7,313,157	$ 6,681,837
Bonds available-for-sale, at market	4,042,267	3,820,837
Preferred stocks, at market	27,126	48,822
Equity securities:		
Common stocks, at market	863,805	853,530
Mortgage loans on real estate, net of allowance	2,003,300	1,877,053
Policy loans	357,289	354,398
Investment real estate, net of accumulated depreciation of $200,657 and $191,435	562,067	528,905
Short-term investments	456,332	295,170
Other invested assets	84,822	85,151
Total investments	15,710,165	14,545,703
Cash	32,638	66,096
Investments in unconsolidated affiliates	151,459	154,309
Accrued investment income	188,504	184,801
Reinsurance ceded receivables	416,504	482,846
Prepaid reinsurance premiums	57,339	61,433
Premiums due and other receivables	316,105	325,019
Deferred policy acquisition costs	1,412,936	1,482,664
Property and equipment, net	93,055	92,458
Current federal income taxes	24,087	68,327
Deferred federal income taxes	97,342	195,508
Other assets	148,855	159,254
Separate account assets	604,374	561,021
Total assets	$ 19,253,363	$ 18,379,439
LIABILITIES		
Policyholder funds		
Future policy benefits:		
Life	$ 2,457,811	$ 2,436,001
Annuity	702,583	664,136
Accident and health	96,001	96,548
Policy account balances	9,038,280	8,295,527
Policy and contract claims	1,315,485	1,401,960
Participating policyholder share	152,757	149,970
Other policyholder funds	962,126	959,134
Total policyholder liabilities	14,725,043	14,003,276

Liability for Retirement Benefits	188,527	184,124
Notes payable	110,493	111,922
Other liabilities	367,576	376,863
Separate account liabilities	604,374	561,021
Total liabilities	15,996,013	15,237,206
STOCKHOLDERS EQUITY		
Common stock, $1.00 par value, Authorized 50,000,000 Issued 30,832,449, Outstanding 26,820,166 shares	30,832	30,832
Additional paid-in capital	9,891	7,552
Accumulated other comprehensive (loss)	(64,606)	(221,148)
Retained earnings	3,371,598	3,414,946
Treasury stock, at cost	(98,308)	(98,326)
Total American National stockholders equity	3,249,407	3,133,856
Noncontrolling interest	7,943	8,377
Total equity	3,257,350	3,142,233
Total liabilities and equity	$ 19,253,363	$ 18,379,439

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Unaudited)
(Unaudited and in thousands, except for per share data)

	Six Months Ended June 30, 2009	2008
Common Stock		
Balance at beginning and end of the period	$ 30,832	$ 30,832
Additional Paid-In Capital		
Balance at beginning of year	7,552	6,080
Issuance of treasury shares as restricted stock	(18)	(1,139)
Amortization of restricted stock	2,357	1,097
Balance as of June 30,	$ 9,891	$ 6,038
Accumulated Other Comprehensive Income		
Balance at beginning of year	(221,148)	145,972
Change in unrealized gains on marketable securities, net	205,645	(154,236)
Impact of adoption of FSP FAS 115-2 and FAS 124-2, net	(49,890)	
Foreign exchange adjustments	(776)	259
Minimum pension liability adjustment	1,563	(572)
Balance as of June 30,	$ (64,606)	$ (8,577)
Retained Earnings		
Balance at beginning of year	3,414,946	3,653,365
Net income (loss)	(52,050)	36,090
Cash dividends to common stockholders ($0.77, and $0.77 per share)	(41,188)	(41,273)
Impact of adoption of FSP FAS 115-2 and FAS 124-2, net	49,890	
Balance as of June 30,	$ 3,371,598	$ 3,648,182
Treasury Stock		
Balance at beginning of year	(98,326)	(99,465)
Net issuance of restricted stock	18	1,139
Balance as of June 30,	$ (98,308)	$ (98,326)
Noncontrolling Interest		
Balance at beginning of the year	8,377	4,539
Contributions	491	836
Distributions	(50)	(376)
Gain (loss) attributable to noncontrolling interest	(875)	194

Balance as of June 30,	$ 7,943	$ 5,193
Total Equity		
Balance as of June 30,	$ 3,257,350	$ 3,583,342

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(In thousands)

	Six Months Ended June 30,	
	2009	**2008**
Net Income (loss)	$ (52,050)	$ 36,090
Other comprehensive income (loss), net of tax		
Change in unrealized gains on marketable securities, net	205,645	(154,236)
Foreign exchange adjustments	(776)	259
Minimum pension liability adjustment	1,563	(572)
Total other comprehensive income (loss)	$ 206,432	$ (154,549)
Total comprehensive income (loss) attributable to American National Insurance Company and Subsidiaries	$ 154,382	$ (118,459)

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited and in thousands)

	Six Months Ended June 30, 2009	2008
OPERATING ACTIVITIES		
Net income (loss)	$ (52,050)	$ 36,090
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:		
Realized losses on investments	82,209	9,918
Amortization of discounts and premiums on bonds	7,979	8,284
Capitalized interest on policy loans and mortgage loans	(13,853)	1,201
Depreciation	17,293	15,421
Interest credited to policy account balances	176,546	143,133
Charges to policy account balances	(85,177)	(87,198)
Deferred federal income tax (benefit) expense	16,694	(16,471)
Deferral of policy acquisition costs	(248,564)	(275,574)
Amortization of deferred policy acquisition costs	214,539	206,589
Equity in earnings of unconsolidated affiliates	(7,872)	12,709
Changes in:		
Policyholder funds liabilities	(20,986)	71,783
Reinsurance ceded receivables	66,342	1,303
Premiums due and other receivables	8,914	(17,602)
Accrued investment income	(3,703)	(8,389)
Current federal income tax liability	44,240	(29,502)
Liability for retirement benefits	4,403	314
Prepaid reinsurance premiums	4,094	1,200
Other, net	(13,080)	46,671
Net cash provided by operating activities	197,968	119,880
INVESTING ACTIVITIES		
Proceeds from sales of:		
Bonds available for sale	20,910	6,132
Stocks	60,451	53,805
Real Estate	1,204	4,500
Other invested assets		3,933
Proceeds from maturities of:		
Bonds available for sale	146,260	238,001
Bonds held to maturity	441,781	385,610
Principal payments received on:		
Mortgage loans	63,860	72,270
Policy loans	22,889	4,869
Purchases of investments:		
Bonds available for sale	(67,110)	(629,718)
Bonds held to maturity	(1,081,138)	(680,943)
Stocks	(19,847)	(156,547)
Real estate	(32,656)	(64,397)

Mortgage loans	(208,828)	(296,702)
Policy loans	(13,920)	(7,342)
Other invested assets	(6,270)	(19,086)
Decrease (increase) in short-term investments, net	(161,162)	435,323
Decrease (increase) in investment in unconsolidated affiliates, net	2,850	(29,495)
(Increase) in property and equipment, net	(8,767)	(7,003)
Net cash used in investing activities	(839,493)	(686,790)
FINANCING ACTIVITIES		
Policyholders deposits to policy account balances	1,347,735	1,282,013
Policyholders withdrawals from policy account balances	(697,051)	(670,300)
Increase (Decrease) in notes payable	(1,429)	22,442
Dividends to stockholders	(41,188)	(41,273)
Net cash provided by financing activities	608,067	592,882
NET INCREASE (DECREASE) IN CASH	(33,458)	25,972
Cash:		
Beginning of the year	66,096	134,069
Balance as of June 30,	$ 32,638	$ 160,041

See accompanying notes to consolidated financial statements.

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1. NATURE OF OPERATIONS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

All significant intercompany accounts and transactions have been eliminated in consolidation. Investments in unconsolidated affiliates are shown at cost plus equity in undistributed earnings since the dates of acquisition. American National s life insurance business in Mexico, which is reported as discontinued operations, had an immaterial impact on revenue for the three and six months ended June 30, 2009.

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

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

- Other-than-temporary impairment of investment securities;
- Deferred acquisition costs;
- Reserves;
- Reinsurance recoverable;
- Pension and postretirement benefit plans;
- Litigation contingencies; and
- Federal income taxes.

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

American National s accounting policy on OTTI of debt securities was significantly modified due to the April 2009 issuance of the Financial Accounting Standards Board s (FASB s) FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (refer to Note 3). Under the new policy, an OTTI has occurred for a debt security in an unrealized loss position when American National either (a) has the intent to sell the debt security or (b) it is more likely than not that it will be required to sell the debt security before its anticipated recovery of its amortized costs basis. If either criteria is met, OTTI is recognized in earnings in the amount of the amortized cost basis of the debt security in excess of its fair value, as of the impairment measurement date.

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

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

3. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Adoption of New Accounting Standards

In May 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No.165, Subsequent Events (SFAS 165). SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. It requires that an entity evaluate its subsequent events up through the date of issuance of its financial statements as well as disclosure of the date of such evaluation. SFAS 165 is effective for interim and annual periods ending after June 15, 2009. Accordingly, American National adopted SFAS 165 prospectively in its second quarter of fiscal year 2009. The adoption of this standard on April 1, 2009 did not have a material effect on American National s consolidated financial statements.

In April 2009, the FASB issued FASB Staff Position (FSP) Financial Accounting Standard (FAS) 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP FAS 115-2/124-2). FSP FAS 115-2/124-2 requires entities to separate an OTTI of a debt security into two components when there are credit related losses associated with the impaired debt security for which management asserts that it does not have the intent to sell the security, and it is more likely than not that it will not be required to sell the security before recovery of its cost basis. The amount of the other-than-temporary impairment related to a credit loss is recognized in earnings, and the amount of the other-than-temporary impairment related to other factors (the non-credit loss) is recorded in other comprehensive income (loss). FSP FAS 115-2/124-2 is effective for interim and annual periods ending after June 15, 2009. As of the beginning of the interim period of adoption, FSP FAS 115-2/124-2 requires a cumulative-effect adjustment to reclassify the non-credit component of previously recognized other-than-temporary impairment losses from retained earnings to other comprehensive loss. On April 1, 2009, American National adopted FSP FAS 115-2/124-2 which resulted in a cumulative-effect adjustment of $49,890,000, net of taxes, as an adjustment to the opening balance of retained earnings with a corresponding adjustment to accumulated other comprehensive income.

In April 2009, the FASB issued FSP FAS 157-4, Determining Fair Value When Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions that are Not Orderly (FSP FAS 157-4). Under FSP FAS 157-4, if an entity determines that there has been a significant decrease in the volume and level of activity for the asset or the liability in relation to the normal market activity for the asset or liability (or similar assets or liabilities), then transactions or quoted prices may not accurately reflect fair value. In addition, if there is evidence that the transaction for the asset or liability is not orderly, the entity shall place little, if any weight on that transaction price as an indicator of fair value. FSP FAS 157-4 is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. American National adopted FSP FAS 157-4 on April 1, 2009, and the adoption of this standard did not have a material effect on American National s consolidated financial statements.

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In April 2009, the FASB issued FSP FAS 107-1 and Accounting Principles Board Opinion (APB) 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP FAS 107-1 and APB 28-1). FSP FAS 107-1 and APB 28-1 require disclosures about fair value of financial instruments in interim and annual financial statements. FSP FAS 107-1 and APB 28-1 are effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. American National adopted FSP FAS 107-1 and APB 28-1 on April 1, 2009 and the adoption of this standard did not have a material effect on American National s consolidated financial statements.

Future Adoption of New Accounting Standards

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162 (SFAS 168). SFAS 168 establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by non-governmental entities in the preparation of financial statements in conformity with GAAP in the United States, superseding existing FASB, American Institute of Certified Public Accountants (AICPA), Emerging Issues Task Force (EITF), and related accounting literature. SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. SFAS 168 will not have an impact on American National s consolidated financial statements, other than changes in reference from specific accounting standards to accounting standards codification references.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46R (SFAS 167). SFAS 167 amends FASB Interpretation No. (FIN) 46 (revised December 2003), Consolidation of Variable Interest Entities (FIN 46R) to require an analysis to determine whether a variable interest gives the entity a controlling financial interest in a variable interest entity. This statement requires an ongoing reassessment and eliminates the quantitative approach previously required for determining whether an entity is the primary beneficiary. This standard is effective for fiscal years beginning after November 15, 2009. Accordingly, American National will adopt SFAS 167 in fiscal year 2010 and is currently evaluating the impact of adopting this standard on its consolidated financial statements.

In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets (SFAS 166). SFAS 166 removes the concept of a qualifying special-purpose entity (QSPE) from SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities (SFAS 140) and removes the exception from applying FIN 46R. This standard also clarifies the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting. This standard is effective for fiscal years beginning after November 15, 2009. Accordingly, American National will adopt SFAS 166 in fiscal year 2010 and is currently evaluating the impact of adopting this standard on its consolidated financial statements.

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4. INVESTMENTS

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
June 30, 2009				
Debt Securities				
Bonds held-to-maturity:				
U.S. treasury and other U.S. government corporations and agencies	$ 21,345	$ 225	$ (19)	$ 21,551
States of the U.S. and political subdivisions of the states	214,603	5,668	(1,696)	218,575
Foreign governments	28,986	2,837		31,823
Corporate debt securities	6,251,024	144,414	(281,547)	6,113,891
Residential mortgage backed securities	722,045	22,129	(29,097)	715,077
Commercial mortgage backed securities	32,609		(25,038)	7,571
Collateralized debt securities	9,447	44	(746)	8,745
Other debt securities	33,098	2,225		35,323
Total bonds held-to-maturity	$ 7,313,157	$ 177,542	$ (338,143)	$ 7,152,556
Bonds available-for-sale:				
U.S. treasury and other U.S. government corporations and agencies	3,450	491		3,941
States of the U.S. and political subdivisions of the states	582,276	11,623	(6,465)	587,434
Foreign governments	5,000	1,053		6,053
Corporate debt securities	3,230,468	40,047	(233,459)	3,037,056
Residential mortgage backed securities	379,787	8,564	(7,599)	380,752
Collateralized debt securities	26,303	492	(4,077)	22,718
Other debt securities	4,207	106		4,313
Total bonds available-for-sale	$ 4,231,491	$ 62,376	$ (251,600)	$ 4,042,267
Total debt securities	$ 11,544,648	$ 239,918	$ (589,743)	$ 11,194,823
Marketable equity securities				
Common stock:				
Consumer goods	147,365	30,234	(8,047)	169,552
Energy & utilities	90,584	33,480	(3,370)	120,694
Finance	106,616	26,601	(6,794)	126,423
Healthcare	86,891	20,780	(4,792)	102,879
Industrials	60,858	12,574	(2,887)	70,545

Information technology	109,655	24,443	(4,700)	129,398
Materials	19,090	3,191	(580)	21,701
Telecommuncation services	34,812	3,908	(1,734)	36,986
Mutual funds	83,478	2,911	(762)	85,627
Total common stock	$ 739,349	$ 158,122	$ (33,666)	$ 863,805
Preferred stock	30,359	3,959	(7,192)	27,126
Total marketable equity securities	$ 769,708	$ 162,081	$ (40,858)	$ 890,931
Total investments in securities	$ 12,314,356	$ 401,999	$ (630,601)	$ 12,085,754

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

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

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

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DEBT SECURITIES

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

	Bonds Held-to-Maturity		Bonds Available-for-Sale	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 127,596	$ 124,453	$ 160,341	$ 160,027
Due after one year through five years	3,348,029	3,321,556	1,743,430	1,664,582
Due after five years through ten years	3,057,602	2,939,790	1,663,808	1,564,363
Due after ten years	774,080	762,682	653,636	645,364
	$ 7,307,307	$ 7,148,481	$ 4,221,215	$ 4,034,336
Without single maturity date	5,850	4,075	10,276	7,931
Total	$ 7,313,157	$ 7,152,556	$ 4,231,491	$ 4,042,267

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

At June 30, 2008, there were no carrying value transfers from held-to-maturity to available-for-sale due to evidence of a significant deterioration in the issuers creditworthiness.

DERIVATIVE INSTRUMENTS

American National purchases derivative contracts that serve as economic hedges against fluctuations in the equity markets to which equity indexed annuity products are exposed. Equity indexed annuities include a fixed host annuity contract and an embedded equity derivative. These derivative instruments are not accounted for as hedging under SFAS 133. The following table details the gain or loss on derivatives related to equity indexed annuities:

		Amount of Gain (Loss) Recognized in Income on Derivatives			
		Three Months Ended June 30,		**Six Months Ended June 30,**	
Derivatives Not Designated as Hedging Instruments Under FAS Statement 133	Location of Gain (Loss) Recognized in Income on Derivatives	**2009**	**2008**	**2009**	**2008**
Equity Index Options	Investment Income	$ 1,757	$ (3,546)	$ (2,101)	$ (12,736)
Equity Index Annuity Embedded Derivative	Interest Credited to Policyholders	$ (3,000)	$ 4,321	$ (738)	$ 14,318

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UNREALIZED GAINS AND LOSSES ON SECURITIES

Unrealized gains (losses) on marketable equity securities and bonds available-for-sale, presented in the stockholders equity section of the consolidated statements of financial position, are net of deferred tax assets of $1,608,000 and $15,731,000 for the periods ended June 30, 2009 and 2008 respectively.

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

	2009	2008
Bonds available-for-sale	$ 249,499	$ (85,774)
Preferred stocks	8,663	(12,063)
Common stocks	91,834	(153,429)
Amortization of deferred policy acquisition costs	(103,757)	6,791
	246,239	(244,475)
Provision (benefit) for federal income taxes	85,004	(85,516)
	$ 161,235	$ (158,959)
Change in unrealized gains (losses) of investments attributable to participating policyholders interest	(5,480)	4,723
Impact of adoption of FSP FAS 115-2 and FAS 124-2	49,890	
Total	$ 205,645	$ (154,236)

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Gross unrealized losses on investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of June 30, 2009 and December 31, 2008, are summarized as follows (in thousands):

	Less than 12 months		12 Months or more		Total	
June 30, 2009	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Debt Securities						
Bonds held-to-maturity:						
U.S. treasury and other U.S. government corporations and agencies	$ 19	$ 4,843	$	$	$ 19	$ 4,843
States of the U.S. and political subdivisions of the states	883	47,474	813	7,433	1,696	54,907
Corporate debt securities	26,586	522,048	254,961	2,166,474	281,547	2,688,522
Residential mortgage backed securities	338	28,183	28,759	202,439	29,097	230,622
Commercial mortgage backed securities			25,038	7,571	25,038	7,571
Collateralized debt securities	746	5,031			746	5,031
Total bonds held-to-maturity	$ 28,572	$ 607,579	$ 309,571	$ 2,383,917	$ 338,143	$ 2,991,496
Bonds available-for-sale:						
States of the U.S. and political subdivisions of the states	1,663	91,363	4,802	123,366	6,465	214,729
Corporate debt securities	51,660	495,747	181,799	1,357,494	233,459	1,853,241
Residential mortgage backed securities	1,556	28,414	6,043	36,605	7,599	65,019
Collateralized debt securities	599	2,615	3,478	8,463	4,077	11,078
Total bonds available-for-sale	$ 55,478	$ 618,139	$ 196,122	$ 1,525,928	$ 251,600	$ 2,144,067
Total debt securities	$ 84,050	$ 1,225,718	$ 505,693	$ 3,909,845	$ 589,743	$ 5,135,563
Marketable equity securities						
Common stock:						
Consumer goods	7,589	39,882	458	4,202	8,047	44,084
Energy & utilities	2,488	16,450	882	4,623	3,370	21,073
Finance	6,321	44,605	473	2,002	6,794	46,607
Healthcare	3,505	30,825	1,287	8,296	4,792	39,121
Industrials	2,210	14,415	677	3,932	2,887	18,347
Information technology	4,270	26,559	430	3,712	4,700	30,271
Materials	580	5,589			580	5,589
Telecommunications services	1,353	9,138	381	2,631	1,734	11,769
Mutual funds	746	12,410	16	391	762	12,801

Total common stock	$ 29,062	$ 199,873	$ 4,604	$ 29,789	$ 33,666	$ 229,662
Preferred stock	1,288	3,877	5,904	15,196	7,192	19,073
Total marketable equity securities	$ 30,350	$ 203,750	$ 10,508	$ 44,985	$ 40,858	$ 248,735
Total investments in securities	$ 114,400	$ 1,429,468	$ 516,201	$ 3,954,830	$ 630,601	$ 5,384,298

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	Less than 12 months		12 Months or more		Total	
December 31, 2008	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Debt Securities						
Bonds held-to-maturity:						
U.S. treasury and other U.S. government corporations and agencies	$	$	$	$	$	$
States of the U.S. and political subdivisions of the states	1,571	21,104	40	383	1,611	21,487
Corporate debt securities	280,110	2,685,787	252,434	928,186	532,544	3,613,973
Residential mortgage backed securities	31,471	186,404	7,817	50,425	39,288	236,829
Commercial mortgage backed securities	24,368	7,742			24,368	7,742
Collateralized debt securities	613	4,785	4,661	23,844	5,274	28,629
Other debt securities	1,292	9,566			1,292	9,566
Total bonds held-to-maturity	$ 339,425	$ 2,915,388	$ 264,952	$ 1,002,838	$ 604,377	$ 3,918,226
Bonds available-for-sale:						
States of the U.S. and political subdivisions of the states	15,383	274,191	4,094	35,295	19,477	309,486
Corporate debt securities	247,590	1,683,287	193,810	643,327	441,400	2,326,614
Residential mortgage backed securities	8,067	102,382	6,551	51,327	14,618	153,709
Collateralized debt securities	1,822	10,295	2,888	8,529	4,710	18,824
Other debt securities	1,572	9,657			1,572	9,657
Total bonds available-for-sale	$ 274,434	$ 2,079,812	$ 207,343	$ 738,478	$ 481,777	$ 2,818,290
Total debt securities	$ 613,859	$ 4,995,200	$ 472,295	$ 1,741,316	$ 1,086,154	$ 6,736,516
Marketable equity securities						
Common stock:						
Consumer goods	13,717	66,398	1,376	5,014	15,093	71,412
Energy & utilities	8,203	24,909	686	2,818	8,889	27,727
Finance	12,729	49,150	319	1,190	13,048	50,340
Healthcare	5,177	29,429	1,203	5,826	6,380	35,255
Industrials	9,496	23,880	122	593	9,618	24,473
Information technology	13,859	57,237	1,348	2,583	15,207	59,820
Materials	6,665	15,164	221	456	6,886	15,620
Telecommunications services	3,838	16,570	2	7	3,840	16,577
Mutual funds	4,107	16,775	2	6	4,109	16,781

Total common stock	$ 77,791	$ 299,512	$ 5,279	$ 18,493	$ 83,070	$ 318,005
Preferred stock	1,238	7,853	14,267	31,835	15,505	39,688
Total marketable equity securities	$ 79,029	$ 307,365	$ 19,546	$ 50,328	$ 98,575	$ 357,693
Total investments in securities	$ 692,888	$ 5,302,565	$ 491,841	$ 1,791,644	$ 1,184,729	$ 7,094,209

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

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INVESTMENT INCOME AND REALIZED GAINS (LOSSES)

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

	Investment Income Three Months Ended June 30,		Realized Gains/(Losses) Three Months Ended June 30,		Investment Income Six Months Ended June 30,		Realized Gains/(Losses) Six Months Ended June 30,	
	2009	2008	2009	2008	2009	2008	2009	2008
Bonds	$ 156,284	$ 157,063	$ (2,433)	$ 3,244	$ 307,730	$ 309,391	$ (3,403)	$ 3,425
Preferred stocks	1,128	1,747		554	2,066	2,951	(1,620)	554
Common stocks	6,708	8,875	(2)	12,922	12,701	15,256	(818)	13,583
Mortgage loans	34,333	28,351			66,309	53,890		
Real estate	36,706	31,636		145	62,065	55,419		1,739
Other invested assets	10,610	14,183	(49)	515	14,984	17,083	287	
	245,769	241,855	(2,484)	17,380	465,855	453,990	(5,554)	19,301
Investment expenses	(31,105)	(25,987)			(57,995)	(50,534)		
Decrease (increase) in valuation allowances			(190)	(1,816)			(2,507)	(2,170)
Total	$ 214,664	$ 215,868	$ (2,674)	$ 15,564	$ 407,860	$ 403,456	$ (8,061)	$ 17,131

OTHER-THAN-TEMPORARY IMPAIRMENT

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Bonds	$	$ (16,989)	$ (5,898)	$ (16,989)
Common stocks	(6,074)	(2,908)	(67,750)	(10,060)
Mortgage loans			(500)	
Total	$ (6,074)	$ (19,897)	$ (74,148)	$ (27,049)

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

Since the adoption of FSP FAS 115-2/124-2 on April 1, 2009 (see Note 2), all OTTIs recognized on bonds were entirely comprised of credit losses. Therefore, during the three months ended June 30, 2009, no non-credit loss was recognized in OCI.

5. CREDIT RISK MANAGEMENT

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

BONDS

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

	June 30, 2009	**December 31, 2008**
AAA	13%	17%
AA+	1%	1%
AA	2%	6%
AA-	4%	4%
A+	9%	11%
A	13%	16%
A-	13%	13%
BBB+	14%	11%
BBB	17%	12%
BBB-	7%	4%
BB+ and below	7%	5%
	100%	100%

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COMMON STOCK

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

	June 30, 2009	December 31, 2008
Consumer Goods	20%	20%
Financials	15%	16%
Energy & Utilities	14%	13%
Information Technology	15%	13%
Health Care	12%	13%
Mutual Funds	10%	10%
Industrials	8%	8%
Communications	4%	5%
Materials	2%	2%
	100%	100%

MORTGAGE LOANS AND INVESTMENT REAL ESTATE

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

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

	Mortgage Loans		Investment Real Estate	
	June 30, 2009	December 31, 2008	June 30, 2009	December 31, 2008
Office Buildings	29%	30%	18%	18%
Industrial	28%	25%	42%	45%
Shopping Centers	19%	21%	23%	23%
Hotels/Motels	16%	17%	2%	2%
Other	5%	4%	13%	11%
Commercial	3%	3%	2%	1%
	100%	100%	100%	100%

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

	Mortgage Loans		Investment Real Estate	
	June 30, 2009	December 31, 2008	June 30, 2009	December 31, 2008
West South Central	23%	22%	63%	64%
East North Central	20%	22%	8%	6%
South Atlantic	16%	17%	15%	16%
Pacific	11%	13%	3%	2%

Middle Atlantic	9%	10%		
Mountain	5%	5%	1%	1%
New England	5%	5%		
East South Central	7%	4%	9%	10%
West North Central	4%	2%	1%	1%
	100%	100%	100%	100%

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6. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts and estimated fair values of financial instruments at June 30, 2009 and December 31, 2008 are as follows (in thousands):

	June 30, 2009		December 31, 2008	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets:				
Fixed maturities				
Held-to-maturity:				
U.S. treasury and other U.S. government corporations and agencies	$ 21,345	$ 21,551	$ 11,484	$ 11,830
States of the U.S. and political subdivisions of the states	214,603	218,575	155,420	158,294
Foreign governments	28,986	31,823	28,975	32,456
Corporate debt securities	6,251,024	6,113,891	5,602,250	5,118,669
Residential mortgage backed securities	722,045	715,077	735,025	709,294
Commercial mortgage backed securities	32,609	7,571	32,110	7,742
Collateralized debt securities	9,447	8,745	39,768	34,824
Other debt securities	33,098	35,323	76,805	75,594
Total fixed maturities, held-to-maturity	$ 7,313,157	$ 7,152,556	$ 6,681,837	$ 6,148,703
Available-for-sale:				
U.S. treasury and other U.S. government corporations and agencies	3,941	3,941	4,362	4,362
States of the U.S. and political subdivisions of the states	587,434	587,434	578,209	578,209
Foreign governments	6,053	6,053	7,332	7,332
Corporate debt securities	3,037,056	3,037,056	2,783,008	2,783,008
Residential mortgage backed securities	380,752	380,752	417,197	417,197
Collateralized debt securities	22,718	22,718	21,072	21,072
Other debt securities	4,313	4,313	9,657	9,657
Total fixed maturities, available-for-sale	$ 4,042,267	$ 4,042,267	$ 3,820,837	$ 3,820,837
Total fixed maturities	$ 11,355,424	$ 11,194,823	$ 10,502,674	$ 9,969,540
Marketable equity securities				
Common stock:				
Consumer Goods	169,552	169,552	167,533	167,533
Energy & Utilities	120,694	120,694	113,319	113,319
Finance	126,423	126,423	133,642	133,642
Healthcare	102,879	102,879	109,503	109,503
Industrials	70,545	70,545	73,528	73,528
Information Technology	129,398	129,398	104,679	104,679
Materials	21,701	21,701	25,524	25,524
Mutual Funds	85,627	85,627	85,112	85,112

Telecommunication Services	36,986	36,986	40,690	40,690
Preferred stock	27,126	27,126	48,822	48,822
Total marketable equity securities	$ 890,931	$ 890,931	$ 902,352	$ 902,352
Options	9,996	9,996	6,157	6,157
Mortgage loans on real estate	2,003,300	1,996,051	1,877,053	1,891,895
Policy loans	357,289	357,289	354,398	354,398
Short-term investments	456,332	456,332	295,170	295,170
Total financial assets	$ 15,073,272	$ 14,905,422	$ 13,937,804	$ 13,419,512
Financial Liabilities:				
Investment contracts	7,372,671	7,372,671	6,626,561	6,626,561
Liability for embedded derivatives of equity indexed annuities				